

**DUBLIN CITY UNIVERSITY**

**Business School**

**Purchasing organisation structure  
and its impact on supply  
relationship**

**An Irish public sector case study**

**By**

**Romarc Peri**

**November 2011**

**MBS in Procurement**

**Supervisor: Dr. Paul Davis**

## **Disclaimer**

I hereby certify that this material, which I now submit for assessment on the programme of study leading to the award of MBS in procurement is entirely my own work, that I have exercised reasonable care to ensure that the work is original, and does not to the best of my knowledge breach any law of copyright, and has not been taken from the work of others save and to the extent that such work has been cited and acknowledged within the text of my work.

**Signature:**

**Print Name: Romaric Peri**

**Student number: 57112878.**

**Date:**

# Research Ethics Declaration

The information contained here is, to the best of my knowledge and belief, accurate. I have read the University's current research ethics guidelines, and accept responsibility for the conduct of the procedures set out in the attached application in accordance with these guidelines, the University's policy on conflict of interest and any other condition laid down by the Dublin City University Research Ethics Committee or its Sub-Committees. I have attempted to identify all the risks related to this research that may arise in conducting this research, and acknowledge my obligations and the rights of the participants.

I have declared any affiliation or financial interest in this research or its outcomes or any other circumstances which might present a perceived, potential or actual conflict of interest, in accordance with Dublin City University policy on Conflicts of Interest.

**Signature:**

**Print Name: Romaric Peri**

**Student number: 57112878.**

**Date:**

# Acknowledgements

I would like to thank all those who have provided me with their help and encouragement throughout the duration of my studies at Dublin City University (DCU).

Firstly, I would like to thank my supervisor Paul Davis, who welcomed me when I was looking for a part-time masters programme and who was fully aware of the difficulties of jointly leading studies and a job.

I would also like to thank my colleagues in Nikon, for providing me time and support when my studies had to take precedence over my tasks at work.

Finally, and above all, to my wife, who supported and encouraged me while I was undertaking the course, despite my short temper and the hectic schedule I imposed on her.

# Table of Contents

<b>ABSTRACT</b>	<b>X</b>
<b>LIST OF FIGURES</b>	<b>XI</b>
<b>LIST OF TABLES</b>	<b>XIV</b>
<b>ACRONYMS</b>	<b>XV</b>
<b>CHAPTER ONE INTRODUCTION AND RATIONALE</b>	<b>1</b>
<b>1.1 Research Problem</b>	<b>2</b>
<b>1.2 Methodology: Overview and Limitations</b>	<b>5</b>
<b>1.3 Definitions of Key Terms</b>	<b>6</b>
1.3.1 Relationship	6
1.3.2 Partnership	7
1.3.3 Public Sector and Private Sector	7
1.3.4 Purchasing and Procurement	7
1.3.5 Strategy	8
1.3.6 Organisation Structure	8
<b>1.4 Outline of the Study</b>	<b>9</b>
<b>CHAPTER TWO LITERATURE REVIEW</b>	<b>10</b>
<b>2.1 Business to Business Relationships</b>	<b>12</b>
2.1.1 Links	15
2.1.2 Communication	18
2.1.3 Power	20
2.1.4 Relationship Atmosphere	22
2.1.5 Relationship Dynamics	24

<b>2.2 Public Procurement</b>	<b>25</b>
2.2.1 Public Procurement Principles	26
2.2.2 Public Procurement Legal Requirements	28
<b>2.3 Organisational Buying Behaviour</b>	<b>35</b>
2.3.1 Characterisation of an Organisation Structure	37
2.3.2 Contingency Theory and Contingency Variables	42
2.3.3 Structural Configurations	47
<b>2.4 Synthesis of Literature Review</b>	<b>48</b>
2.4.1 Relationship Configurations	48
2.4.2 Strategic Relationship Development	53
2.4.3 Public to Private Relationship	57
2.4.4 Hierarchic Influence in Organisational Buying Behaviour	61
2.4.5 Models Integration	64
<b>CHAPTER THREE RESEARCH PROCESS</b>	<b>69</b>
<b>3.1 Research Perspective</b>	<b>69</b>
3.1.1 Epistemology	69
3.1.2 Theoretical Perspective	71
<b>3.2 Research Design</b>	<b>72</b>
3.2.1 Methodology	72
3.2.2 Methods	75
<b>3.3 Limitations</b>	<b>86</b>
<b>CHAPTER FOUR RESULTS AND ANALYSIS</b>	<b>88</b>
<b>4.1 Relationships in a Private Organisation</b>	<b>88</b>
4.1.1 The Context: Case 1	88
4.1.2 Relationship Characteristics	89
4.1.3 Relationship Management	93
<b>4.2 Public Organisations Procurement</b>	<b>98</b>

4.2.1	The Context	99
4.2.2	Superstructure	102
4.2.3	Central Procurement Unit Roles and Responsibilities	104
4.2.4	Business Units Procurement Roles and Responsibilities	107
4.2.5	Formalisation	111
4.2.6	Coordinating Mechanisms	114
4.2.7	Environment Complexity and Dynamism	115
4.2.8	External Control	117
4.2.9	Supplier Relationship	122
<b>CHAPTER FIVE      DISCUSSION</b>		<b>130</b>
<b>5.1</b>	<b>Buyer – Supplier Relationship Characteristics</b>	<b>130</b>
<b>5.2</b>	<b>Constraints on Public Procurement</b>	<b>132</b>
<b>5.3</b>	<b>Public Procurement’s Organisation Structure</b>	<b>134</b>
5.3.1	Centralisation	135
5.3.2	Formalisation	136
5.3.3	Coordinating Mechanisms	136
5.3.4	Structural Configuration	137
<b>5.4</b>	<b>Public Buying Centre Position</b>	<b>137</b>
5.4.1	Job Specialisation	138
5.4.2	Behaviour Formalisation	139
5.4.3	Training and Indoctrination	139
<b>5.5</b>	<b>Relationship Management in Irish Public Organisations</b>	<b>140</b>
5.5.1	Procurement Strategy	140
5.5.2	Relationship Configuration	141
<b>5.6</b>	<b>Summary of Main Findings</b>	<b>145</b>
<b>CHAPTER SIX      CONCLUSION AND IMPLICATIONS</b>		<b>147</b>
<b>6.1</b>	<b>A Recapitulation</b>	<b>147</b>

<b>6.2 Relationship of Results to Research Questions and Theory</b>	<b>150</b>
6.2.1 Question 1 - What are the important factors of a buyer-supplier relationship building process?	150
6.2.2 Question 2 - What are the constraints (contingency variables), both internal and external, on procurement in the Irish public sector?	150
6.2.3 Question 3 - What is the Irish public procurement organisation structure?	151
6.2.4 Question 4 - What is the buying centre position and how does it affects the management of procurement?	151
6.2.5 Question 5 - How are buyer-supplier relationships currently handled at executive level in the Irish public sector?	151
6.2.6 Question 6 - What can be concluded as to the applicability of private sector based organisation practices to the Irish public sector?	152
<b>6.3 Implications for Practice and Recommendations</b>	<b>152</b>
<b>6.4 Critical Remarks</b>	<b>154</b>
6.4.1 Conceptualisation of Relationship	154
6.4.2 Determination of the Public Procurement Organisation Structure	155
<b>6.5 Implications for Further Research</b>	<b>155</b>
<b>6.6 Concluding Remark</b>	<b>155</b>
<b>REFERENCES</b>	<b>157</b>
<b>APPENDIX A           SEARCHING AND SELECTING PUBLICATIONS</b>	<b>163</b>
<b>APPENDIX B           TENDERING PROCEDURE SELECTION</b>	<b>165</b>
<b>B.1 Open Procedure</b>	<b>165</b>
<b>B.2 Restricted Procedure</b>	<b>165</b>
<b>B.3 Competitive Dialogue Procedure</b>	<b>165</b>



<b>B.4 Negotiated Procedure</b>	<b>166</b>
<b>APPENDIX C PUBLIC PRIVATE PARTNERSHIPS</b>	<b>167</b>
<b>C.1 Definition</b>	<b>167</b>
<b>C.2 Preparation Phase</b>	<b>169</b>
<b>C.3 Design the Tender</b>	<b>172</b>
<b>C.4 Bid Preparation</b>	<b>173</b>
<b>C.5 Evaluation of Tender</b>	<b>173</b>
<b>C.6 Award of Contract</b>	<b>174</b>
<b>C.7 Contract Management</b>	<b>174</b>
<b>C.8 Anticipated Closure of Contract</b>	<b>175</b>
<b>C.9 Normal Closure of Contract</b>	<b>176</b>
<b>APPENDIX D ORGANISATION STRUCTURE</b>	<b>177</b>
<b>D.1 Relationships between Centralisation, Formalisation and Coordinating Mechanisms</b>	<b>177</b>
D.1.1 Coordinating Mechanisms and Centralisation	177
D.1.2 Coordinating Mechanisms and Formalisation	178
<b>D.2 Structural configurations</b>	<b>178</b>
D.2.1 Simple Structure	178
D.2.2 Machine Bureaucracy	179
D.2.3 Professional Bureaucracy	180
D.2.4 Adhocracy	181
<b>APPENDIX E SEMI-STRUCTURED INTERVIEW: 1<sup>ST</sup> VERSION</b>	<b>183</b>
<b>E.1 Introduction</b>	<b>183</b>
<b>E.2 Interview</b>	<b>183</b>
E.2.1 General Questions (brief 10 minutes)	183

E.2.2	Interaction Between Public Organisations and Private Consortium – Take Me Trough an Example	184
E.2.3	Project Management – Again Building on that One Example	185
E.2.4	Conclusion	185
<b>APPENDIX F</b>	<b>SEMI-STRUCTURED INTERVIEW: 2<sup>ND</sup> VERSION</b>	<b>187</b>
<b>F.1</b>	<b>Introduction</b>	<b>187</b>
<b>F.2</b>	<b>Interview</b>	<b>187</b>
<b>APPENDIX G</b>	<b>PUBLICATIONS</b>	<b>190</b>

# **Purchasing Organisation structure and its impact on supply relationship**

**An Irish public sector case study**

**Romaric Peri**

## **Abstract**

---

With the financial crisis, it becomes more and more difficult and expensive to obtain funding for infrastructure projects. Public sector procurement is undergoing major changes. Drastic cuts in government budgets re-ignited the debate of centralisation versus decentralisation that was last debated after the oil crisis of 1973. In the traditional marketing and purchasing literature, the relationship between Buyer and Seller has long been at the centre of the purchase interaction. Organisations have chosen close long-term relationships instead of “playing the market” in the name of cost reduction and increased revenues. The objective of this study is to identify the particular constraints on relationship building in the public sector, and to assess whether or not these constraints make standard efficient management practices inapplicable to the public sector. Several organisations from the Irish public sector were interviewed about their relationships. The qualitative data collected from the interviews were combined with the current related literature of business to business relationships, public procurement and organisational buying behaviours. It is argued in this research that it is extremely difficult to establish a collaborative relationship with suppliers when mandatory rules and procedures create formal and centralised buying behaviours. In conclusion, lessons for developing collaborative arrangements in public procurement are identified.

## List of Figures

---

<b>Figure 2-1: Approach to literature review .....</b>	<b>11</b>
<b>Figure 2-2: Tendering process for open procedures adapted from Procurement Innovation Group (2009a, p.5) .....</b>	<b>30</b>
<b>Figure 2-3: Model of organisational buying behaviour adapted from (Webster Jr and Wind, 1972, p.15) .....</b>	<b>36</b>
<b>Figure 2-4: Simplified Model of organisational buying behaviour adapted from (Webster Jr and Wind, 1972, p.15) .....</b>	<b>37</b>
<b>Figure 2-5: A continuum of control over the decision process (Patterson, 1969, p.150) .....</b>	<b>38</b>
<b>Figure 2-6: Relationship configurations .....</b>	<b>50</b>
<b>Figure 2-7: Adversarial relationship chart.....</b>	<b>51</b>
<b>Figure 2-8: Transactional relationship chart.....</b>	<b>52</b>
<b>Figure 2-9: Collaborative relationship Chart .....</b>	<b>52</b>
<b>Figure 2-10: Kraljic's product purchasing classification matrix (1983, p.111) .....</b>	<b>55</b>
<b>Figure 2-11: Buyer-supplier relationship classification matrix adapted from (Kraljic, 1983, p.111) .....</b>	<b>56</b>
<b>Figure 2-12: Strategic relationship development.....</b>	<b>57</b>
<b>Figure 2-13: Purchasing group role in organisations' relationships ....</b>	<b>57</b>
<b>Figure 2-14: Contingency variables .....</b>	<b>61</b>
<b>Figure 2-15: Organisation structure .....</b>	<b>62</b>
<b>Figure 2-16: Buying Centre Position.....</b>	<b>62</b>
<b>Figure 2-17: Hierarchic influence in organisational buying behaviour</b>	<b>63</b>
<b>Figure 2-18: Integrated model of organisational purchasing relationship .....</b>	<b>66</b>
<b>Figure 2-19: Integrated model of organisational buying behaviour ....</b>	<b>67</b>
<b>Figure 3-1: Four elements of the research process (Crotty, 2004, p.4).</b>	<b>69</b>
<b>Figure 3-2: Research Epistemology adapted from (Crotty, 2004, p.4).</b>	<b>70</b>

<b>Figure 3-3: Research Theoretical Perspective adapted from (Crotty, 2004, p.4) .....</b>	<b>72</b>
<b>Figure 3-4: An outline of the main steps of qualitative research, adapted from Bryman (2004, p.269) .....</b>	<b>73</b>
<b>Figure 3-5: Research process methodology adapted from (Crotty, 2004, p.4) .....</b>	<b>74</b>
<b>Figure 3-6: Research process methods adapted from (Crotty, 2004, p.4) .....</b>	<b>75</b>
<b>Figure 3-7: Processes and outcomes in qualitative research, adapted from (Bryman, 2004, p.269) .....</b>	<b>83</b>
<b>Figure 4-1: Mind map of relationships in a private organisation .....</b>	<b>88</b>
<b>Figure 4-2: Mind map of public organisations procurement .....</b>	<b>98</b>
<b>Figure 4-3: Procurement structure of public departments .....</b>	<b>103</b>
<b>Figure 5-1: Case 1 Relationship Characteristics Chart .....</b>	<b>131</b>
<b>Figure 5-2: Generic Contingency Variables.....</b>	<b>132</b>
<b>Figure 5-3: Public Procurement Contingency Variables.....</b>	<b>133</b>
<b>Figure 5-4: Generic organisation structure.....</b>	<b>134</b>
<b>Figure 5-5: Public Procurement's Organisation structure .....</b>	<b>137</b>
<b>Figure 5-6: Generic Buying Centre Position .....</b>	<b>137</b>
<b>Figure 5-7: Public Buying Centre Position.....</b>	<b>139</b>
<b>Figure 5-8: Generic Buying Behaviours .....</b>	<b>140</b>
<b>Figure 5-9: Case 2 Relationship Characteristics Chart .....</b>	<b>141</b>
<b>Figure 5-10: Case 3 Relationship Characteristics Chart .....</b>	<b>142</b>
<b>Figure 5-11: Case 4 Relationship Characteristics Chart .....</b>	<b>142</b>
<b>Figure 5-12: Case 5 Relationship Characteristics Chart .....</b>	<b>142</b>
<b>Figure 5-13: Case 6 Relationship Characteristics Chart .....</b>	<b>143</b>
<b>Figure 5-14: Case 7 Relationship Characteristics Chart .....</b>	<b>143</b>
<b>Figure 5-15: Public Buying Behaviours.....</b>	<b>144</b>
<b>Figure 5-16: Public organisations' buying behaviours.....</b>	<b>145</b>

**Figure D-1: The coordinating mechanisms on a continuum of horizontal decentralisation (Mintzberg, 1983, p.108).....177**

**Figure D-2: Coordinating mechanisms on scales of decentralisation and bureaucratisation (Mintzberg, 1983, p.139) .....178**

## List of Tables

---

<b>Table 2-1: B2B main relationships characteristics .....</b>	<b>14</b>
<b>Table 2-2: Organisation structure configurations in specific kinds of environments (Mintzberg, 1983, p.144) .....</b>	<b>47</b>
<b>Table 2-3: Power balance configurations .....</b>	<b>49</b>
<b>Table 2-4: Relationship's configurations.....</b>	<b>51</b>
<b>Table 3-1: Case Studies .....</b>	<b>77</b>
<b>Table A-1: List of Main B2B Search Terms.....</b>	<b>164</b>

## Acronyms

---

B2B	Business to Business
CAO	Chief Administrative Officer
CEO	Chief Executive Officer
COFOG	Classification of the Functions of Government
EC	European Community
EU	European Union
IMP	Industrial Marketing and Purchasing School of thought
JSTOR	Journal Storage Database
IPSERA	International Purchasing and Supply Education and Research Association
NPPPU	National Public Procurement Policy Unit
OJEU	Official Journal of the European Union
PPP	Public Private Partnership
SPV	Special Purpose Vehicle
TSI	Transaction Specific Investment



## Chapter One Introduction and Rationale

---

With the financial crisis and resulting cuts in government budgets, the debate about developing projects in-house or outsourcing them has been reignited (Warner, Gelinas et al., 2011). In other words, public organisations are back to the old market versus hierarchy dispute. In contrast, private organisations choose close long-term relationships instead of “playing the market” in the name of cost reduction and increased revenues (Cao, Vonderembse et al., 2010). Thus the relationship between buyer and seller is at the centre of the purchase interaction.

In the recent past public organisations did try to develop a long term approach to public procurement by emphasising Public Private Partnerships (PPPs). By moving public procurement away from traditional arm’s length relationships, partnerships had the potential to build social capital by establishing networks and developing long-term relationships with private sector suppliers (Steane and Walker, 2000). Thus public organisations had an opportunity to exploit the project management knowledge and efficiency of private organisations. They had an opportunity to achieve a better service of the population at a lower cost.

Indeed, studies in the private sector show that when an organisation needs to gain access to resources outside its own boundaries, a partnership is a sensible choice. Grant (2004) confirms that partnerships are more efficient than hierarchy or market in the application of knowledge. In this case, *“knowledge application points to a form of knowledge sharing in which each member firm accesses its partner’s stock of knowledge in order to exploit complementarities, but with the intention of maintaining its distinctive base of specialised knowledge,”* (Grant and Baden-Fuller, 2004, p.64).

But then the financial crisis struck: “*PPPs are under siege on both sides. Once the flagship of the building boom, public-private partnerships are being strangled by funding shortages*” (Kehoe and Burke, The Sunday Business Post, 24th May 2009). Most PPPs are suspended and with them the attempts toward partnerships.

### **1.1 Research Problem**

As a result of PPPs’ suspensions, public organisations in the European Union (EU) rely on contractual governance to manage the relation with their suppliers. Embedded fairness and transparency of tenders and contracts encourage competition in price, quality and service. This embedded fairness helps to prevent political interference and open the markets right across Europe.

Nevertheless contractual governance is not adaptable to all situations. Greater strategic and tactical consideration should be given to the proactive management of relationship to foster collaborative working, in essence a shift from contracting to relationship management principles (Smyth and Edkins, 2007). Relational governance mechanisms based upon shared resources, information exchange and social processes like trust and commitment, provide an opportunity to access the skills and resources of partners, to coordinate activities, to co-operate on projects and divide tasks within the two organisations according to their respective strengths, abilities and cost structure.

Therefore, the objective of this study is to assess if relational governance and standard procurement practices are applicable to public organisations. It is crucial for business success that participants, involved in business activities between public and private sectors, make an informed choice about the proper relationship management approach. Participants have to be aware if particular constraints exist on relationship building between public and private sector organisations. Strategic choices need to

be made in term of structure, resource allocation, goals, or managerial orientation. Without an understanding of the relationships between public and private sectors, an accurate fit of the strategy is not possible. The lack of understanding generates gaps and approximations detrimental to the benefits of the relationship. Ultimately, the general public becomes the victim of any mismanagement caused, as the mismanagement impacts the quality of the services provided.

To contribute to the understanding of public to private relationships, relational governance should be accurately defined from the business to business (B2B) literature. In particular, the relationship building process has to be understood and specified.

- Question 1      What are the important factors of a buyer-supplier relationship building process?

Then, a background study of public procurement is needed to understand the supply relationships between public and private organisations. While partnerships and strategic alliances between private organisations are already well documented in the B2B literature, there is only a limited understanding of public to private relationships. The particular constraints on relationship building between public and private sector organisations need to be identified.

- Question 2      What are the constraints (contingency variables), both internal and external, on procurement in the Irish public sector?

The literature on public procurement mainly concentrates on the tendering process, in other words the contractual aspect, and neglects the relational aspect of the relationship. Public procurement relies for its operations, on rules and regulations. In other words, for the understanding of public organisation buying behaviours, centralisation and formalisation

may be non negligible factors. This is consistent with Webster (1972) model of organisational buying behaviour where the characteristics of an organisation structure must be defined in order to understand the buying decision and the buying centre behaviours.

- Question 3      What is the Irish public procurement organisation structure?

Once the characteristics of the Irish public procurement organisation structure are characterised, then the buying behaviours of public buying centre should be determined and conclusions drawn.

- Question 4      What is the buying centre position and how does it affect the management of procurement?

These conclusions then should be tested and validated by comparing them to current practices.

- Question 5      How are buyer-supplier relationships currently handled at executive level in the Irish public sector?

Finally, an assessment as to whether or not the identified constraints make standard efficient management practices inapplicable to the public service need to be carried out.

- Question 6      What can be concluded as to the applicability of private sector based organisation practices to the Irish public sector?

This study adds to the existing research on general public procurement by shedding new light on relationship processes. It firstly summarises the knowledge available on buyer-supplier relationship characteristics from the private sector and then extends it to the public sector. It identifies a range of enabling and impeding factors in a relationship, in particular the influence of the organisation structure. The study presents an alternative model for examining relationship settings and understanding the process mechanisms.

It highlights areas for policy intervention, practice improvement and future research.

## **1.2 Methodology: Overview and Limitations**

First, conceptual understanding of buyer-supplier relationships, public procurement and organisation structures was gained through a review of the literature. Then, research material was gathered through a series of three semi-structured interviews with procurement managers. This is consistent with a multiple-case study methodology. The analysis of these three interviews raised further questions and incited further review of the literature. Findings were tested with a second series of four interviews. Therefore, the research process can be described as an iterative process. It went back and forth between theory and practice as the study evolved. In total, seven case studies were developed and analysed.

A constructionist epistemology with an interpretivist perspective informs this research. The behaviours and actions observed were interpreted to understand the underlying mechanisms influencing the buyer-supplier relationship. This qualitative approach “*provides a narrative of people’s view(s) of reality and it relies on words and talk to create texts*” (Gephart Jr, 2004, p.455). It is an exploratory research which emphasises understanding rather than explanation (Charmaz, 2006). An exploratory study is a valuable means of finding out “*what is happening; to seek new insights; to ask questions and assess phenomena in a new light*” (Saunders, Lewis et al., 2007, p.133). The object is to detect patterns, define problems and suggest hypotheses.

However, as the events reported are interpreted by the researcher, cautions are necessary to avoid subjectivity in the deductions. The research process offers some protection against such subjectivity. Results were submitted to constant questioning. The research is grounded in the existing

literature and key theoretical ideas. The process followed a gradual narrowing-down of research questions and problems.

Regarding the research method, the choice of a qualitative exploratory multiple-case study, rules out direct applicability on other cases or a representative sample for statistical purposes. However, the findings of qualitative research are used to deepen the understanding of a theory rather than to generalise characteristics to populations. Qualitative research aims to discover connections between the different conceptual ideas emerging from the data. Even the uncommon connections, that can't be extended to the whole population but shed light on the process mechanisms, can be used.

Geographically the study is limited to Ireland. Only Irish organisations were investigated.

A more thorough description of the research perspective, research design and limitations are given in Chapter Three on research process.

### ***1.3 Definitions of Key Terms***

Precise, coherent and distinct definitions of the terms used in this model need to be presented. It will facilitate the subsequent development of valid, useful and comparable results.

#### **1.3.1 Relationship**

In this study, relationship needs to be understood as it is commonly used within the Industrial Marketing and Purchasing (IMP) school of thought. A business relationship is normally viewed as a connection, an interaction between two organisations.

Its scope covers the entire continuum between market and hierarchy. For a given relationship, the exact position in the continuum depends on the intensity of various parameters (see Section 2.1, p12), characterising the exchanges between involved entities.

### **1.3.2 Partnership**

Partnership relations constitute a sub-range of the relationship continuum. All parameters of the exchanges are at a high intensity level. Partnership relations are arrangements where entities agree to cooperate to advance their interests. Partners co-labour to achieve and share profits or losses.

### **1.3.3 Public Sector and Private Sector**

The public sector is a part of the state that deals with the production, delivery or allocation of goods and services by and for the government or its citizens, whether national, regional or local/municipal.

As to the private sector, it is that part of the economy which is run by private individuals or groups, usually as a means of enterprise for profit, and is not controlled by the state.

### **1.3.4 Purchasing and Procurement**

The differences between purchasing and procurement can be summarised from a debate opened to professionals by Rae (access date: 25 May 2010, <http://blog.procurementleaders.com/>).

In the traditional sense, the term purchasing is more restrictive than the term procurement. Purchasing is an administrative function, linked to order management and price bargaining. It merely reflects the act of acquisition.

As to procurement, it steps away from the transactional side and is seen as more of a strategic function. Depending on the circumstances, it may include some or all of the following: identifying a need, specifying the requirements, vendor sourcing and evaluation, negotiation, purchase orders, logistics of the material, ensuring compliance, paying and managing supplier relationship before and after the purchase.

Nevertheless, the awareness of financial benefits has pushed organisations towards achieving supply chain integration. As a result, the distinction between supply, purchasing and procurement has almost disappeared. In daily activities, the terms are used interchangeably.

In this study, both terms are considered equivalent. Purchasing will preferably be used for the private sector due to the IMP influence. Procurement will preferably be used for the public sector as traditionally done.

### **1.3.5 Strategy**

This study applies the IMP definition of strategy.

*“Strategy is what a company actually does in order to achieve its desired performance. It is all the choices, small or big, made by anybody in the company to adapt to what happens in the world around and to react to the behaviour of other companies, customers or suppliers. Strategy management is about influencing and setting a direction to these choices”* (Ford, Gadde et al., 1999, p.64).

This study also considers that strategy is enacted through the shaping of the organisation structure.

### **1.3.6 Organisation Structure**

This study adopts the view of Mintzberg (1983) about organisation structure (Section 2.3, p35).

*“The structure of an organisation can be defined simply as the sum total of the ways in which its labour is divided into distinct tasks and then its coordination is achieved among these tasks”*(Mintzberg, 1983, p.2).

The three main characteristics considered are centralisation, formalisation and coordinating mechanism.



## **1.4 Outline of the Study**

This study is divided into five chapters:

Chapter One introduced the general problem and issues under investigation. It presented a rationale and a purpose for examining the topic. The research questions form the base of the research strategy.

Chapter Two reviews selected literature. It represents the extensive knowledge fundamental to this dissertation regarding business to business relationship, public procurement and organisational buying behaviours. It lays the theoretical foundation for this dissertation and proposes, based on the literature, an integrated model of organisational purchasing relationship.

Chapter Three presents the methodology and includes the research perspective, research design, sample selection, data collection tasks, data analysis procedures and some limitations of the study. The nature of the research process is characterised as having an iterative approach.

Chapter Four lays out the data gathered from the interviews. The empirical material is presented as it has been analysed. It provides some necessary structure and facilitates the cases comparison.

Chapter Five contains the discussion of the empirical material and presents the study's findings and major results.

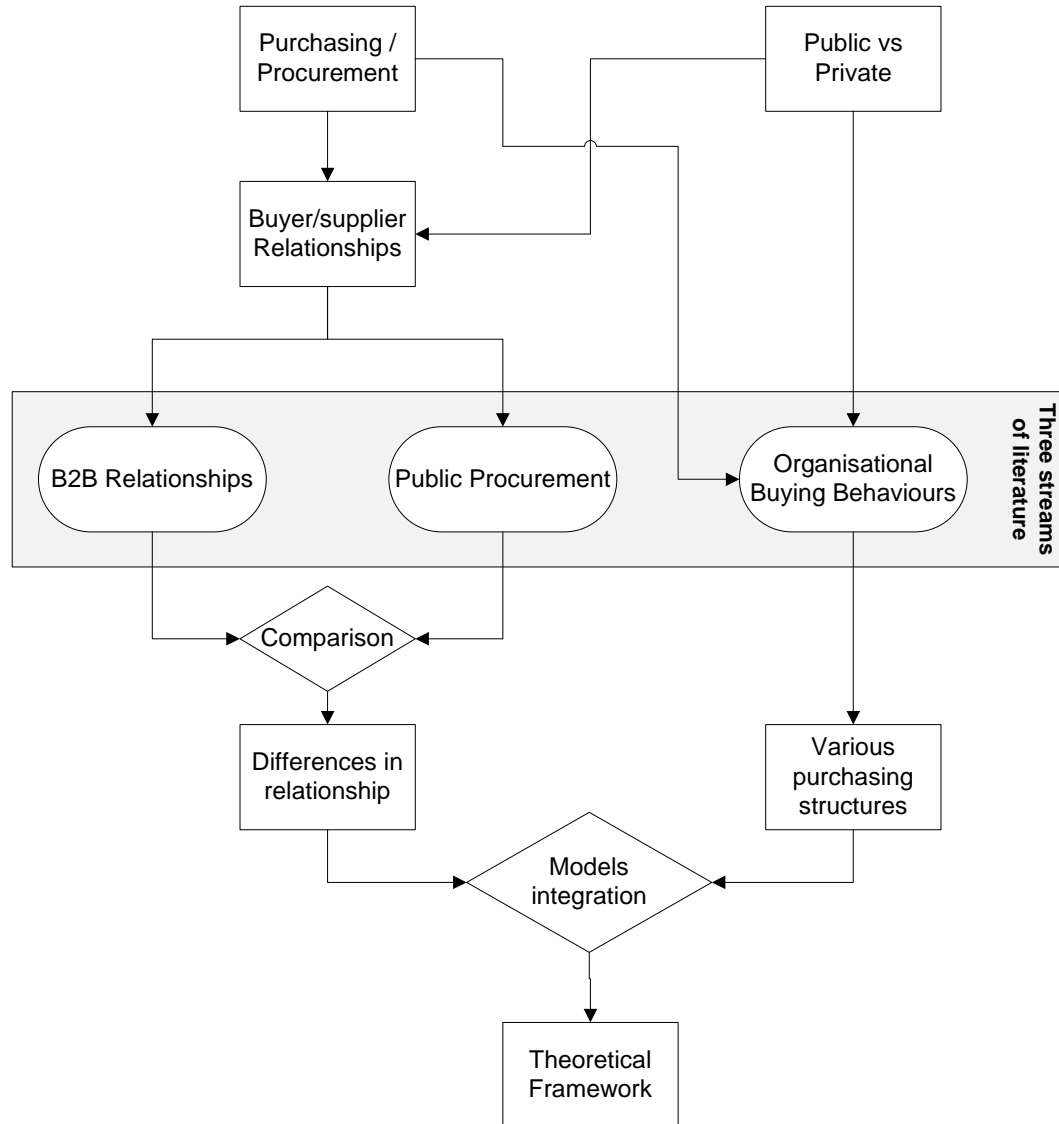
Chapter Six outlines the conclusions and implications of the study. It discusses how the aim was fulfilled and the research questions answered. It also discusses the contributions of the study for both theory and practice and proposes avenues for future research. Finally, some criticisms are directed towards the study.

## **Chapter Two      Literature Review**

---

In order to achieve the objectives of this research and assess if relational governance and standard procurement practices are applicable to public organisations, information has to be gathered about relational governance, public and private procurement practices and organisation structures. The literature review focuses on the academic literature that provides background knowledge to the research. The adopted process for selection of relevant publications is given in Appendix A (p163)

The approach to the literature is illustrated in Figure 2-1. The research was started with two centres of interest. Firstly, the purchasing / procurement function of an organisation, or more accurately, the interactions in the dyad buyer / supplier and the resulting relationship and second, the differences between public and private sectors.



**Figure 2-1: Approach to literature review**

Three main streams of literature were identified to enlighten these centres of interest: B2B literature for the discussion on relationships; the Public Procurement literature for the specificity of Public organisations; and the organisational buying behaviour literature for the influence of the organisation structure on the buying centre.

The review starts Section 2.1, with an analysis of the relationships between buyers and suppliers in an industrial environment. It identifies the parameters characterising a relationship.

Then, Section 2.2 (p25) introduces public procurement. Principles and regulations ruling the supply contracts and public private partnerships are discussed.

The search for the origin and *raison d'être* of those principles and regulations incited a study of organisation theory and organisational buying behaviour in Section 2.3 (p35). The parameters characterising an organisation's structure are exposed. The influences of contingency variables, such as the external environment or the technical system, on the structure adopted by the organisation are explained. This leads to the contingency theory and the need of integration of the buying centre behaviour into the whole organisation strategy.

Finally, in Section 2.4 (p48), a synthesis of all the findings brings the three streams of literature together. The phenomenon to be studied is identified and narrowed down to a more specific problem that can be formulated into a research question. Three possible configurations for B2B relationships are defined and elements are provided to strategically select the most adapted configuration according to circumstances. Consequences of public procurement principles and regulations on the development of a public - private relationship are then examined. Finally an integrated model of organisational buying behaviour is proposed.

## **2.1 Business to Business Relationships**

A business relationship may be viewed as a connection, an interaction between two organisations. By definition, in a business market, each organisation exists with a number of different relationships with both suppliers and customers (Ford, Gadde et al., 1999). These are the relationships necessary for acquiring and selling the materials, parts, services or knowledge at the origin of the organisation's activities. The processes involved can sometimes be easy and fast, for example ordering off-the-shelf products from a catalogue. Other times these processes are

complex and require long interactions for example, subcontracting parts for car manufacturing.

Managing in these circumstances is a complex and difficult task. Firstly, it requires an understanding of the relationship nature and an accurate characterisation of their parameters (Ford, Gadde et al., 1999). Then, different configurations of those parameters can be defined to match specific circumstances. Finally, all these elements may help the organisation to choose the nature of its relationships and to decide their management.

A review of the literature on B2B relationships shows that published articles study different sets of relationship's characteristics and their interactions. Those characteristics can be gathered and classified under five main categories: links, communication, power, atmosphere and dynamics; as illustrated in Table 2-1.

Table 2-1: B2B main relationships characteristics

Categories	Characteristics	Keywords	References
Links	Links in activities	Coordination, cooperation and Participation	(Anderson and Narus, 1990; Mohr and Spekman, 1994; Ford, Gadde et al., 1999; Ford and McDowell, 1999; Jap and Ganesan, 2000)
	Tied resources	Sharing, Adaptation and Specialisation	(Hallen, Johanson et al., 1991; Dyer, 1996; Ford, Gadde et al., 1999; Jap and Ganesan, 2000)
	Bonded actors	Trust and Commitment	(Mohr and Spekman, 1994; Mayer, Davis et al., 1995; Doney and Cannon, 1997; Harrison, Dibben et al., 1997; Geyskens, Steenkamp et al., 1998; Selnes, 1998; Ford, Gadde et al., 1999; Harris and Dibben, 1999; Jap and Ganesan, 2000; Johnsen, Angeli Arab et al., 2003; Stanko, Bonner et al., 2006)
Communication	strategy	Frequency, Direction, Modality and Content	(Frazier, Spekman et al., 1988; Mohr and Nevin, 1990; Mohr and Spekman, 1994; Lamming, Caldwell et al., 2001; Johnston and Clark, 2005; Robson, Spyropoulou et al., 2006; Stanko, Bonner et al., 2006)
	intimacy	Degree and Information nature	
	Quality	Accuracy, Timeliness, Adequacy and Credibility	
Power	Intensity	Dependence, Power and Influence	(Anderson and Narus, 1990; Mohr and Nevin, 1990; Hallen, Johanson et al., 1991; Jap and Ganesan, 2000; Johnsen and Ford, 2001; Cox, Watson et al., 2003)
	Balance	Symmetry , asymmetry	
Atmosphere		Satisfaction, Insecurity and Conflict	(Anderson and Narus, 1990; Mohr and Spekman, 1994; Chew and Lim, 1995; Attridge, Berscheid et al., 1998; Lin and Germain, 1998; Murray, Ellsworth et al., 1998; Selnes, 1998; Fey and Beamish, 1999; Fey and Beamish, 2000; Jap and Ganesan, 2000; Robson, Spyropoulou et al., 2006; White Iii, Joplin et al., 2007)
Relationship dynamics	Phases	Building, Stability and Dissolution	(Dwyer, Schurr et al., 1987; Ring and Van De Ven, 1994; Jap and Ganesan, 2000; Jap and Anderson, 2007)

### **2.1.1 Links**

The IMP group has greatly contributed to the understanding of the links between organisations. They conceive an organisation as being part of a complex network (interconnected relationships) of customers and suppliers. In these circumstances, management requires an understanding of the nature of relationships and networks, and of what happens in them, and how they can be influenced and changed (Ford, Gadde et al., 1999). The IMP group identifies three different types of links: in activities, in resources and in actors.

#### **2.1.1.1 Links in Activities**

Ford (1999) explains that relationships link the activities of suppliers and customers to each other. They provide a degree of activity coordination between the companies, thus giving the chance to rationalise some of the operations that are important for their success, but are beyond their own boundaries and within their customers and suppliers. Activity links are the basis of ideas such as just in time and total quality management.

Therefore links in activities develop coordination and co-operation, defined as sets of complementary actions taken by organisations to achieve mutual outcomes. Anderson (1990) and Mohr (1994) have shown the beneficial effects on satisfaction, trust and sales.

They also develop participation, the extent to which partners jointly engage in planning and goal-setting. Mohr (2000) studied the positive influence of participation on sales and long-term commitment.

On the other hand, Jap (2000) has shown that using explicit contracts to link two organisations together does not yield beneficial results, except during the decline phase of a relationship. It may even be detrimental at an early stage, on the supplier commitment, as it may be interpreted as a signal of distrust.

### 2.1.1.2 Tied Resources

The main resource constituents of a organisation are its physical assets (machinery, tools), human resources (willing employees), knowledge or skills (patents, procedures, know-how), and location (proximity of suppliers or buyers) (Dyer, 1996). By their nature, resources in an organisation are fixed and cannot be modified in the short term. Nevertheless organisations can extend their resources by sharing the resources of other organisations through a relationship (Ford, Gadde et al., 1999). In such a process, these resources are likely to be oriented towards a specific use.

This adaptation to the partner's needs is to be expected in an exchange relationship. Both protagonists may adapt product, processes and procedures to the capabilities of their partner. The adaptations are partly made unilaterally as a consequence of imbalance in the inter-organisation power relation, and partly as reciprocal demonstrations of commitment and trust in the relationship (Hallen, Johanson et al., 1991).

A further step to strengthening the relationship consists of transaction specific investments (TSI). For example, a specialisation in physical assets, (e.g. customised machinery, tools) allows for product differentiation and may improve quality by increasing product integrity and reducing defects (Dyer, 1996). Moreover Jap (2000) has shown that TSI are powerful signals of long-term commitment intentions.

In conclusion, all these authors agree that the investments made in inter-organisation resources sharing, adaptations, and specialisation, work to tie the organisations together as these investments often cannot be transferred to other business relationships. In doing so, they send a strong signal of long-term commitment. These investments become elements in a trust-forming social exchange process.



### 2.1.1.3 Bonded Actors

A relationship implies important interactions between the actors of both organisations. The individual actors will learn about each other; they will invest in their relationship; and social exchange between them will increase their knowledge of each other and build up a certain trust (Ford, Gadde et al., 1999). Trust is probably the most studied characteristic in B2B literature (Mayer, Davis et al., 1995; Doney and Cannon, 1997; Harrison, Dibben et al., 1997; Geyskens, Steenkamp et al., 1998; Selnes, 1998; Harris and Dibben, 1999; Johnsen, Angeli Arab et al., 2003). Mayer (1995, p.712) defines trust as “*the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party*”.

For example, the work realised by Doney (1997, p.37) summarises well the trust-building processes:

- Calculative trust: “*Trustor calculates the costs and/or rewards of a target acting in an untrustworthy manner*”.
- Predictive trust: “*Trustor develops confidence that target’s behaviour can be predicted*”.
- Capability: “*Trustor assesses the target’s ability to fulfil its promises*”.
- Intentionality: “*Trustor evaluates the target’s motivations*”.
- Transference: “*Trustor draws on proof sources, from which trust is transferred to the target*”.

Trust is important in a relationship, as it reduces the perceived risk more efficiently than other available mechanisms (Selnes, 1998). If the level of trust surpasses the threshold of perceived risk, then the trustor will agree to take risks and engage in the relationship (Mayer, Davis et al., 1995).

Another important characteristic that develops through the interactions is commitment. Commitment refers to the efforts and short term sacrifices

the actors are willing to provide, in order to develop and maintain a stable and long term relationship (Mohr and Spekman, 1994; Jap and Ganesan, 2000; Stanko, Bonner et al., 2006). Commitment indicates that the actors will strive to make the relationship work, resulting in relationship satisfaction (Mohr and Spekman, 1994; Selnes, 1998; Jap and Ganesan, 2000). Moreover, the long term orientation implied in commitment encourages the participants to create efficient interaction procedures (for example ordering, purchasing, delivery or servicing processes), that reduces costs and increases revenues (Stanko, Bonner et al., 2006).

Other characteristics that can be found in the literature include: solidarity, emotional intensity (Stanko, Bonner et al., 2006), and benevolence (Mayer, Davis et al., 1995). But they are mainly forerunners of both trust and commitment.

### **2.1.2 Communication**

The links and ties that bring the organisations and the people together have been explained. The next step is to make explicit the communication processes that allow them to exchange information, coordinate activities, or make common decisions. Inter-partner communication is crucial to achieving satisfactory performance (Robson, Spyropoulou et al., 2006).

#### **2.1.2.1 Communication Strategy**

Mohr (1990) theorises that optimum communication strategies are dependent on the nature of links between the organisations, and their balance of power. These strategies are differentiated by their degree of frequency, direction (unidirectional / bidirectional), modality (formal / informal), and content (direct / indirect). Mohr further describes two extremes: collaborative communication strategy (high frequency, bidirectional, informal mode and indirect content) and autonomous communication strategy (low frequency, unidirectional, formal mode, and

direct content). An embraced relationship favours and obtains enhanced results with a collaborative communication strategy; whereas an arm's-length relationship favours and is best matched, with an autonomous communication strategy given costs/benefits considerations.

### **2.1.2.2 Intimacy**

Communication strategies accurately define how information flows from one organisation to another, but do not provide insights into the nature of the information flow. Examples of information that may be shared by partners are plans, strategies, profits, or cost, but these data differ from one organisation to the next, and are not the object of this discussion. However, the extent to which this information is shared is dependent on the nature of the relationship between organisations. It is referred to in the literature as intimacy (Johnston and Clark, 2005; Stanko, Bonner et al., 2006) or transparency (Lamming, Caldwell et al., 2001). There is a difference between the definitions generally associated with these two concepts, but it is a difference in communication strategy. Intimacy is preferably associated with a collaborative communication strategy, and transparency is preferably associated with an autonomous strategy.

Intimacy does not imply a permanent and total (transparent) sharing of information. Rather, some is only partially exposed (translucent) and some is kept opaque, as described by Lamming (2001). Each organisation has to determine, as a function of its particular circumstances, an adequate degree of intimacy applied to each of its relationships. One must not forget that the idea behind intimacy is to provide to the partner the information necessary to increase creativity, joint problem solving, opportunity identification, and efficiency (Stanko, Bonner et al., 2006). In these circumstances, information about supply, technology, inter-organisation and cost (Lamming, Caldwell et al., 2001) are valuable. Indeed, information on logistics and supplies may enable delivery of the exact quantity of materials

and parts on a precise timetable, thereby reducing warehousing and inventory costs. The transfer of technological and managerial skills between the organisations serves to exploit synergies and leverage distinct competencies in each partner (Frazier, Spekman et al., 1988).

The knowledge of who-does-what and who-knows-what in each organisation allows the parts/material to be designed in a creative, joint effort between both organisations. And finally, cost should be reconsidered as “total cost of ownership”. The per-unit price is less important than the costs associated with inspection and re-inspection, handling, warehousing, inventory, scrap, and rework (Frazier, Spekman et al., 1988). Therefore, pushed to its extreme, intimacy becomes Just-In-Time (JIT) exchange relationships, whose objective is to eliminate waste of all kinds from the production and delivery systems.

### **2.1.2.3 Quality**

When the strategy and the level of intimacy have been decided, it is important to determine how well they are applied. Communication quality defines the parameters to monitor. Quality includes such aspects as the accuracy, timeliness, adequacy and credibility of information exchanged (Mohr and Spekman, 1994).

### **2.1.3 Power**

The balance of power in a relationship between two organisations is determined by the dependence and influence of each organisation.

#### **2.1.3.1 Dependence**

Anderson (1990) conceptualised dependence on the working partnership as the overall quality of outcomes (economic, social, and technical) available to the organisation, compared to the one achievable from alternative relationships. In working business relationships, an

organisation adapts to a partner to the degree that it is dependent on that partner (Hallen, Johanson et al., 1991). The organisation with greater relative dependence has, by definition, relatively greater interest in sustaining the relationship, and one way to do so is to be more receptive to requests and amenable to changes suggested by its partner organisation (Anderson and Narus, 1990).

### **2.1.3.2 Influence**

Influence is the capacity to induce desired actions by the partner organisation. The organisation with lesser relative dependence can use its superior position to request changes of its partner that it believes will either mutually increase the outcomes of both partners, or singly increase its own outcomes from the relationship (Anderson and Narus, 1990).

### **2.1.3.3 Balance of Power**

Rather than independently evaluating the absolute dependence and influence of each organisation, it is contested that the relative balance between both partners is of greater interest. It is generally referred to in the literature as symmetry or asymmetry (Johnsen and Ford, 2001; Cox, Watson et al., 2003).

This balance considerably impacts the closeness of the relationship. Indeed Johnsen (2001) argued that neither asymmetrical customer-dominated relationships nor supplier-dominated relationships fits with the concept of compatible, collaborative relationships. The weaker partner is obliged to make adaptations and investments geared towards the benefit of the stronger one. One-sided investments (Jap and Ganesan, 2000) provide little incentive for the dominant partner to be committed to the relationship in the long run. This is negatively perceived by the weaker partner and undermines the relationship. Mohr (1990) has also shown that in

circumstances of asymmetry, communication assumes an autonomous strategy pattern, reducing the effectiveness of the relationship.

Moreover for Cox (2003) the power structure determines how the surplus value will be shared in the relationship. The surplus value is the extra-profit made, compared to the reasonable profit margin expected from any business. The dominant partner will obtain all the surplus value. Only in circumstances of interdependence (symmetry) – that is, where both organisations are highly reliant on one another – will the surplus value be shared, as the two organisations are able to negotiate from a position of relative strength.

## **2.1.4 Relationship Atmosphere**

### **2.1.4.1 Satisfaction**

Satisfaction is achieved when expectations are fulfilled (Selnes, 1998). In this case, this would mean that an organisation is satisfied with its relationship with its partner when its expectations in terms of relationship characteristics (links in activities, tied resources, bonded actors, communication and balance of power) are fulfilled. For example, Mohr (1994) has shown that as communication quality, and participation increase, satisfaction with the partner increases. Demonstrating commitment also increases satisfaction of the partner (Selnes, 1998; Jap and Ganesan, 2000).

Satisfaction is therefore an important indicator of the relationship health, as satisfied partners are more trusting (Mohr and Spekman, 1994) and more motivated to continue the relationship and enhance its scope (Selnes, 1998).

### **2.1.4.2 Insecurity**

Robson (2006) defines relationship insecurity as an organisation's concerns about the continuance of the alliance. Insecurity is negatively correlated with relationship commitment, satisfaction, trust, communication

quality and favours conflicts (Attridge, Berscheid et al., 1998; Robson, Spyropoulou et al., 2006).

Insecurity is naturally associated with dependency. Without dependence there is no reason to worry about the loss of a relationship; and in a situation of dependency, the dual perceptions that the relationship satisfies many important needs, and that few alternative means of satisfaction are available, might raise security concerns (Attridge, Berscheid et al., 1998). Nevertheless, dependence is necessary but not sufficient to generate insecurity. In some circumstances, an organisation can be highly dependent without feeling any insecurity. For example, this occurs when the dependence is mutual. The trigger is trust. When one individual has doubts about his/her partner; for example, when the dependence is not a mutual factor (asymmetry), or due to low self-esteem (Murray, Ellsworth et al., 1998), then dependence generates proportional insecurity. In contrast, in established relationships (married couple or joint ventures) where trust is high, at least due to calculative trust, the more dependent a partner, the less concerned it is about potential abandonment (Attridge, Berscheid et al., 1998; Robson, Spyropoulou et al., 2006).

#### **2.1.4.3 Conflict**

Fey's (2000) results indicate that conflict and performance are highly correlated. It provides evidence for the importance of monitoring and attempting to minimise inter-organisation conflict to ensure superior performance (especially long-term success or survival). For Anderson (1990), conflict represents the overall level of disagreement in the working partnership. As such, conflict is determined by the frequency, intensity, and duration of disagreements. White (2007) attributes these conflicts to the perceived divergence of interest, or a belief that the partners current aspirations cannot be achieved simultaneously. A survey of literature (Fey and Beamish, 2000), shows that the most commonly cited causes of conflict

are: (1) competition for scarce resources; (2) desire for autonomy; (3) goal divergence; and (4) perceptual incongruities / cultural differences.

Therefore, Fey (1999) believes that some disagreement is inevitable in inter-organisation relationships. An important question then becomes, how is it best to manage these disagreements to avoid the generation of conflict and minimise their detrimental effects? Disagreement resolution is characterised by multiple strategies, including reliance on problem-solving, compromising, forcing one's position, legal strategy and avoidance (Chew and Lim, 1995; Lin and Germain, 1998).

### **2.1.5 Relationship Dynamics**

Two key conceptual publications have been written by Dwyer (1987) and Ring (1994) about the development of relationships. These publications were recently compared and some of their propositions tested by Jap (2007). The consensus in these three publications is that relationships evolve through three main phases: building, stability, and dissolution.

#### **2.1.5.1 Building Phase**

The building phase is characterised by the development of congruent norms about each other's prerogatives and obligations, of joint expectations about their motivation, possible investments, work roles and sales and profits objectives. Communication is established for the exchange of critical information and the handling of issues. The other's trustworthiness is assessed. In this phase, the use of explicit contracts has an undermining effect on commitment. Explicit contracts signal distrust and are often complex, which reduces flexibility and may subsequently lower relationship performance.



### **2.1.5.2 Stability Phase**

The stability phase is a positive, working relationship marked by trust, mutual dependence, bilateral idiosyncratic investments, and a willingness to take risks. As the relationship broadens, the level of investment becomes higher.

### **2.1.5.3 Dissolution Phase**

The dissolution phase will occur when the organisations have lived up to their promises and when the deal is completed. Dissolution can also occur when one organisation privately evaluates his or her dissatisfactions with the other organisation, concluding that costs of continuation or modification outweigh the benefits. In the dissolution phase, the use of explicit contracts and relational rules is a powerful safeguard. Contracts carry legal penalties for opportunistic termination, and rules signal a willingness to manage the dissolution process constructively (Jap and Ganesan, 2000).

Jap's results (2000) also show that even if some relationships can cycle between the phases, relationships that have gone all the way into dissolution, before being pulled back to build-up or stability, carry over some of the negativity of their dissolution phase. The scars incurred in this phase heal slowly and affect subsequent overall performance evaluation in the relationship.

## **2.2 Public Procurement**

The B2B relationship's characteristics described can not be transferred to public-private relationships without prior understanding of public procurement. A background study of public procurement is needed. This can be found in the literature under the heading "public procurement" and also more recently and in a narrower extent "Private Public Partnerships" (PPP).

This section of the review will concentrate on the Irish public procurement. It is very similar to other European Union (EU) countries due to EU treaties and their regulations, but might differ significantly from non-EU states. For PPPs (Appendix C), most of the literature studies UK contracts, few examples exist for other EU states.

At present, procurement within the Irish public sector is heavily decentralised, with public bodies largely purchasing independently (IT Business Services Unit, 2006). For public organisations, it is very important that the public procurement function is discharged honestly, fairly, and in a manner that secures best value for public money. Contracting organisations must be cost effective and efficient in the use of resources while upholding the highest standards of probity and integrity (National Public Procurement Policy Unit, 2009). Therefore, a double objective of probity and efficiency can be distinguished. Probity is defined through several principles. Legal requirements enforce those principles and define rules and procedures to standardise the procurement process.

### **2.2.1 Public Procurement Principles**

Essential principles, to be observed in conducting the procurement function, include equal treatment, transparency, proportionality and mutual recognition (Enterprise Ireland, 2006).

#### **2.2.1.1 Equal Treatment**

The principle of Equal Treatment requires that all suppliers be treated equally and with the utmost fairness at every stage of a contract award procedure.

#### **2.2.1.2 Transparency**

The principle of transparency requires that information, regarding forthcoming contracts above certain financial threshold, is readily available

to all interested candidates (Section 2.2.2.3, p33: Advertising Contracts). This is achieved by publication of three types of notices in the Official Journal of the European Communities: periodic indicative notices (PIN), invitations to tender, and contract award notices (CAN).

The principle of transparency also requires that candidates be informed of the rules that will be applied in assessing their applications for tender lists and the criteria to be used in the evaluation of tenders.

The principle of transparency serves two main objectives (Bovis, 2009): first is to introduce a system of openness in the public purchasing of the Member States, so potential discrimination on grounds of nationality should be eliminated; secondly, transparency in public procurement represents a substantial component for a system of best practice for both the public and private sectors, a system which could introduce operational efficiencies within the relevant markets.

### **2.2.1.3 Proportionality**

The principle of Proportionality requires that the criteria of selection for suppliers should be both relevant and directly related to the contract being awarded. In particular, they should not be excessive in order to allow smaller or younger organisations a chance to tender if they have the capacity to meet the contract.

### **2.2.1.4 Mutual Recognition**

The principle of Mutual Recognition requires that all the standards, specifications and qualifications in use throughout the EU should receive equal recognition, on condition that the products or services are suitable for their intended purpose.

To achieve compliance to those principles, the public procurement regime has been built with legal requirements and procedures to be followed by most public organisations.

### **2.2.2 Public Procurement Legal Requirements**

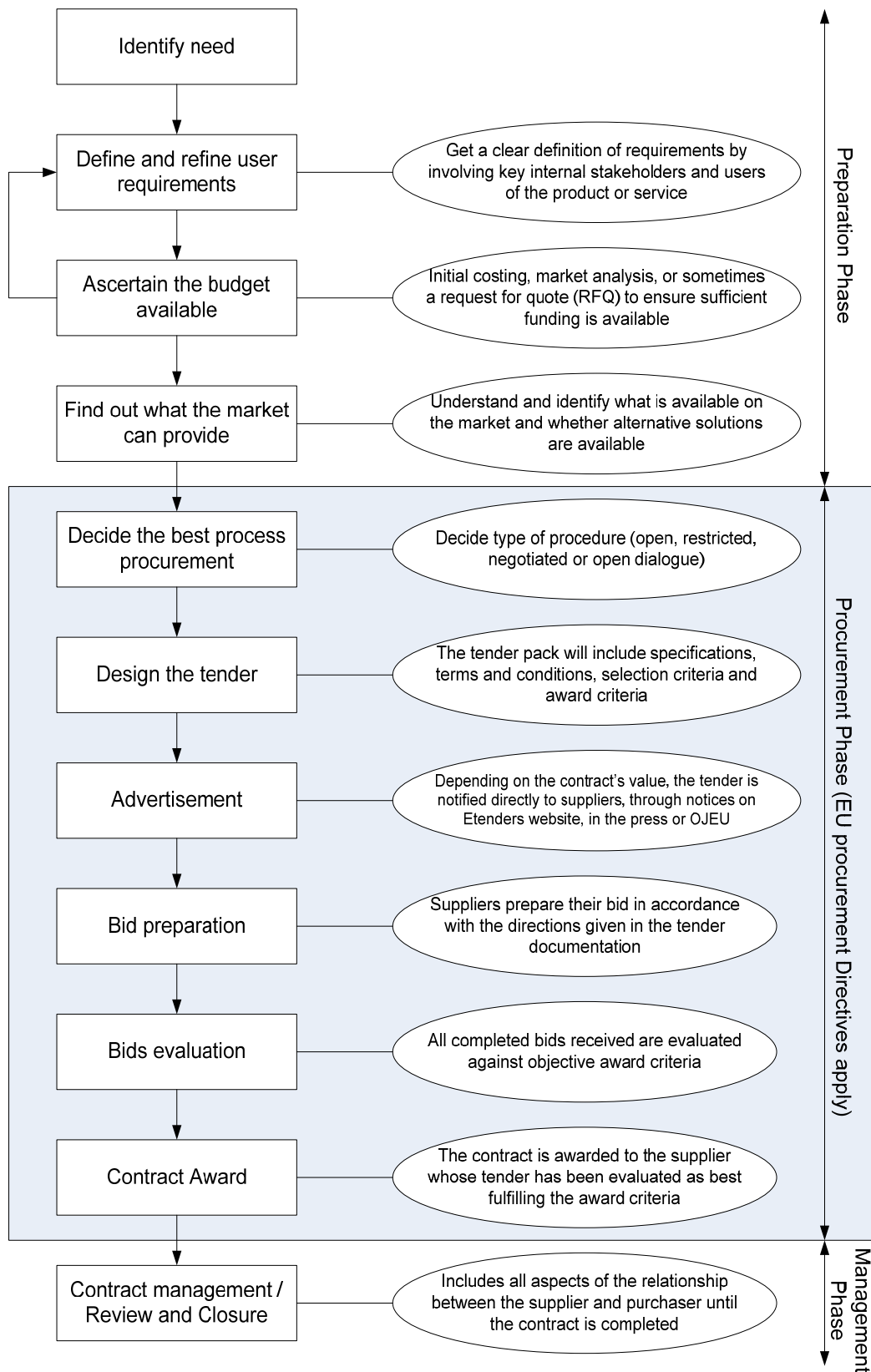
A line of demarcation, between public procurement and its private partner, is that public sector organisations are required to comply with national statutes and other regulations. These regulations describe, often in great detail, how public sector organisations should behave when procuring goods and services (Waara, 2008).

Ireland being a member of the European Community (EC), Government Departments and other public bodies and utilities are responsible for ensuring that they observe EC treaties and their regulations. For public procurement the main legal obligations include (Davis, 2004):

- EC Treaty and other international obligations, such as the WTO Agreement as implemented in Irish legislation or by virtue of direct effect
- EC Procurement Directives as implemented by Regulations made by the Department of Finance in Ireland
- Government Guidelines
- Contract and commercial law in general

The Directives impose legal obligations on public bodies in regard to advertising in the Official Journal of the European Union (OJEU) and the use of objective tendering procedures for contracts above certain value thresholds (National Public Procurement Policy Unit, 2009). The thresholds vary depending on the type of contract and whether the contracting entity is a Central Government Department, a Government Agency or a Utility. Most government bodies have extended these rules to contract under the EU thresholds. Nevertheless, it should be noted that most of the bodies have less formal rules for very small contracts (generally under €25,000) (Davis, 2004).

Following EU directives, procurement is a complex process. A flow diagram adapted from Procurement Innovation Group (2009a) is given in Figure 2-2.



**Figure 2-2: Tendering process for open procedures adapted from Procurement Innovation Group (2009a, p.5)**

Two main phases can be identified in the tendering process. The first one concerns the exact definition of product or service required in function of the budget available. This is an internal operation of the public organisations. Once the product or service is agreed internally and the purchase decision is reached then the tender phase is initiated. This second phase must follow the EU procurement directives. The legal obligations for each step of the process are explained in the following points.

### **2.2.2.1 Tendering Procedure Selection**

The first step is the selection of the tendering procedure. The 2004 EU public sector Directives (The European Parliament and the Council of the European Union, 2004) permit four tendering procedures in awarding contracts for supplies, works and services. The choice of one procedure over the others depends on the immediate circumstances, the existing markets, or the public organisations own in-house routines. In all cases, at least three candidates should submit tenders to ensure compliance with the principles of transparency and equality of treatment. Negotiations with suppliers are generally not allowed between the tenderers and the public organisation. The procedures are known as the "open procedure", any organisation can submit a tender; "restricted procedure", only selected organisations can submit a tender; "competitive dialogue" allow some dialogue with organisations to define the tender's specifications and "negotiated procedure", exceptional procedure that allows negotiations (Davis, 2004; Enterprise Ireland, 2006; National Public Procurement Policy Unit, 2009). Details of the procedures are given in Appendix B (p165).

### 2.2.2.2 Design the Tender

The tender pack will include specifications, terms and conditions, selection criteria and award criteria (National Public Procurement Policy Unit, 2009).

The specification should focus on the function of the product or service required. It builds the specification around a description of what is to be achieved rather than a fixed description of exactly how it should be done.

For a restricted or a negotiated procedure, the selection criteria have to be chosen. Candidate selection criteria fall into three main categories (Enterprise Ireland, 2006):

- Exclusion criteria (Bankruptcy, being convicted for an offence concerning professional misconduct, non-payment of social security contributions or taxes, misrepresentation in supplying information)
- Financial and Economic Information (Audited accounts, overall turnover for the previous 3 financial years, turnover related to the products or services being purchased over the same period, for services contracts evidence of risk indemnity insurance)
- Technical Capacity (product sample, product description, educational and professional qualifications, quality control, tools, equipment...)

For contract awards, there are two alternatives. A contract may be awarded either to the lowest tender, or to the tender that is judged to be the economically most advantageous on the basis of multiple criteria (scoring-based competitive tendering)(The European Parliament and the Council of the European Union, 2004). The multiple criteria may include in addition to price, various other criteria including running costs, servicing costs, level of after sales service, technical assistance, technical merit, environmental characteristics and delivery date. The terms of the selected criteria chosen for the contract in question should be laid out in descending order of importance (Davis, 2004). It is increasingly rare for a contract to be



specified in terms of the lowest price (Enterprise Ireland, 2006). The criteria for contract award should always be stated in advance of tendering. They should be included in the advertisement or in the tender documents supplied to the tenderers (The European Parliament and the Council of the European Union, 2004).

### **2.2.2.3 Advertising Contracts**

Depending on the value of the contract, the tender will be notified directly to suppliers, or through notices published in Ireland on the E-tenders website or in the press. For contracts above EU thresholds, public bodies are required to advertise their contracts by publishing notices in the Official Journal of the European Union (OJEU) (The European Parliament and the Council of the European Union, 2004).

For non-EU contracts, public bodies must advertise in the local media or use in-house tender lists.

### **2.2.2.4 Candidate Selection Criteria**

As described in (Enterprise Ireland, 2006), in restricted or a negotiated procedure, the selection criteria determine the candidate's ability to fulfil the requirements of a specific contract. As such candidates will be requested to complete a questionnaire or provide the information listed in the tender advertisement. This information will then be used to determine which suppliers will be invited to tender or negotiate.

The criteria used are usually very similar and so it is possible to prepare standard responses to these requests.

### **2.2.2.5 Evaluation of Tender**

Tenders are normally evaluated in two stages and quite often by two separate groups within the purchasing organisation. Firstly, a technical stage to ensure the product or service will meet the specification and

performance requirements. The second stage is the commercial evaluation. If a product or service is not technically acceptable, then the tender will be rejected and not evaluated commercially (Enterprise Ireland, 2006).

The evaluation and award process must be demonstrably objective and transparent and based solely on the published criteria (National Public Procurement Policy Unit, 2009):

- Where price is the sole criterion, the contract will be awarded to the lowest priced bid complying with the specified requirements.
- Where ‘most economically advantageous tender’ is the basis, the contract must be awarded to the tender which best meets the relevant criteria. In this case, transparency and objectivity are best demonstrated by the use of a scoring system or marking sheet based on the relevant weighted criteria, indicating a comparative assessment of tenders under each criterion.

#### **2.2.2.6 Award of Contract**

Once the evaluation has been completed, the successful tenderer will normally receive an official purchase order or other formal notification of the purchasing organisation’s intention to award a contract (Enterprise Ireland, 2006).

Unsuccessful tenderers for any public contract should be informed of the results of the tendering process without delay. A contract is not immediately formally awarded in order to allow an unsuccessful tenderer to seek a review of the decision if s/he feels that the process has been unfair or unlawful (The European Parliament and the Council of the European Union, 2004).

After the award of a contract certain information must be disclosed (The European Parliament and the Council of the European Union, 2004):

- Any eliminated candidate or tenderer who requests it must be informed promptly (within 15 days) of the reasons for rejection and of the characteristics and relative advantages of the successful tenderer as well as the name of the successful tenderer.
- Certain information on the contract awarded, including the name of the successful contractor(s) and the price, or range of prices, paid, must be submitted for publication in the EU Journal not more than 48 calendar days after the award.

### **2.2.2.7 Contract Management**

Time and resources need to be allocated to managing the contract. It is therefore essential to have a robust contract management regime planned as early as possible in the procurement process, so that both organisations understand their respective obligations (Procurement Innovation Group, 2009a).

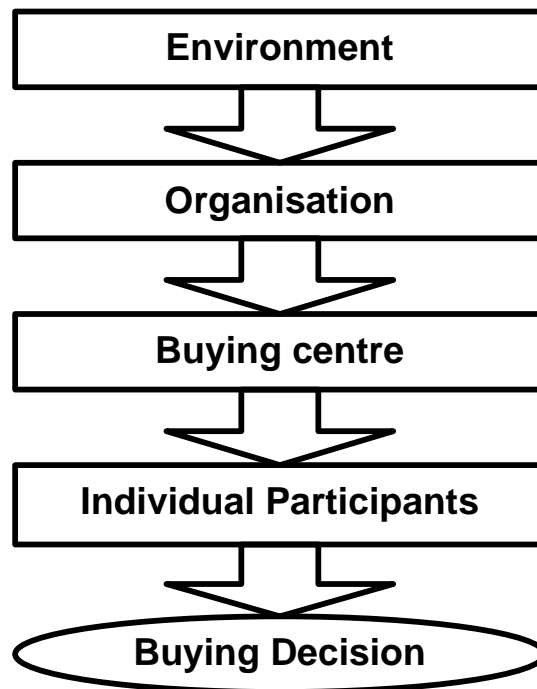
Managing contract delivery involves monitoring and evaluation – the results of which can be used to draw lessons for future public procurement procedures, contracts, projects, and policies (Procurement Innovation Group, 2009a).

## **2.3 Organisational Buying Behaviour**

*“Organisational (i.e. industrial and institutional) buying takes place within the context of a formal organisation. Many people are usually involved in the decision making process and it is influenced by budget, cost, and profit considerations. It results in complex interactions among people and sometimes generates frictions between individual and organisational goals. The organisation itself is influenced by a variety of forces in the environment”* (Webster Jr and Wind, 1972, p.12).

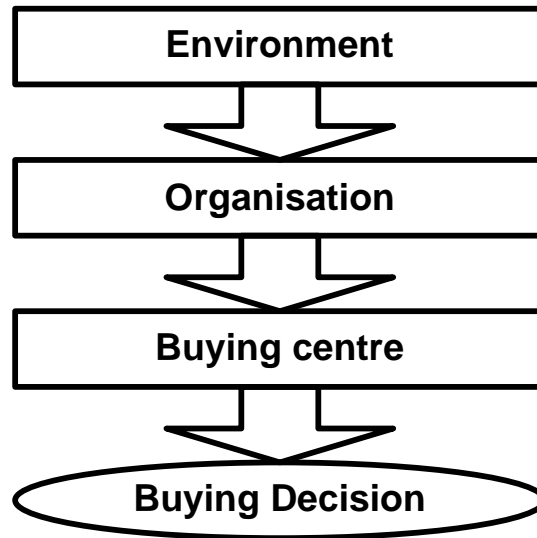
It appears from Webster quotation that organisational buying behaviour is determined by four classes of variables: environmental (*forces in the*

*environment*), organisational (*formal, budget, cost and profit*), social (*interactions, frictions*) and individual (*people, goals*). The environment influences the organisation; the organisation influences the buying centre; interactions among buying centre personal influence each individual. The buying decision is the result of all these influences and interactions. This model is illustrated in Figure 2-3.



**Figure 2-3: Model of organisational buying behaviour adapted from (Webster Jr and Wind, 1972, p.15)**

This study focalises on the buying centre as the object of study. Therefore, it will not consider the individual and social influences on the buying decision. Alternatively, it concentrates on the organisational and environmental influences (Figure 2-4).



**Figure 2-4: Simplified Model of organisational buying behaviour adapted from (Webster Jr and Wind, 1972, p.15)**

Therefore, in order to understand the buying decision and the buying centre behaviours, the characteristics of an organisation structure must be defined, the contingency variables affecting the organisation exposed and the resulting structural configurations need to be explained.

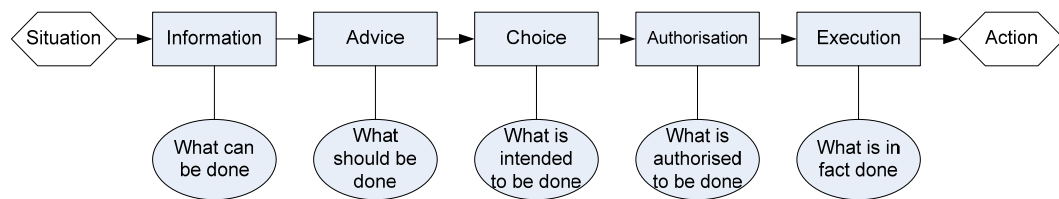
### **2.3.1 Characterisation of an Organisation Structure**

Even if a small number of untypical characterisation systems exist (Johnston and Bonoma, 1981; Cavinato, 1992), there is a growing consensus among organisation theorists and organisational buying behaviour researchers that centralisation, formalisation and coordinating mechanisms constitute the major dimensions of organisational structure. As shown in Appendix D.1, these three parameters are not totally independent.

#### **2.3.1.1 Centralisation**

When the notion of centralisation is applied to buying centres, it refers to buying centres where, regardless of the number of people involved, only a few participants hold meaningful influence over the purchase decision process (Lewin and Donthu, 2005).

The decision process can be depicted (Patterson, 1969) as a number of steps, as shown in Figure 2-5 (p38): (1) collecting information to pass on to the decision maker, without comment, about what can be done; (2) processing that information to present advice to the decision maker about what should be done; (3) making the choice – that is, determining what is intended to be done; (4) giving the authorisation and (5) doing it – that is, executing what is, in fact, done.



**Figure 2-5: A continuum of control over the decision process (Patterson, 1969, p.150)**

From this framework, two types of decentralisation can be described.

- Vertical decentralisation (Mintzberg, 1983), also named vertical involvement (Lewin and Donthu, 2005): the making of choice is dispersed between several people. The decision-making power is delegated down the chain of authority, from the top management into the middle management. The focus here is on formal power – to make choice and authorise them – as opposed to the informal power that arises from advising and executing. Several levels of management are involved in a particular purchase decision.
- Horizontal decentralisation (Mintzberg, 1983) also named lateral involvement (Lewin and Donthu, 2005): the informal power (information, advice and execution) flows to non-managers (analysts, support specialists, and operators) outside the direct hierarchy. Several departments or other work-related groups are represented in the buying centre or are involved in some way in the purchase decision.

Centralisation of the supply function allows leveraging of corporate purchases across divisions (economies of scale) (Corey, 1978) and facilitates standardisation of products and business processes (Pfohl and Zollner, 1987). It also favours cost reductions created through opportunities to allocate resources efficiently, greater buying specialisation (Corey, 1978), coordination of policies and systems and consolidation of requirements (Johnson and Leenders, 2006).

Meanwhile, decentralisation provides the benefits of improved service and lower costs by pushing decision making responsibility closer to the end user. It promotes closer working relationships between suppliers and end users and provides increased opportunities for end users to manage total cost of ownership factors (Johnson and Leenders, 2004). It also allows the integration of purchase inflows with production schedules (Corey, 1978).

### **2.3.1.2 Formalisation and Standardisation**

A second parameter of organisational design is the formalisation, or standardisation, of behaviour. Formalisation refers to the degree to which the goals, rules, policies and procedures of the organisation's activities are precisely and explicitly formulated and required to be adhered to (Chow, Henriksson et al., 1995; Lau, Goh et al., 1999). This parameter represents the organisation's way of standardizing the work processes of its members. Behaviour may be formalised in three basic ways (Mintzberg, 1983):

- By the position, specifications being attached to the job itself, as in a job description;
- By the work flow, specifications being attached to the work; and
- By rules, specifications being issues in general, as in various regulations – everything from dress to use of forms – contained in so-called policy manuals.

Organisations formalise behaviour to reduce its variability, ultimately to predict and control it. The advantages of behaviour formalisation are (Mintzberg, 1983):

- Coordination of activities: everybody knows what to expect from the other;
- Efficient production: formalisation is used to impose the most efficient procedures on the tasks; and
- Fairness to clients

Through formalisation, a worker's behaviour is regulated and the power over how the work is to be done passes to the person who designs the specifications, often an analyst. As a result, the worker merely does the work without any thoughts as to how or why (Mintzberg, 1983).

Formalisation of the buying centre refers to the emphasis placed on the use of formal rules and procedures by buying centre participants during the purchase process. In more formalised buying centres little, if any, flexibility is expected beyond what is set forth by policy within the customer organisation (Lewin and Donthu, 2005).

From the extent that the behaviour is predetermined or predictable, in effect standardised, two extreme structures emerge from a continuum of standardisation. A mechanistic structure, also named bureaucratic after the work of Max Weber, and an organic structure. The bureaucratic structure emphasises standardisation (whether or not centralised). While on the other hand, an organic structure is characterised by the absence of standardisation and the flexible working arrangement (Mintzberg, 1983).

### **2.3.1.3 Coordinating Mechanisms**

Five coordinating mechanisms (Mintzberg, 1983) explain the fundamental ways in which organisations coordinate their work: mutual



adjustment, direct supervision, standardisation of work processes, standardisation of work outputs, and standardisation of worker skills.

- Mutual adjustment achieves the coordination of work by the simple process of informal communication. Operators communicate directly to one another.
- Direct supervision achieves coordination by having one person take responsibility for the work of others, issuing instructions to them and monitoring their actions. The manager tells the operator what they must do.
- Work processes are standardised when the contents of the work are specified, or programmed. Operators follow procedures, or work on pre-defined tasks (assembly lines).
- Outputs are standardised when the results of the work – for example, the dimensions of the product or the performance – are specified. Products or services are delivered to specifications and so can be used directly by other operators.
- Skills (and knowledge) are standardised when the kind of training required to perform the work is specified. Thanks to their training, all operators behave and act as expected of them.

#### **2.3.1.4 Corporate Coherence and Application to Individual Positions**

Corporate coherence is related to the extent to which the different parts of the corporation operate and are managed as one entity. Major differences across business units in management style, vision, strategy, culture, and structure reflect a low corporate coherence (Rozemeijer, Weele et al., 2003).

The coherency principle proposes that all the departments of an organisation, as subsystems, should reflect the overall organisation configuration and strategy. For example, the levels of centralisation should be approximately equivalent in the parent system and in the buying centre (Wood, 2005). A centralised purchasing function with a central purchasing

department does not match with an organisation with a decentralised organisation philosophy. Processes should be in line and goals should be congruent (Kamann, 2007).

Organisations following the coherency principle gain in integration of their departments. Integration is the degree to which coordination, between the various tasks and activities, is achieved across the organisation's departments. Integration is not a property, but rather a product or an outcome of the organisation's structure. It is desired as a means to achieve enhanced performance (Chow, Henriksson et al., 1995) through higher efficiency in the exchanges between departments.

In order to achieve integration of the departments, organisations define individual positions to reflect the centralisation, formalisation and coordinating mechanisms of the whole organisation structure. These design parameters are translated into job specialisation, formalisation of behaviour, and training and indoctrination (Mintzberg, 1983).

Job specialisation, as centralisation, can be divided between horizontal and vertical specialisation. Horizontal specialisation limits the job's scope, the variety of tasks contained in the job function. Vertical specialisation limits the control over the tasks.

Formalisation of behaviour proscribes the discretion of individual, essentially by standardising their work process.

Training refers to the process by which job-related skills and knowledge are taught, whereas indoctrination is the process by which organisational norms are acquired (Mintzberg, 1983).

### **2.3.2 Contingency Theory and Contingency Variables**

Structural contingency theory has dominated research in the strategy-structure-performance paradigm within the organisational sciences (Chow, Henriksson et al., 1995). The contingency hypothesis postulates that

effective organisations shape their design parameters in accordance with the characteristics of their environment (Kamann, 2007). Good performance is "contingent" on congruence between structural properties and contingency variables (Chow, Henriksson et al., 1995), the better the match the higher the performance (Miller, 1982). As well as compatibility with their situational factors, effective organisations achieve an internal consistency among their design parameters, or in other words, a complementary alignment among the internal structural elements – in effect, configuration (Mintzberg, 1983; Rozemeijer, Weele et al., 2003). Structural elements are interdependent and must be matched appropriately to maximise organisational performance. Most combinations should not and do not occur because they will hurt performance (Miller, 1982).

The application of contingency theory to the relationship between structure and performance requires identification of factors which may help explain why certain structures generate better performance outcomes in some situations than others. Good performance is "contingent" on congruence between structural properties, organisation's age and size, technology, and the external environment (Chow, Henriksson et al., 1995). These factors interacting with the organisation structure are named contingency variables.

### **2.3.2.1 Organisation's Age and Size**

Buying centre size refers to the number of people actively involved in a purchase situation across the various stages of the decision process (Lewin and Donthu, 2005). Organisations that differ widely in terms of size also tend to differ in terms of scope, complexity and available resources. Medium-size and larger organisations rely on features that support coordination and integration across the supply chain (Trent, 2004). The older and the larger the organisation, the more formalised its behaviour (Mintzberg, 1983).

### **2.3.2.2 Technical System**

Simple technical systems that can be broken down into simple, specialised tasks, favours the formalisation of the operating work and the bureaucratisation of the operating core structure (Mintzberg, 1983).

The more sophisticated (difficult to understand) the technical system, the more elaborate the non-operating structure – specifically, the larger and more professional the support staff, the greater the selective decentralisation (to that staff), and the greater the use of liaison devices (to coordinate the work of that staff) (Mintzberg, 1983).

### **2.3.2.3 Environment Predictability**

Predictability refers to the ability of the decision-maker to predict the behaviour and expectations of competitors, suppliers (including logistics suppliers) and customers (Chow, Henriksson et al., 1995). Lack of information, inability to predict outcomes, and inability to predict environmental factors will affect success or failure (McCabe, 1987). An unpredictable environment results in uncertainty regarding the information available to make the best decision and/or the ultimate positive (negative) outcome of a decision (Lewin and Donthu, 2005). It can lead to a lack of confidence in framing specific rules and procedures which guide buying decisions (Lau, Goh et al., 1999).

By adapting its structural configuration to match the level of uncertainty in its environment, a organisation can facilitate the gathering and processing of information crucial to its decision making; thereby reducing uncertainty to a manageable level (Spekman and Stern, 1979). Faced with uncertainty and unpredictability in supplies, or customer demand, the organisation cannot rely on standardisation for coordination. It must use a more flexible, less formal coordinating mechanism instead – direct supervision or mutual adjustment (Mintzberg, 1983) – to permit the free flow of generally novel

and non-routine information regarding the environment (Spekman and Stern, 1979). In other words, it must have an organic structure. Thus the more unpredictable the environment, the more organic the structure (Mintzberg, 1983). Static and simple environments do not require continuous gathering and processing of such information. Therefore, static and simple environments result in more rigid and bureaucratic department structures (Spekman and Stern, 1979).

#### **2.3.2.4 Environment Complexity**

Complexity can refer to the technical complexity of the product and/or the complexity of the buying decision or task under consideration (Lewin and Donthu, 2005). In a simple environment, one person can comprehend the whole situation. This person can make all the key decisions by him/herself. In other words, he/she will centralise and avoid the difficulties of coordinating with other managers. This however is not feasible in a complex environment. One person alone cannot cope with the amount of information needed to make all of the decisions. He/she becomes overloaded (Mintzberg, 1983). Groups of specialists must be differentiated based on the nature of tasks performed. This brings Lau (1999) to define complexity as *the degree to which procurement activities are conducted by specialised departments, committees, and skilled personnel*, p576. And Mintzberg (1983) to conclude, the more complex the environment, the more decentralised the structure.

#### **2.3.2.5 Market Diversity**

The markets of an organisation can range from an integrated to diversified one. Market diversity may result from a broad range of clients, products and services, or geographical areas in which the outputs are marketed. If the organisation can identify distinctly different markets, it will be predisposed to split itself into market based units. Diversification breeds

divisionalisation. However, this is possible only if there is no common technical system or critical function that cannot be segmented (Mintzberg, 1983).

#### **2.3.2.6 Environment Hostility**

An organisation's environment can range from munificent to hostile. Hostility is influenced by competition, by the organisation's relations with unions, government, and other outside groups, and by the availability of resources to it. Hostility affects structure especially through the speed of necessary response. Since it must respond quickly and in an integrated fashion, it turns to its leader to make and coordinate all the decisions (direct supervision). It drives the organisation to centralise its structure temporarily (Mintzberg, 1983).

Another form of hostility can be found in Lewin's (2001) research of organisational downsizing. He studied the threat effect of organisational downsizing on buying behaviour. Like Mintzberg (1983), he concluded that threats lead temporarily to mechanistic structures throughout the organisation, as managers seek to consolidate their control until the threat abates.

#### **2.3.2.7 External Control**

The two most effective means to control an organisation from the outside are (1) to hold its most powerful decision maker – its chief executive officer – responsible for its actions, and (2) to impose on it clearly defined standards by means of rules and regulations (Mintzberg, 1983). The first centralises the structure; the second formalises it.

The loss of autonomy means not only the surrender of power to the external controller but also significant changes within the structure of the organisation itself, no matter what its intrinsic needs. The greater the

external control of the organisation, the more centralised and formalised its structure (Mintzberg, 1983).

### 2.3.3 Structural Configurations

All the structural elements described – centralisation, formalisation, coordinating mechanisms and contingency variables – seem to fall in natural clusters, or configurations. If these elements are classified (Table 2-2) in relation to the complexity and predictability of the environment, what emerge are two kinds of bureaucratic structures and two kinds of organic structures. In each case, there is a centralised structure for simple environments and a decentralised one for complex environments. Mintzberg (1983) named these structures professional bureaucracy, adhocracy, machine bureaucracy and the simple structure (Appendix D.2). He also introduced a divisionalised form that takes market diversity into consideration. But each division of the organisation adopts one of the four other structures.

**Table 2-2: Organisation structure configurations in specific kinds of environments**  
(Mintzberg, 1983, p.144)

	<b>Predictable</b>	<b>Unpredictable</b>
<b>Complex</b>	<b>Professional Bureaucracy</b> Decentralisation Bureaucratic Standardisation of skills	<b>Adhocracy</b> Decentralisation Organic Mutual adjustment
<b>Simple</b>	<b>Machine Bureaucracy</b> Centralised Bureaucratic Standardisation of work processes	<b>Simple Structure</b> Centralised Organic Direct supervision

In contrast to this traditional contingency model, support is found for an opposing view of the relation between environmental uncertainty and buying group structure: *“high levels of uncertainty lead to a constriction of decision-making authority (i.e., decisions are made at higher levels of the organisation by a smaller number of organisational members) and an increase in rule-governed behaviour as decision units act to minimise the errors often associated with decision making in uncertain situations”*, (McCabe, 1987, p.89). In other words, uncertainty favours centralisation and formalisation. But the difference originates from the point of view taken by the researchers. Contingency theorists, in the context of buying decision units, generally study the short term decisions affecting the buying tasks of the buying centre. On the other hand, support for the view in favour of the constriction of authority has been rooted in long term decisions affecting the buying strategy. In other words, in an unpredictable environment, product differentiation strategies or long term investment decisions are centralised at higher levels of the organisation but the fluctuations in daily activities are handled by the staff initiatives.

## **2.4 Synthesis of Literature Review**

### **2.4.1 Relationship Configurations**

The various parameters characterising a relationship have been studied. All these parameters set up too many variables to be easily handled in a research. They have to be aggregated to allow some practical use. The following aggregate will be defined and used: closeness, communication strategy and power balance configurations.

#### **2.4.1.1 Closeness**

For the purpose of discussion, an aggregate that include links in activities, resources and actors is defined and named closeness. On one extreme, there is an arm's-length relationship: characterised by a low level of cooperation,



participation, sharing, adaptation, specialisation, trust and commitment. At the other extreme, there is an embraced relationship, characterised by high level of co-operation, participation, sharing, adaptation, specialisation, trust and commitment.

#### 2.4.1.2 Communication Strategy

The aggregate defined by Mohr (1990), communication strategy (2.1.2), will be employed to characterise communication.

#### 2.4.1.3 Power Balance Configurations

It may be interesting to deduce from the power category review (Section 2.1.3), all the possible configurations for the balance of power. This can easily be achieved with a table (Table 2-3) mapping the dependence (or influence) of both partners.

**Table 2-3: Power balance configurations**

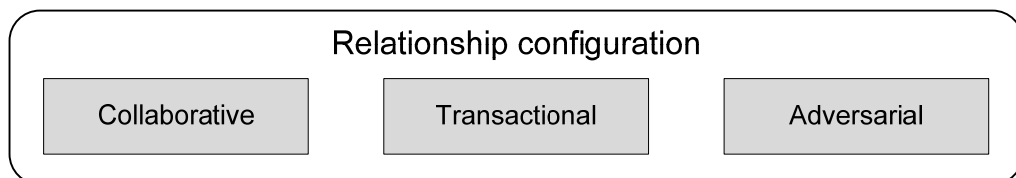
Dependence		Power Balance
Partner 1	Partner 2	
—	—	Balanced Independent
+	—	Unbalanced
—	+	
+	+	Balanced Dependent

In Table 2-3, the minus (-) symbol means that the partner is not dependent on the relationship. The plus (+) symbol means that the partner is dependent on the relationship. As can be seen, four combinations exist, two balanced and two unbalanced. Nevertheless, the two unbalanced configurations are identical in terms of relationship characteristic. Which one of the partners is dependent does not really matter. So, only three different configurations exist. In this study they will be named: unbalanced, balanced dependent and balanced independent.

- Unbalanced configuration: One of the partners is dependent on the relationship and is susceptible to be influenced by the dominant partner. The dominant partner appears in a favourable position to acquire most of the surplus value.
- Balanced independent: Neither of the partners is dependent on this relationship. It means that both can easily find replacements if needed. There may not be any need to involve in a relationship as there is probably no extra value to gain or share.
- Balanced dependent: Both partners are dependent on the relationship as it generates surplus value. Negotiations probably result in its fair sharing

#### 2.4.1.4 Relationship Configurations

Several relationships between these aggregates have emerged from the literature, for example, the relationship between an unbalanced power and an arm's length relationship (Section 2.1.3.3). If all these relationships are linked together, three different extreme configurations emerge for the B2B relationships. They will be named in this study: adversarial, transactional and collaborative (Figure 2-6).



**Figure 2-6: Relationship configurations**

Their characteristics may be summarised in Table 2-4.

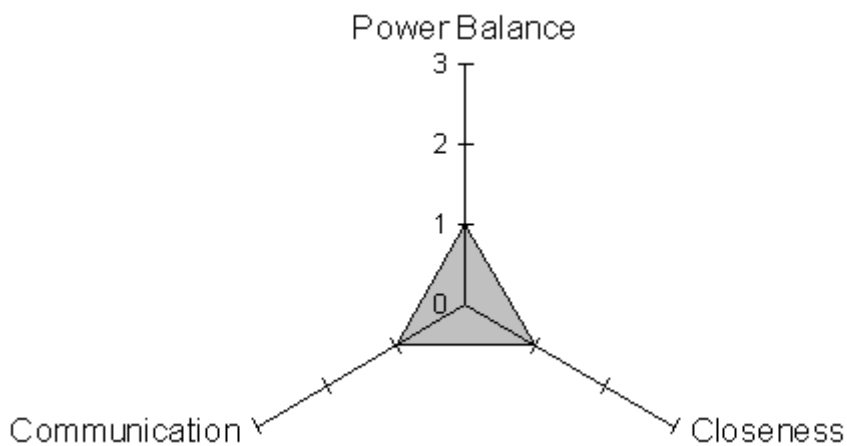
**Table 2-4: Relationship’s configurations**

Relationship	Power balance	Closeness	Communication	Atmosphere
<b>Adversarial</b>	Unbalanced	Arm’s length	Autonomous	Insecurity of dependent partner Prone to Conflict
<b>Transactional</b>	Balanced Independent	Arm’s length	Autonomous	Prone to satisfaction No insecurity Few disagreements
<b>Collaborative</b>	Balanced Dependent	Embraced	Collaborative	Prone to satisfaction No insecurity Disagreements, Few conflicts

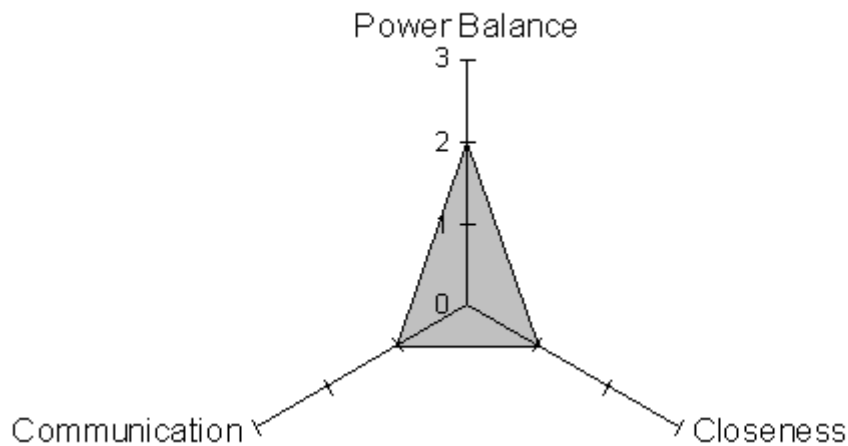
These three relationships can be charted to give a visual aid using one axis for each characteristic.

- Power balance: unbalanced (1), balanced independent (2), balanced dependent (3)
- Closeness: arm’s length (1), embraced (3)
- Communication: autonomous (1), collaborative (3)

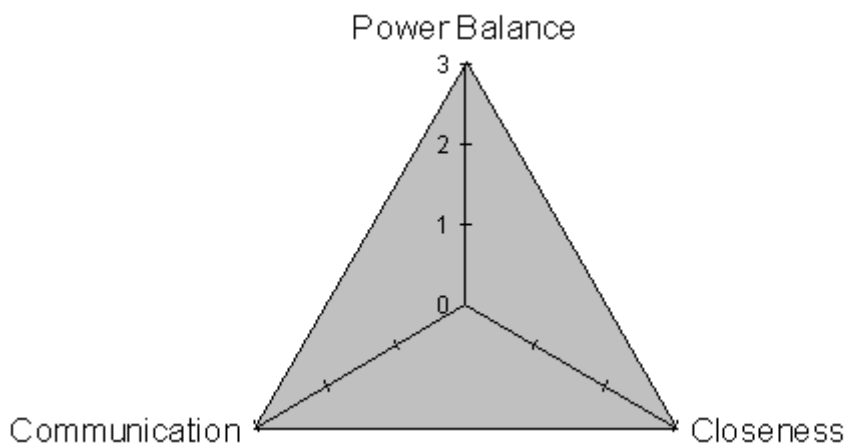
The greyed area (Figure 2-7 to Figure 2-9) represents the atmosphere of the relationship. A small area illustrate an adversarial relationship, a large area illustrates a collaborative relationship.



**Figure 2-7: Adversarial relationship chart**



**Figure 2-8: Transactional relationship chart**



**Figure 2-9: Collaborative relationship Chart**

The adversarial relationship may be characterised by the unbalance of power between the two protagonists. As was explained, in these circumstances, only an arm's length relationship seems possible. The communication strategy is probably autonomous and the intimacy of the communication likely one sided. The influencing partner might force the dependent partner to open his books using his feelings of insecurity. This may be a relationship prone to conflicts as the influencing partner might use its dominant position to get all the surplus value of the relationship and the dependent partner would try to defend its interests. Interpreting the consequences of these circumstances on the satisfaction is difficult. It would be too simple to say that the dominant partner is satisfied and the

dependent partner unsatisfied. Indeed, there is no way to know the a priori expectations of the partners.

The transactional relationship may be characterised by the low stakes in play for both partners and the absence of surplus value to gain from the relationship. In these conditions, developing a relationship would likely be a waste of time and resources. The relationship may remain at arm's length with an autonomous communication strategy. There is probably no dependence to generate any feeling of insecurity. Transactions are simple and leave few opportunities for disagreements. In all likelihood, expectations are low. For example, the buyer expects products conform to the catalogue description and on-time deliveries and the supplier expects valid payments. So satisfaction is expected to be generally quite good.

The collaborative relationship may be characterised by the dependence of both partners. The surplus value is probably shared fairly. In these circumstances, it would be in their common interest to develop a harmonious relationship to generate as much surplus value as possible. So, an embraced relationship is expected to develop with a collaborative communication strategy. Disagreements are likely solved jointly to avoid conflicts. There should not be any feelings of insecurity due to the mutual dependence. Both partners know that they are needed. In all likelihood, sources of dissatisfaction are resolved through discussion. If a conflict cannot be resolved, it probably indicates that the relationship has entered its dissolution phase. It will either be terminated or transformed into an unbalanced relationship if one of the partners cannot disengage from the relationship.

#### **2.4.2 Strategic Relationship Development**

The development of a relationship with a supplier should be the result of decision making process. The pros and cons of a collaborative relationship have to be evaluated, because collaborative relationships are

both a liability and an asset in achieving effective and efficient operations (Ford, Gadde et al., 1999).

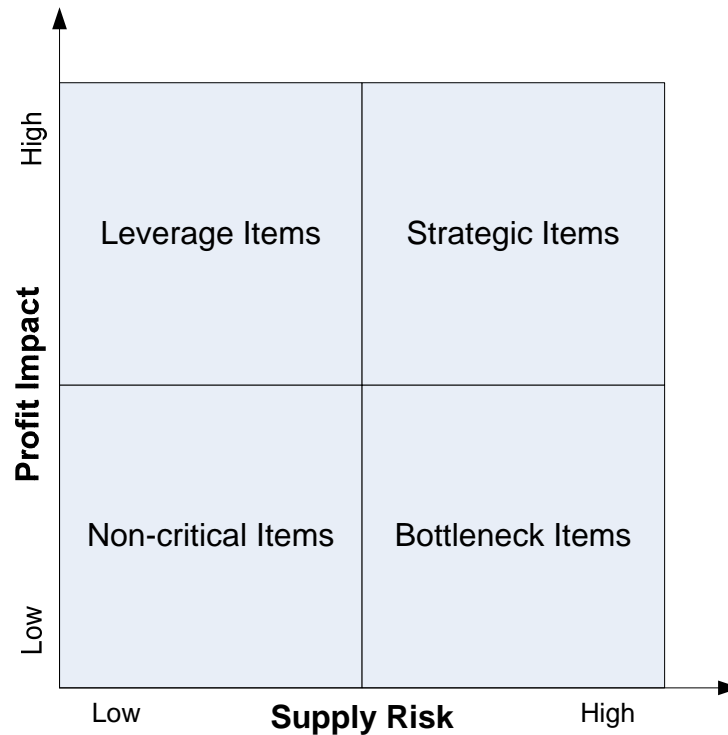
Collaborative relationship assets (Ford, Gadde et al., 1999, p.93):

- *“provide an opportunity to optimise the timing and volume of production in both organisations”*
- *“allow a division of activities within the two organisations that can relate closely to their respective strengths, abilities, cost structure and their organisations”*
- *“provide access to the skills and resources of partners. Some of these may be incorporated into the organisation’s own operations. Others may be influenced in the organisation’s own or joint interests”*

Collaborative relationship liabilities (Ford, Gadde et al., 1999, p.93):

- *“restrict an organisation’s autonomy and limit its choice within its own operation”*
- *“introduce uncertainties about future developments as planning and capital investment decisions must be made on the basis of assumptions about the intentions of other significant partners”*
- *“require resources for handling and may become an obstacle to developing new relationships”*

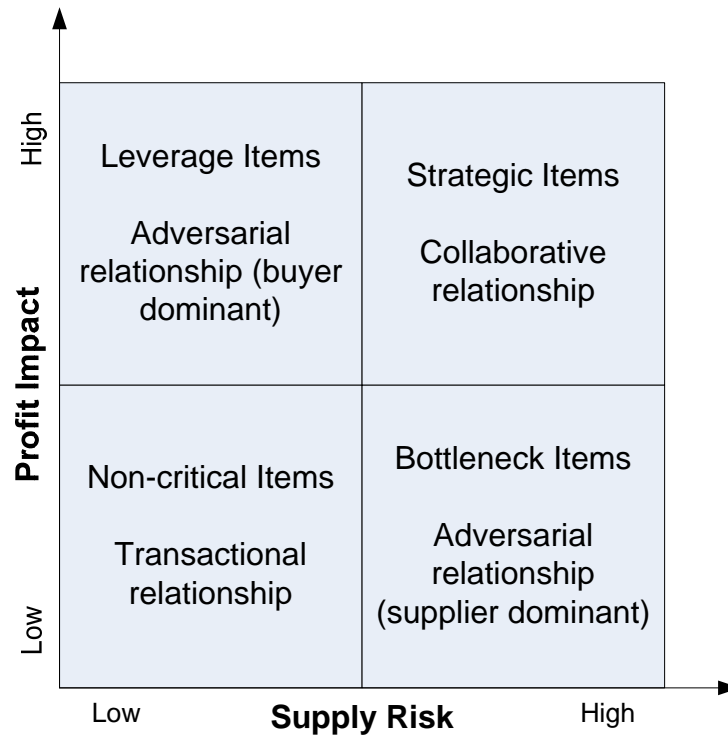
The type of relationship adopted with a supplier is therefore a strategic choice. On what elements is based this choice? Kraljic (1983) proposed a model to classify supplies (Figure 2-10), into four categories according to the their profit impact (volume purchased, percentage of total purchase cost, or impact on product quality or business growth) and risk of supplying (availability, number of suppliers, competitive demand, make-or-buy opportunities, and storage risks and substitution possibilities).



**Figure 2-10: Kraljic's product purchasing classification matrix (1983, p.111)**

Each of the four categories requires a distinctive purchasing approach (Kraljic, 1983). In particular, strategic items require the development of long-term supply relationships. Full purchasing power must be exploited for leverage items. Non critical items purchasing must be efficient. Finally, further supply sources must be found for bottleneck items as suppliers can exert their full power.

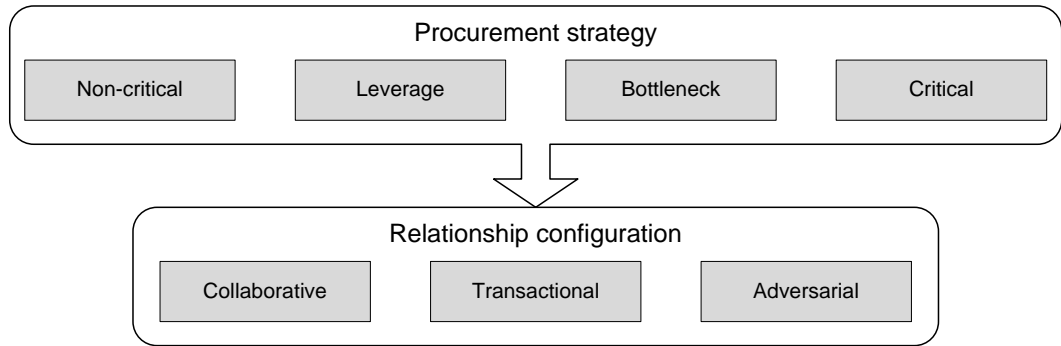
In other words, collaborative relationships can be associated with strategic items, adversarial relationship (buyer dominant) with leverage items, transactional relationship with non-critical items and adversarial relationship (supplier dominant) with bottleneck items. These associations are depicted in Figure 2-11.



**Figure 2-11: Buyer-supplier relationship classification matrix adapted from (Kraljic, 1983, p.111)**

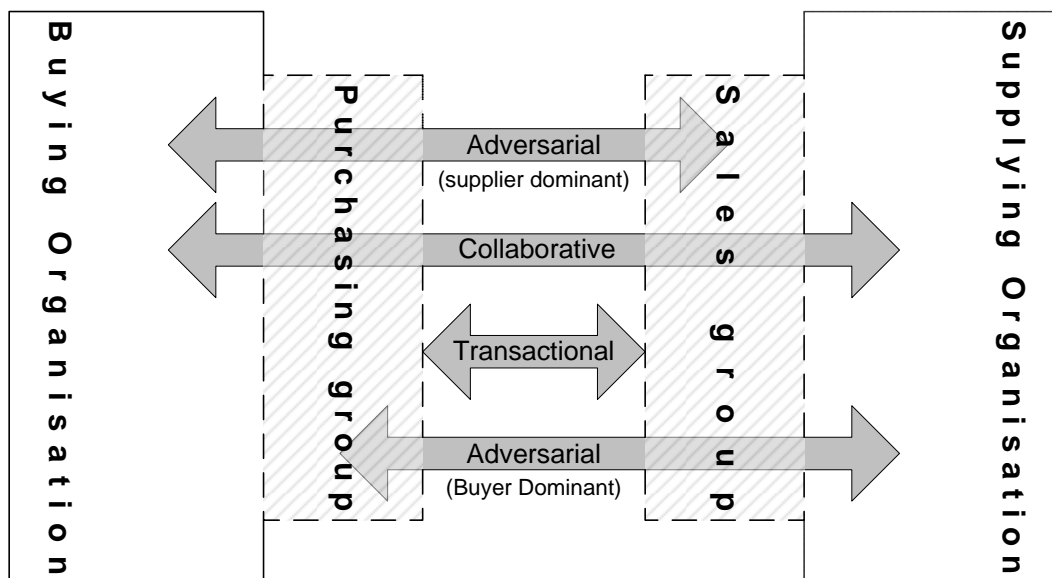
The purchasing group hold a predominant role in determining the organisation's supply strategy both to exploit its purchasing power vis-à-vis important suppliers and to reduce its risks to an acceptable minimum (Kraljic, 1983). Buyers and purchasing executives determine the supply risks, analyse the information provided by other departments about profit's impact and assess the company's situation in terms of these two variables. They finally apply with each supplier the pre-determined strategy, using the appropriate relationship type (Figure 2-12).





**Figure 2-12: Strategic relationship development**

The purchasing group appears as the interface window for all relationships between organisations. It manages transactional and adversarial relationships and channel through collaborative relationships towards concerned departments (i.e. production or research departments). This is modelled in Figure 2-13.



**Figure 2-13: Purchasing group role in organisations' relationships**

### 2.4.3 Public to Private Relationship

Once the contract has been attributed, public and private organisations are interacting and a relationship develops. What are the characteristics of this relationship when the public procurement's principles, rules and regulations influence each step of the process?

### **2.4.3.1 Promising Resource Sharing**

Rangan (Rangan, Samii et al., 2006) explains that resources can be categorised into core resources (investment, know-how, time, materials, etc.) and governance resources (the ex-ante searching, negotiating, and contracting and the ex-post coordinating, monitoring, and enforcing). Public organisations tend to possess greater authority and legitimacy, thus reducing their governance costs compare to private organisations. On the other side, for certain projects, the private sector can have lower core resources costs thanks to its efficiency. In this case, co-operation benefits to both of them, especially if the public benefits are large and the private benefit uncertain. Therefore the idea of sharing resources between public and private sectors appears promising.

### **2.4.3.2 Lack of Bond and Trust**

There is a major difference between public procurement and its private partner in the development of relationships. In B2B, the relationship develops slowly and smoothly by small increments. Unfortunately, when the public organisations have to evaluate the tender and award the contract, the organisations do not know each other well. The inter-organisational relationships among partners can be defined as interactions among unfamiliar actors (Barretta and Ruggiero, 2008). As the actors have little information about, or have not established bonds with, one another, organisations cannot develop trust on extrapolations from their own early-life experiences. In other words, a relational trust, derived from repeated interactions over time between partners, cannot exist.

Moreover, the absence of good behaviour enforcement by prospects of future business and the complexity of PPP projects also do not help the development of trust. Therefore, these conditions favour adversarial contractual governance (Zheng, Roehrich et al., 2008). A binding contract is a way to increase trust, between partners that never add any interaction,

through a calculative process. The partners all know that it is in the interest of each organisation to respect this type of contract as any infraction is much too costly to bear.

Nevertheless, Barretta (Barretta and Ruggiero, 2008) shows that the pre-evaluation of a PPP which provides an understanding of whether the partnership will be mutually beneficial, could also play a pivotal role in developing a sufficient level of confidence to take the risk of engaging in a relationship.

Thus, the danger for the public organisations is to pursue the minimum level of trust necessary to select the contractor, through overly detailed project specifications, contracts and penalties; and to give too much emphasis on the procurement process, thus failing to initiate a proper relationship. The public sector has to remember that the special purpose organisation formed to deliver the PPP project is a commercial organisation with business objectives (National Audit Office, 2001).

#### **2.4.3.3 Contractual Rigidity**

A possible issue is the use of contracts that lacks the necessary flexibility to facilitate optimal long-term outcomes and inhibit responses to changing circumstances (Sawyer, 2005). The *“length of the contract period makes it virtually impossible to allow contractually for all of the possible changes in circumstances that may arise”* (Grimsey and Lewis, 2004, p.102). By their nature, the contracts require flexibility to ensure that appropriate service outcomes are achieved over the full duration of the agreement (Clifton and Duffield, 2006).

For example, rigid contracts limit the scope of innovation in service and technical issues due to the difficulties associated with changing the agreement (Clifton and Duffield, 2006); and Eaton (Eaton, Akbiyikli et al., 2006) concluded that to date the ‘claimed’ innovation associated with

PFI/PPP is largely unrealised. The National Audit Office (National Audit Office, 2001) is not as pessimistic but they also admit that innovation has often been limited.

Sawyer (Sawyer, 2005) also determined that rigid contracts increase overall risk rather than diminish it. Appropriate mechanisms to modify the contractual agreement need to be created to sustain VfM and appropriately manage variations to the expectations of the organisations (Clifton and Duffield, 2006). Indeed, there is a strong correlation between the quality of change procedures and the relationship between public organisations and contractors (National Audit Office, 2001).

#### **2.4.3.4 Collaborative Relationships' Feasibility**

Joint projects between public and private sectors have the potential to generate successful collaborations through the complementarities of the skills and resources. The best proofs are all the successful examples of joint ventures exploiting such complementarities in the private sector.

Yet, public procurement is dominated by rules and regulations. Those conditions are not ideal to initiate a collaborative relationship. During the procurement phase of the project, the absence of pre-existing trust favours the development of adversarial contractual governance with the use of binding contracts. This seems difficult to avoid but fortunately, it should not be sufficient to completely impede the development of collaborative relationships in long term project like PPPs.

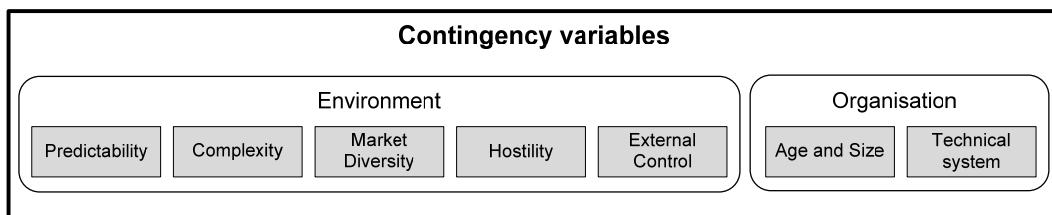
Public organisations have to set up, in these contracts, mechanisms necessary to develop the relationship in the next phase. Project managers should have plenty of time and possibilities to develop the collaboration once the contract is awarded. These mechanisms include flexibility, appropriate risk allocation, orientation toward value for money, and appropriate performance monitoring. Nevertheless, no documents, or

publications, dissecting and analysing the notion of relationship in public procurement could be found. Even in long term projects, the emphasis is on the procurement process and not on the development of the relationship.

It leads to the following question: Why are the purchasing behaviours of private organisations and public organisations different? This question demands an analysis of organisational buying behaviours.

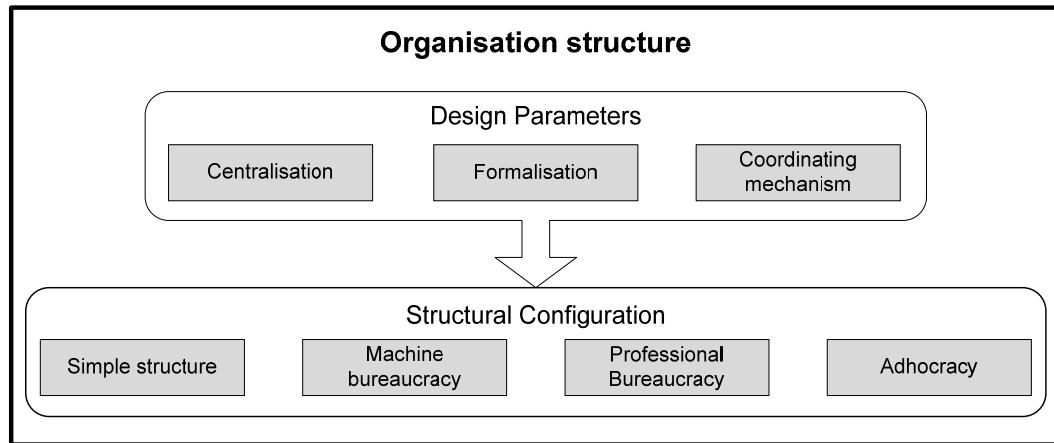
#### 2.4.4 Hierarchic Influence in Organisational Buying Behaviour

All the elements described in the study of organisational behaviour can be integrated into Webster model. First, the variety of forces in the environment influencing the organisation itself has been described in section 2.3.2 (p42). These forces are labelled contingency variables by the contingency theory and they are summed up in Figure 2-14.



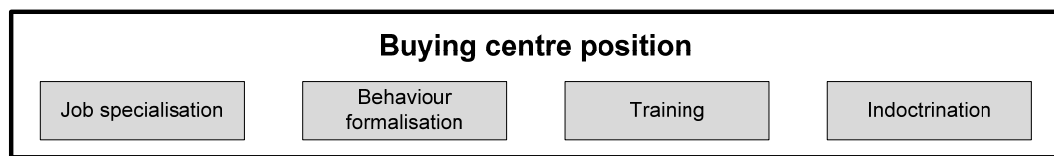
**Figure 2-14: Contingency variables**

Then, the formal organisation was studied. The design parameters of the organisation's structure were established in Section 2.3.1 (p37) and the resulting structural configurations were outlined in Section 2.3.3 (p47). The findings are summed up in Figure 2-15.



**Figure 2-15: Organisation structure**

The elements characterising the buying centre position are explained in section 2.3.1.4 (p41) and summed up in Figure 2-16.



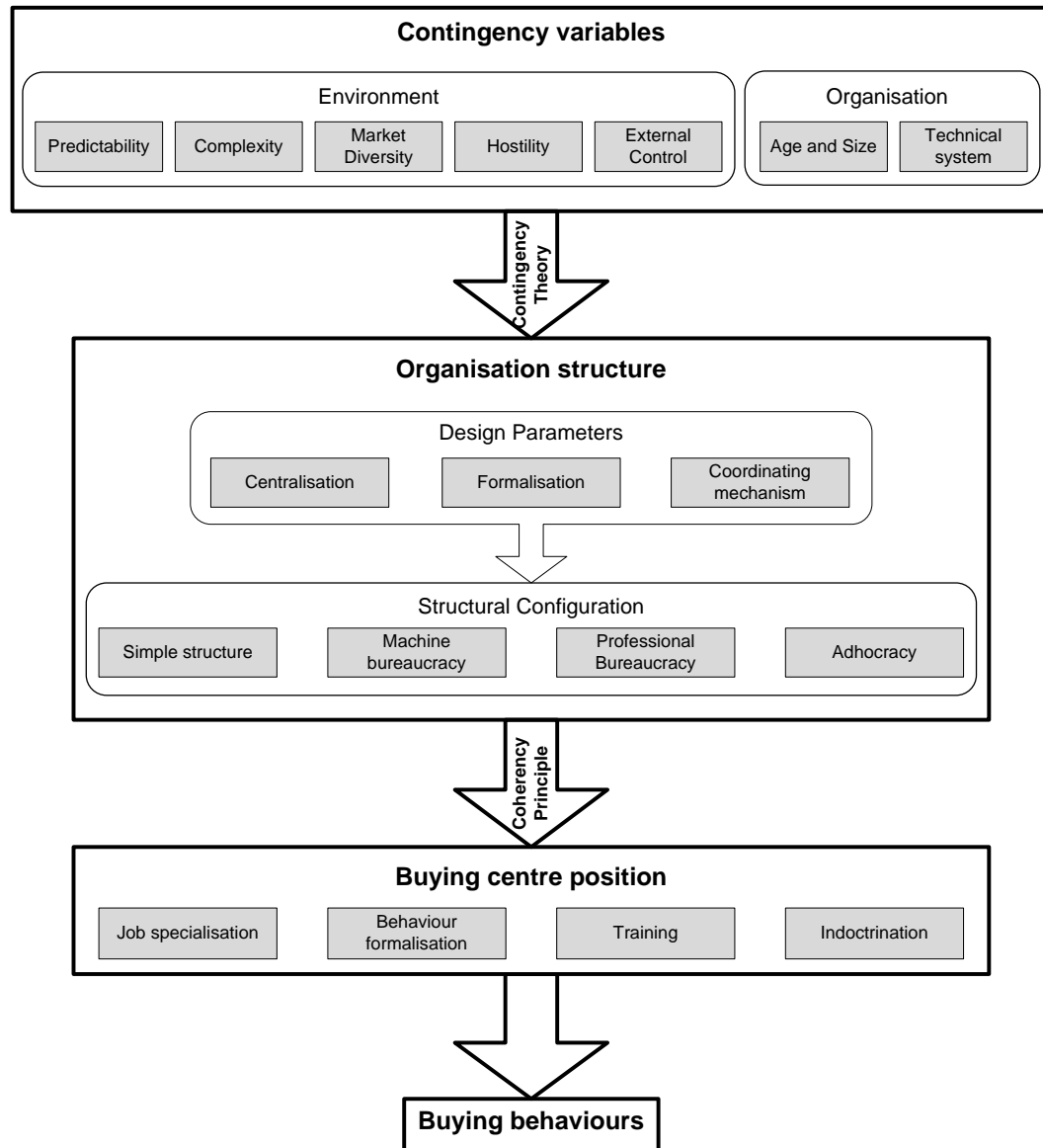
**Figure 2-16: Buying Centre Position**

The relationship between environment and organisation is postulated by the contingency theory (Section 2.3.2, p42). Good performance of an organisation is "contingent" on congruence between the contingency variables and the organisation structure (Mintzberg, 1983). The relationship between organisation and buying structure is postulated by the coherency principle (Section 2.3.1.4, p41). All the departments of an organisation, as subsystems, should reflect the overall organisation configuration and strategy (Wood, 2005).

As a result of the contingency theory and of the coherency principle, in Webster and Wind's (1972) model (Figure 2-4, p37) the influence is oriented from the top towards the bottom. Reciprocal influences are very limited. The buying centre does not influence considerably the organisation and the organisation does not influence noticeably the environment. Thus

the industrial buying behaviour is influenced in a hierarchical manner (Lau, Goh et al., 1999).

Finally, all those elements can be integrated together into a hierarchic model (Figure 2-17).



**Figure 2-17: Hierarchic influence in organisational buying behaviour**

This vision of organisational buying behaviour challenges the conventional view that supply executives have flexibility in matters of organisational design. In opposition to the B2B model, the buying center is

an integrative part of the whole organisation and not an independent group free to choose the procurement strategy.

Several studies agree with this unidirectional influence. Johnson (2001) found that major changes in buying centres were a result of changes in the overall corporate structure *“In none of the organisations studied was a major change made to the supply organisation structure based on consideration of what structure might best suit supply”* (Johnson and Leenders, 2004, p.194). This was confirmed by Lewin (Lewin and Donthu, 2005) who could not demonstrate, despite his attempts, the influence of the purchase situation on the buying centre structure. Only a higher level procurement officer, having access to the highest executive levels, can implement new design features or other progressive supply strategies (Trent, 2004). In other words, the buying centre as a subsystem of the overall organisation mirrors the organisation’s configuration (Wood, 2005).

#### **2.4.5 Models Integration**

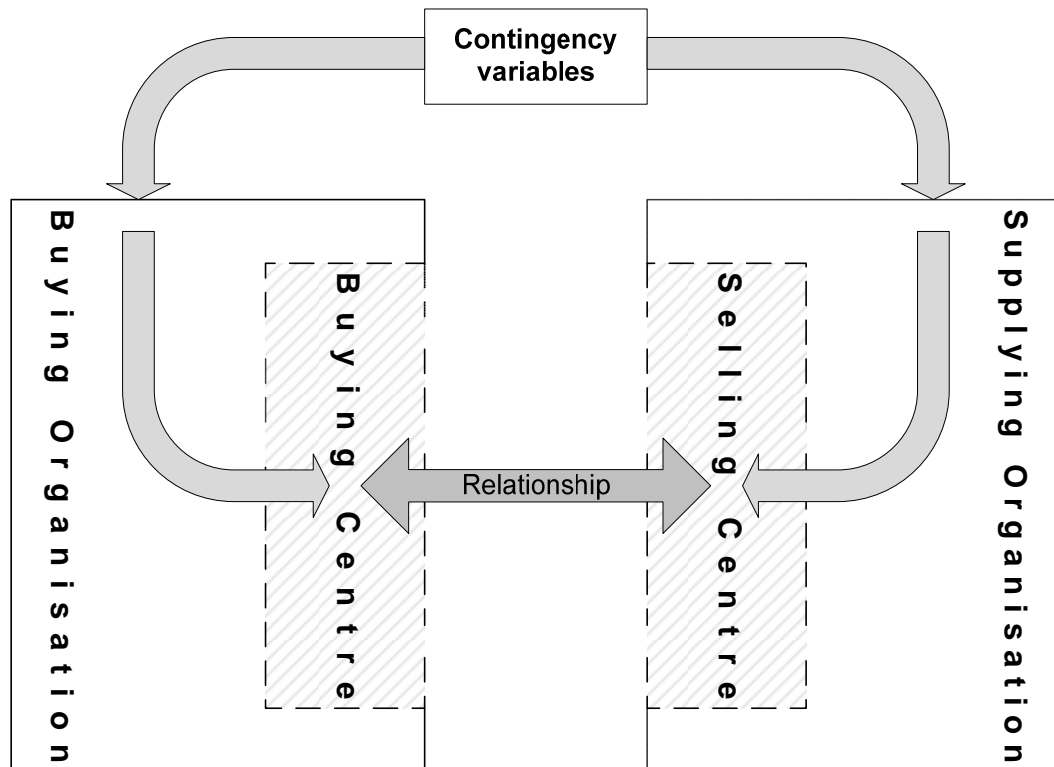
The comparison of the B2B literature and the procurement literature reveals striking differences in their approach to purchasing. While the B2B literature emphasises the importance of collaborative relationships and the role of individual buyers / suppliers at the interface, the public procurement literature emphasises a standardised and centralised system of rules and regulations devised in the higher spheres of European laws. How is it possible that the same purchasing function, in public and private organisation adopt so radically different approaches?

Organisations respond to environmental pressure by adjusting their configuration and their strategy. Structural contingency theory maintains that organisational survival and performance depend on the extent of fit or alignment between organisational structures and factors, or contingency variables, such as organisation’s age, size and technical system and environmental conditions. The coherency principle proposes that



organisational structure takes precedence and shapes the buying centre structure. Managers have no other choice than identifying the opportunities for purchasing effectiveness and efficiency under the predetermined functional structure. Since each organisational structure has its own advantages and disadvantages, the challenge for managers becomes how to capture the maximum benefits of a particular structure option while minimizing its disadvantages (Johnson and Leenders, 2001). Nevertheless, Webster's model (1972) does not take into account the supplier influence in the buying decision. The logistic literature briefly mentions the role of the supplier and promotes its integration to the supply chain. However, it does not indicate how to achieve this integration.

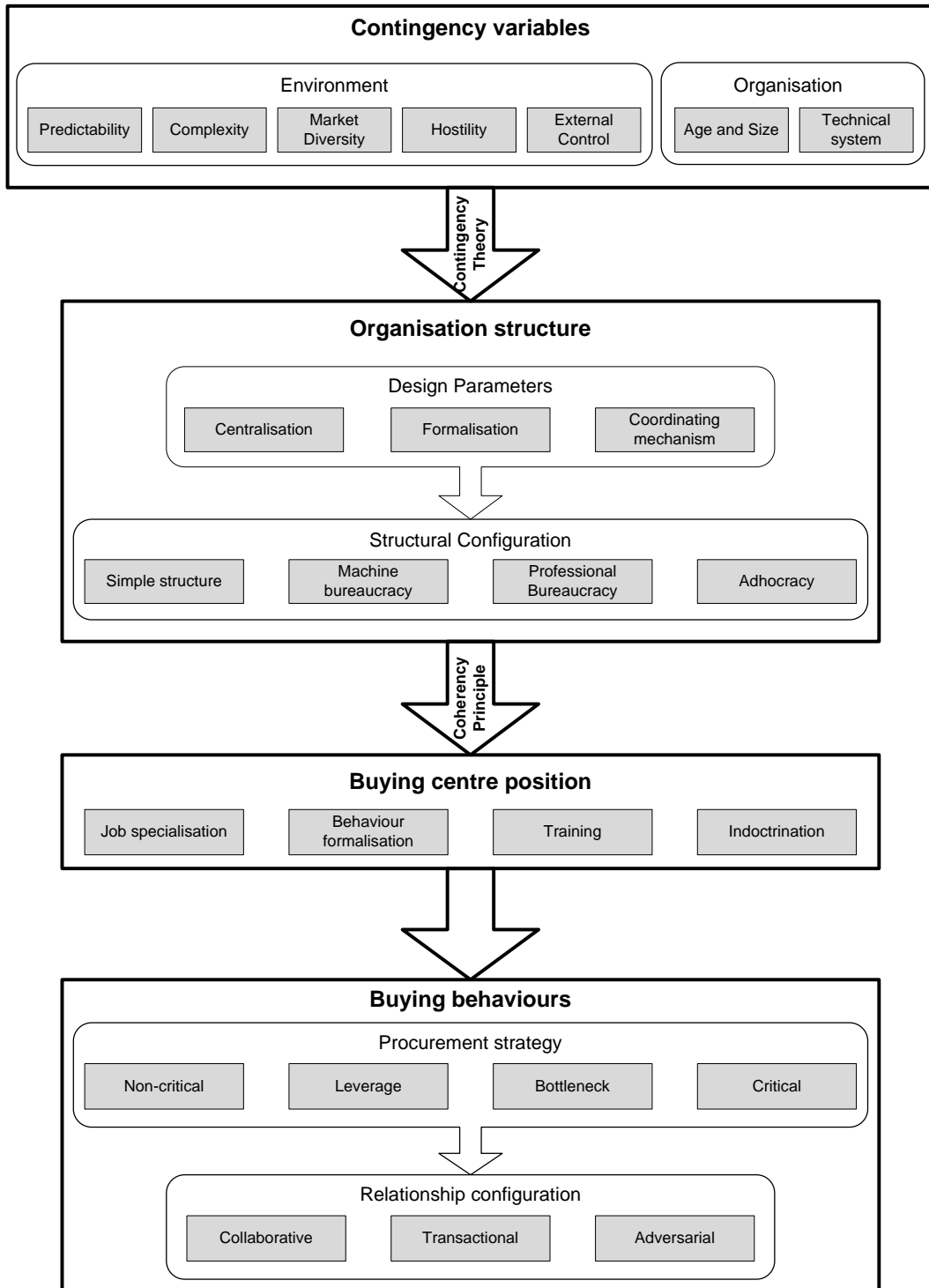
The study of organisational buying behaviour shows that the different approaches, taken by private and public organisations for relationship management, appear similar to the operating modes of organic and bureaucratic structures. It indicates that the organisation structure may dictate the operating mode of the buying centre and its subsequent relationship with suppliers. A new model (Figure 2-19, p67) is required to integrate the models described for the development of strategic relationship (Figure 2-13, p57) and in the organisational buying behaviour literature review (Figure 2-4, p37).



**Figure 2-18: Integrated model of organisational purchasing relationship**

The buying centre and selling centre are integrated into the organisation to mark that they are not independent departments of the organisation. The relationship is the result of influences from contingency variables, organisations' structure and centres' position.

What happens inside each organisation can be further detailed (Figure 2-19) by integrating into the organisational buying behaviour model (Figure 2-17, p63) the strategic approach to supply of the B2B research (Figure 2-12, p57).



**Figure 2-19: Integrated model of organisational buying behaviour**

In conclusion, different behaviours and different relationships are expected from the four organisations structures: simple structure, machine bureaucracy, professional bureaucracy and adhocracy. In other words, the contingency variables impact the configuration and strategy of the whole

organisation, in particular centralisation, formalisation and coordinating mechanisms. These properties are then applied to the buying centre and limit the choices of relationships available to buyers and suppliers. Highly centralised and formalised organisation may be restricted to transactional or adversarial relationships. On the other hand, low levels of centralisation and formalisation should let buyers and suppliers free to develop any kind of relationship.

A study of highly centralised and formalised buying centres where the relations are exacerbated should facilitate the answer to those questions. Examples of such centres are the public sector procurement groups. Subsequently, the results can be extrapolated to determine what these relations imply for the relationships in each type of organisation structure.

## Chapter Three Research Process

---

This chapter includes the research perspective and the research design as well as a discussion of their limitations. The research design informs about the methods used in the research, as well as the methodology governing the choice and use of those methods. The research perspective informs about the theoretical perspective lying behind the methodology in question and the epistemology informing this theoretical perspective. So there are four elements, epistemology, theoretical perspectives, methodologies and methods, that inform one another (Crotty, 2004) as depicted in Figure 3-1.

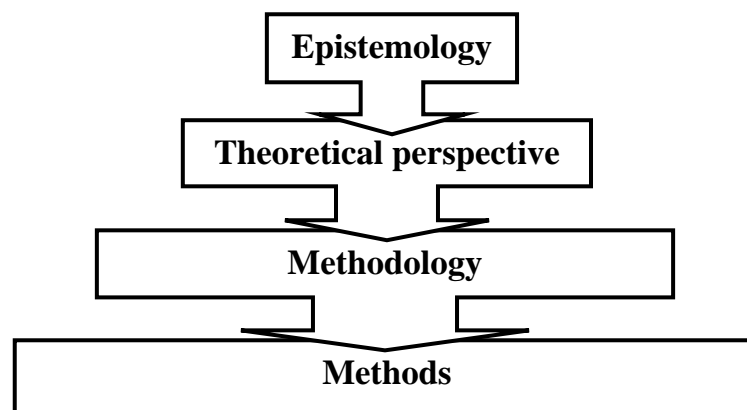


Figure 3-1: Four elements of the research process (Crotty, 2004, p.4)

### 3.1 Research Perspective

#### 3.1.1 Epistemology

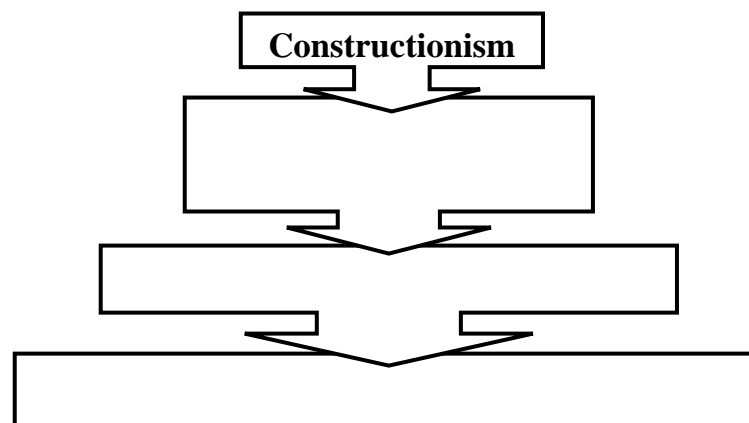
Epistemology or theory of knowledge is the branch of philosophy concerned with the nature and scope (limitations) of knowledge. It is a “*way of understanding and explaining how we know what we know*” (Crotty, 2004, p.8).

This studies considers that individuals construct a relationship in and out of interaction with their partners. Understanding is developed through interpretation of partners’ behaviours within an essentially social context.

Without this interpretation process, partners' behaviours held no meaning and cannot simply be described as 'objective'. Meaning can't either be described as 'subjective' in a long term relationship. How can a dialogue and understanding develop if meaning is imposed on the acts of the partners without considering their intents?

Moreover in an organisation, employees are taught behaviours, conventional responses, rules, procedures and interpretative strategies through classes or by simple contact with their peers. Those responses, rules, procedures and strategies are part of the organisation culture and precede employees. Therefore employees come to inhabit this pre-existing system and to be inhabited by it. Thus the organisation culture can be seen as the source rather than the result of employees thought.

In these conditions, analysing the actions occurring and the way they are interpreted by the people involved will help a research to comprehend the collective generation and transmission of meaning in the relationship building process. By definition, this corresponds to a constructionist epistemology. Constructionist epistemology holds that observers construct reality through its interaction with it.



**Figure 3-2: Research Epistemology adapted from (Crotty, 2004, p.4)**

### **3.1.2 Theoretical Perspective**

A researcher, as anybody else, has his own way of looking at the world and making sense of it. Inevitably, during the research process, the researcher brings a number of assumptions to his work (Crotty, 2004). The theoretical perspective exposes these assumptions; it elaborates the philosophical stance that lies behind the chosen methodology. It provides a context for the process and grounds its logic and criteria (Crotty, 2004).

As it has already been indicated for the epistemology, this research attempts to understand and explain human and social reality. In doing so, it will look for culturally derived and historically situated interpretations of the social life-world (Crotty, 2004). This corresponds to an interpretivist approach. This research will not seek to identify universal features of society that offer explanation and hence control and predictability. Instead it will seek to identify some social factors that can influence the behaviour of individuals or organisations during the relationship process. Interpretivism is a large approach and it has, through history, produced several modes of understanding – hermeneutics, phenomenology and symbolic interactionism.

This study aims to discover and understand the mechanisms underlying the organisation structure and influencing the relationship building processes. It is an exploratory research where these mechanisms will be exposed. It is assumed that professionals have a good understanding of their practice and a direct collection of the information provided will be sufficient for the study analysis. Even if some recommendations will be issued, the study's purpose is not the review of current mechanisms or review of their current explanation. It will neither emphasise alternative solutions nor test their validity. It means that the assumptions brought to this research are those of a symbolic interactionist perspective.

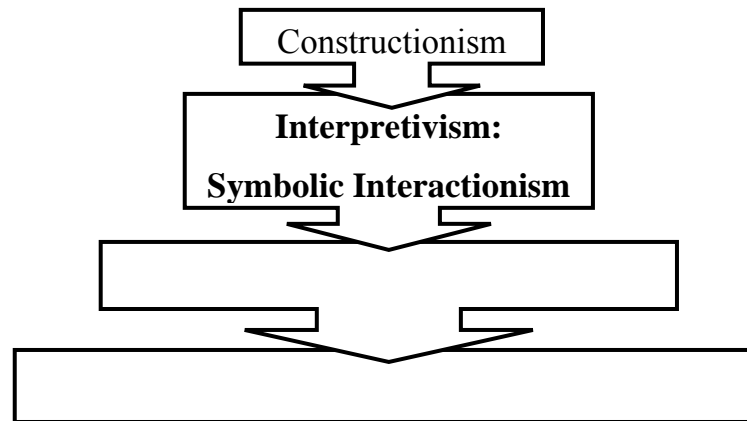


Figure 3-3: Research Theoretical Perspective adapted from (Crotty, 2004, p.4)

## 3.2 Research Design

### 3.2.1 Methodology

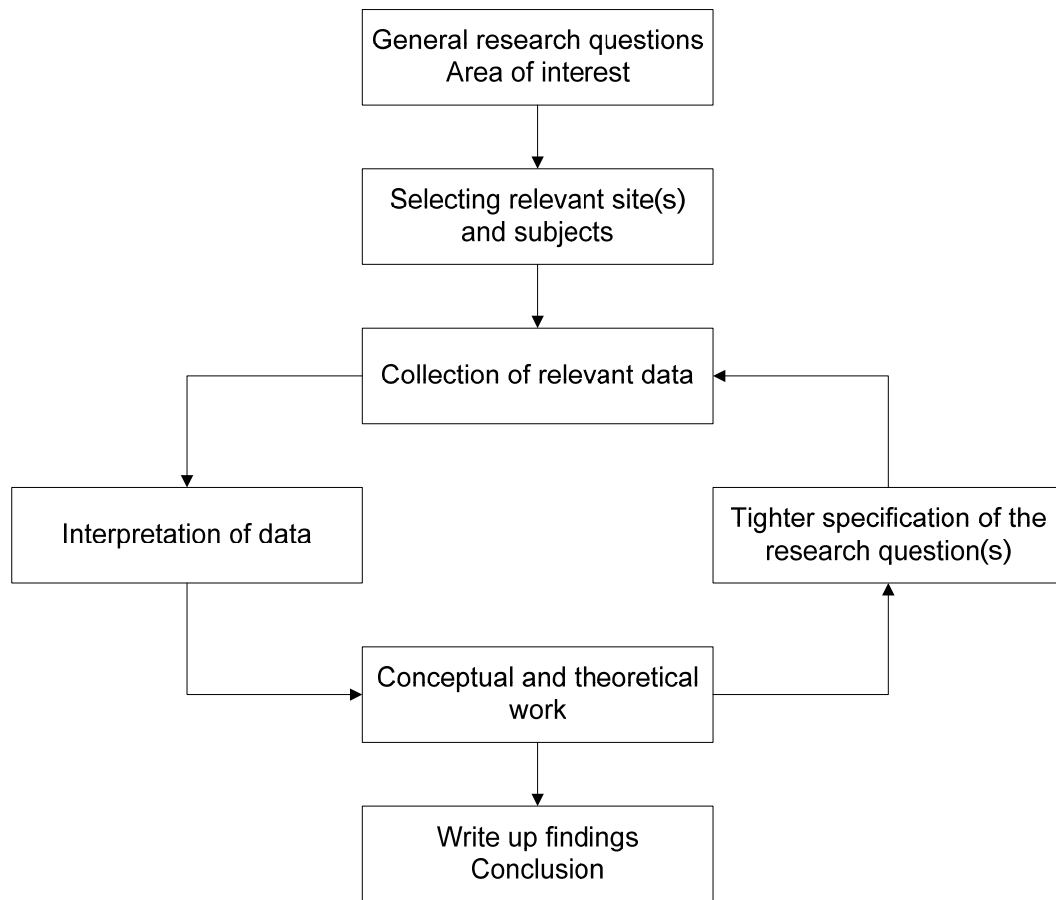
*“The strategy, plan of action, process or design lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcome”* (Crotty, 2004, p.3).

One of the goals of this study is to describe the influence of an organisation structure on the relationships developed with suppliers. The research is exploratory which emphasises understanding rather than explanation. Exploratory research uncovers, describes, and theoretically interprets actual meanings that people use in real settings (Gephart Jr, 2004). An exploratory study is a valuable means of finding out ‘what is happening; to seek new insights; to ask questions and assess phenomena in a new light’ (Saunders, Lewis et al., 2007). It is commonly used to generate a list of research questions that are worth pursuing further (Voss, Tsiriktsis et al., 2002).

A qualitative approach is therefore particularly well suited for this study, as a qualitative approach *“provides a narrative of people’s view(s) of reality and it relies on words and talk to create text”* (Gephart Jr, 2004, p.455). The sequence, adapted from Bryman (2004) and outlined in Figure 3-4,



provides a representation of how the qualitative research process can be visualised.



**Figure 3-4: An outline of the main steps of qualitative research, adapted from Bryman (2004, p.269)**

An unstructured approach to the collection of data is adopted. It allows explanations of what is going on to emerge without predetermined format (Saunders, Lewis et al., 2007). A great deal of descriptive details is provided when reporting the data, as these details provide a rich account of the context within which the research took place (Bryman, 2004).

Formerly the research questions are not highly specific. The information collected is interpreted from the perspective of the people being studied. This is required to grasp their full signification (Bryman, 2004), understand the way people interpret their social world (Saunders, Lewis et al., 2007) and attribute meaning to their environment (Bryman, 2004). Then,

gradually through the collection of data, a narrower emphasis is adopted and more specific research questions are formulated (Bryman, 2004). The loop back in Figure 3-4 illustrates the iterative process between testing emerging theories and collecting data.

This approach offers the flexibility to put emphasis on emerging concepts (Bryman, 2004). It entails the generation of theories rather than the testing of theories that are specified at the outset (Bryman, 2004). This is an inductive approach, in which data are collected and the theory developed as a result of the data analysis (Saunders, Lewis et al., 2007).

For the collection of data, a multiple-case design is adopted. It entails (Bryman, 2004) the collection of a body of data on more than one case and at a single point in time. Variation can be established when more than one case is being examined. Usually, (Bryman, 2004) researchers employing this design will select many cases as they are more likely to encounter variation in all of the variables in which they are interested. It improves theory building and it helps establish the circumstances in which a theory will or will not hold. Nevertheless, this research is conducted at an exploratory level and a small sample of subjects was preferred over a large number. The object is to detect patterns and not to test a theory. A small sample allows the production of detailed cases' descriptions (Saunders, Lewis et al., 2007) as required by the qualitative approach.

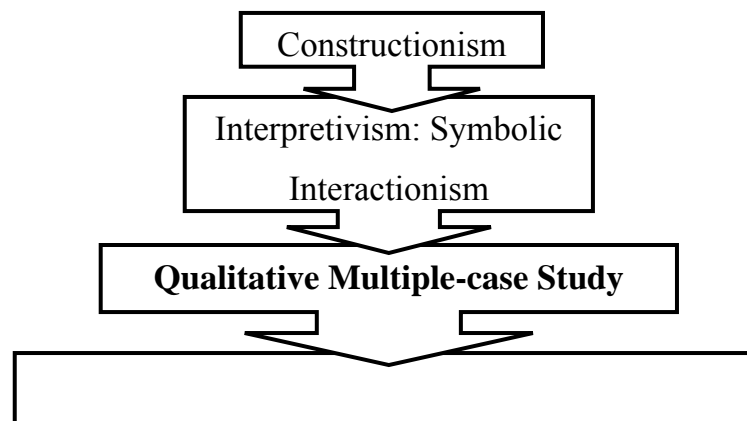


Figure 3-5: Research process methodology adapted from (Crotty, 2004, p.4)

### 3.2.2 Methods

*“The techniques or procedures used to gather and analyze data related to some research question or hypothesis” (Crotty, 2004, p.3).*

In a study using a qualitative approach and a multiple-case study methodology, semi-structured interviews appeared as the logical choice for the data collection method. They are compatible with the unstructured approach of qualitative research and provide rich details about the context.

For interviews to be successful in procuring researched data, several preliminary steps must be completed. Relevant sites and subjects potentially rich in information must be selected, research variables must be accurately defined, relevant questions prepared, and appropriate interview protocols devised.

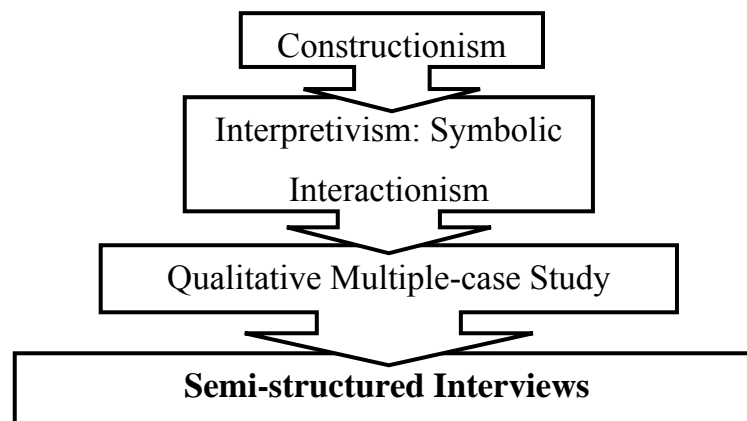


Figure 3-6: Research process methods adapted from (Crotty, 2004, p.4)

#### 3.2.2.1 Selecting Relevant Sites and Subjects

There are a limited number of people that have expertise in relationships between public and private sector organisations. Therefore, a purposive sampling was chosen as method of selection. Certain cases were chosen because of their relevance to the research questions (Bryman, 2004). The subjects were selected based on few criteria:

- senior representative, managing a section of a public organisation
- the section should be engaged in a large body of work

- the section should deal directly with the suppliers on an individual basis
- the section should form a clearly identifiable unit

The university's executive procurement program was used as the source of interview candidates. Possible interviewees were selected, in collaboration with the program director, across two cohorts (50 students). Seven organisations were eventually selected for carrying out case analysis.

One interviewee (case 1) was selected from a private organisation to compare and contrast the standard practices with those in public organisations. In order to compare like with like in terms of scale and scope, the Irish division of a multinational service provider was selected for the private organisation. Studying a private organisation provides a better understanding of the constraints peculiar to the public sector. Moreover, the relationship configurations (Section 2.4.1, p48) and the development of strategic relationship (Section 2.4.2, p53) were deduced from the B2B literature, in other words from private to private relationships. The study of a private case consolidates the deductions before extending their application to the public sector. Nevertheless, only one private case was studied as the main interest remains the Irish public sector.

The detailed list of studied cases is given in Table 3-1. The cases are sorted according to the interviews chronological order. The domain of activity is based, except case 1, on the Classification of the Functions of Government (COFOG) defined by the United Nations Statistics Division.

**Table 3-1: Case Studies**

<b>Case</b>	<b>Type of Organisation</b>	<b>Domain of Activity</b>	<b>Unit</b>	<b>Interviewee Position</b>
1	Private	Insurance	Finance and Procurement	Head of Procurement
2	Public	Education	Planning and Building	Senior Quantity Surveyor
3	State-Sponsored	Economic Affairs	Finance and Procurement	Head of Procurement
4	Public	General Public Services	Finance and procurement	Head of Procurement
5	Public	Public order and Safety	Finance and Procurement	Head of Procurement
6	Public	Economic Affairs	Engineering	Contract and Supplier Mgmt
7	Public	Health	Finance and Procurement	Head of Procurement

### 3.2.2.2 Research Variables

Based on the research questions identified for this study and the literature review, the study concentrates on two groups of variables: (1) interaction factors between public and private organisations and (2) structural characteristics of public buying centres.

In the B2B relationship review, five main characteristics of relationships were distinguished: links, communication, power, atmosphere and dynamics. For this study, ‘dynamics’ were excluded as they would require a longitudinal study. Atmosphere was also set aside, because it is seen more as a consequence of a relationship’s characteristics than a characteristic on its own. Therefore three variables, links, communication,

and power were selected to perceive the level of relationship as seen by the public organisations.

In the organisational buying behaviour review, three main characteristics of organisation's structure were distinguished: centralisation, formalisation and coordinating mechanisms. These three variables were selected to perceive public buying centres' structure.

### **3.2.2.3 Research Instrument**

The collection of information was done exclusively through interviews. This is consistent with the interpretivist perspective. The aim is to determine how professionals in procurement interpret their environment and how the environment affects their purchasing behaviours. Interviews are very effective instruments to collect the thought and ideas of those professionals.

The list of themes and questions to cover was devised from the literature review to obtain information on relationships maintained by procurement professionals with their suppliers. Two publications from the Office Government Commerce (OGC) (Office of Government Commerce, 2003; Office of Government Commerce, 2007) were also used as references. They were originally aimed to help project managers to self-evaluate their relationship management.

The formulation of the questions was not too specific to let the possibility of alternative avenues of enquiry to emerge during the data collection (Bryman, 2004). Short, simple, mainly open questions were used. The questions were ordered under topic areas in a logical order to ensure a reasonable flow. The interviews started with general questions (name, position in organisation, number of years involved in a group, etc) to contextualise people's answers and to let the respondent build up trust and

confidence before seeking responses to potentially sensitive questions (Saunders, Lewis et al., 2007).

Unfortunately for the study of the 'links' variable, the word 'links' does not convey any meaning to most people and thus can not be used directly for data gathering. 'Relationship' is the closest term in meaning in the popular vocabulary, and therefore was used despite its much broader usage in the literature.

In the course of the research, two different versions of the interview questions were created (Appendix E and Appendix F). This is consistent with the iterative nature of qualitative research and the loop in Figure 3-4. Through the analysis of the three first cases, the role played by the organisation structure started to appear as a significant factor of the public-private relationship. Therefore a narrower emphasis was adopted and the questions were adapted. The second version of the interview questions is more inquisitive about the organisation structure of the buying centre. This second version was used for the four remaining cases.

#### **3.2.2.4 Data Collection Procedures**

Following the first contact with interviewees, interviews were scheduled within two or three weeks depending on the availability of the interviewee. All interviewees requested the list of questions prior to the interview. The list was sent by email systematically one week before the scheduled date. All interviews occurred in the interviewee's private office, except for case 1 and case 6 for which the interviews occurred in a meeting room.

During the interviews, open questions were followed by probing questions to explore the topic and produce a fuller account (Saunders, Lewis et al., 2007). The interviewees were encouraged to use real-life examples from their experience instead of abstract concepts.

As in any semi-structured interviewing, the interviewee had a great deal of leeway in how to reply. Questions did not always follow the exact prepared outline, and some questions could be added to follow up interesting information given by the interviewee (Bryman, 2004). It may lead the discussion into areas that were not previously considered but which are significant for the understanding (Saunders, Lewis et al., 2007). However, all the questions were asked and a similar wording was used from interviewee to interviewee.

This flexibility in the process was necessary to catch what the interviewee views as important in explaining and understanding events and patterns. It allows and encourages the interviewee to expand on topics of particular interest to him or her (Bryman, 2004) and gives the researcher the opportunity to probe answers, where he/she wants the interviewees to explain, or build on their responses. Interviewees may use words or ideas in a particular way, and the opportunity to probe these meanings added significance and depth to the data obtained (Saunders, Lewis et al., 2007).

In case studies, the research protocol should provide a strong foundation for documenting the evidence gathered (Voss, Tsikriktsis et al., 2002). Hence, the interviews were recorded on tape, and then transcribed. This ensured that the interviewees' answers were captured in their own terms and enabled a detailed analysis. Moreover, free from the constraint of taking intensive notes, the researcher could be responsive to the interviewee's answers and ask follow-up questions. Nevertheless, some light notes were taken as the interview progressed to keep track of ideas and reflections induced by the interviewee's answers.

Immediately after the interview, notes were taken to record nuanced explanations and the general points of value provided, both to maximise recall and to facilitate follow-up and filling of gaps in the data (Voss, Tsikriktsis et al., 2002). In addition to the notes from the actual interviews,



contextual data (Saunders, Lewis et al., 2007) such as the location of the interview, the date and time, the setting of the interview, the researcher's immediate impression of how well (or badly) the interview went, or the participant reactions were also recorded. Documenting ideas and insights that arose during or subsequent to the field visit (Voss, Tsikriktsis et al., 2002) were also included.

### **3.2.2.5 Data Interpretation**

In the analysis of the data, it is important to use a rigorous, well-developed methodology to systematically, comprehensively, or exhaustively review the data (Gephart Jr, 2004). A methodology grounded in the data was employed. It is designed to develop a well integrated set of concepts that provide a thorough theoretical explanation of the phenomena under study (Corbin and Strauss, 1990). It implies two main features. First, the concern of developing theory out of data; and second, the back and forth motion between data collection and analysis (Bryman, 2004). The analysis begins as soon as the first bit of data is collected because it is used to direct the next interview and observations (Corbin and Strauss, 1990). Each concept earns its way into the theory by repeatedly being present in interviews, documents, and observations in one form or another-or by being significantly absent.

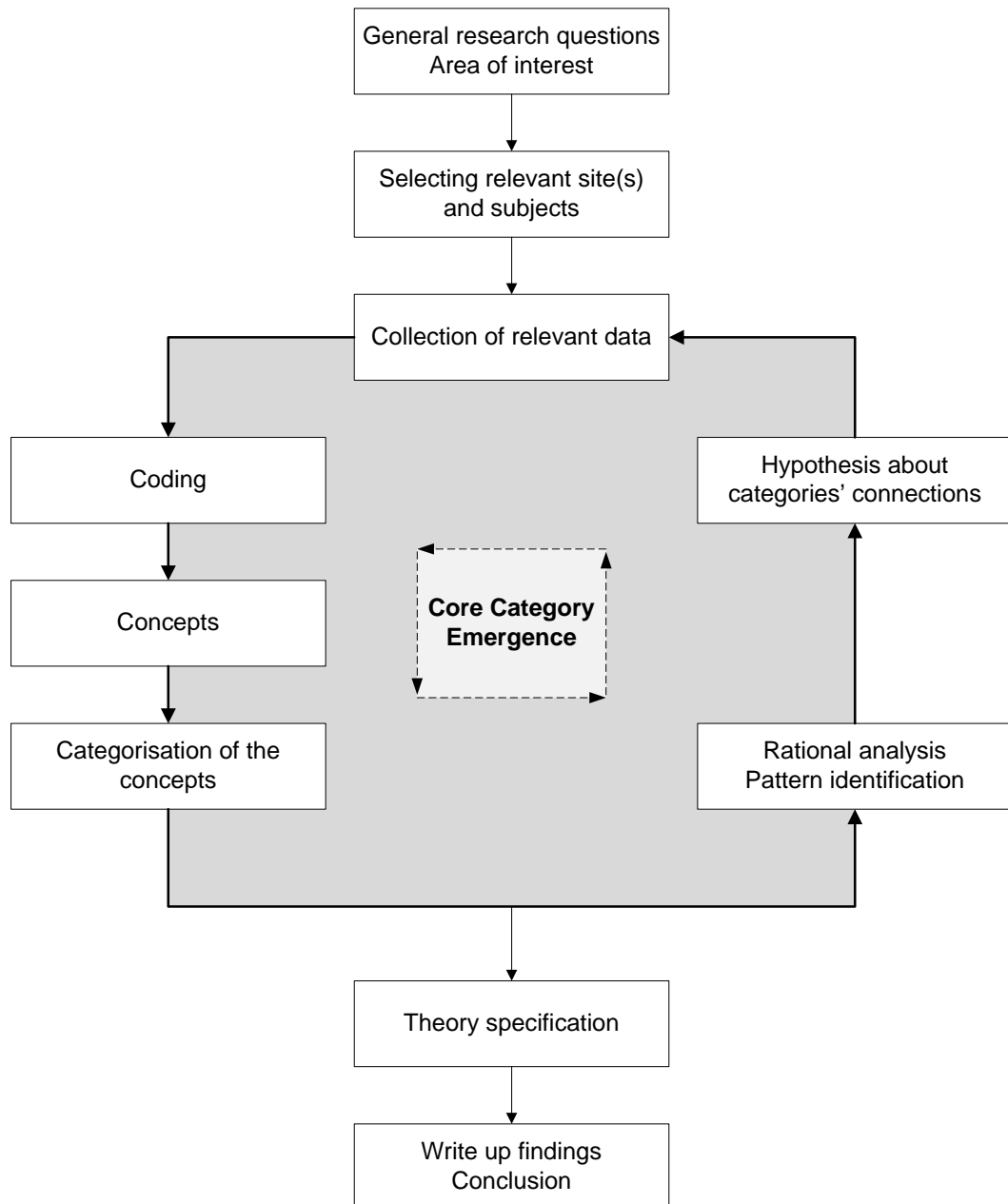
One of the main tools used during the analysis is the coding of the transcripts and observations. This entails a review of the transcripts, notes or any other source of data to isolate the basic units for theory. In other words, to identify any piece of potential significance or interest for the subject studied. Once identified, these components are marked with a label (name) to isolate, compare and organise them. Corbin and Strauss (Corbin and Strauss, 1990) distinguish between three steps of coding practice:

- Open coding: Data are fragmented and taken apart. This analytical process allows the identification of concepts used as building blocks for

the theory. Individual observations, sentences, ideas, and events are given names and then regrouped into sub-categories, which in turn can be grouped as categories (Voss, Tsikriktsis et al., 2002). A category may subsume two or more concepts.

- Axial coding: The data gathered during the open coding are re-organised and re-assembled in new ways. The objective is to reveal links between the various categories, and to identify the patterns of interaction.
- Selective coding: A core category emerges from the axial coding and all the other categories are integrated around it to form a theory.

These steps can be incorporated into the qualitative research outline given in Figure 3-4 (p73). A qualitative approach grounded into the data can be more accurately described by the outline given in Figure 3-7. The emergence of the core category is the result of several turns on the cycle (iterative process). These turns provide the justification of the theory.



**Figure 3-7: Processes and outcomes in qualitative research, adapted from (Bryman, 2004, p.269)**

More specifically, the qualitative data analysis was undertaken using mind-mapping software. “*Computer-supported qualitative data analysis allows one to systematically, comprehensively, and exhaustively analyze a corpus of data*” (Gephart Jr, 2004, p.459). It provides facilities for data management, for coding and retrieving text, and for theory testing (Crowley, Harré et al., 2002). A mind map is a diagram used to generate, visualise,

structure, and classify words, ideas, or other items linked to and arranged around a central key word or idea. It is based on radial hierarchies and tree structures denoting relationships with a central governing concept. Nodes represent ideas and passages in documents may be attached if a coding approach to analysis is being used. New nodes can be added anywhere in the structure to incorporate new ideas. The tree structure can be restructured very simply at any time (drag and drop).

The mind-mapping software was used to organise the mass of collected qualitative data into meaningful and related parts or categories (Figure 4-1 p88 and Figure 4-2 p98). It started with an open coding. Each piece of relevant information was attached to a free node. These pieces may have been a number of words, a line of transcript, a sentence, a complete paragraph or any other chunk of textual data that fits. Typically, the labels used for the free nodes were the interviewees own words. As one can imagine, this resulted in the creation of an extensive number of nodes. No thought was given to the classification of these nodes. *“Being forced to think where a node ‘belongs’ when you invent it on the fly to code a new idea in the text, is very disruptive of the creative rush that coding can often be”* (Richards, 2002, p.204).

The next step was, then, to explore and analyze these data systematically and rigorously (Saunders, Lewis et al., 2007). The idea is that a lot of thinking, generating of ideas, and hence further coding are done when looking at all the text belonging to a category, collected in one place (Richards, 2002). This analysis leads to the creation of concepts and the re-organisation of the data. It enables the elimination of redundancies, and the regrouping of free nodes under a manageable number of meaningful codes. These codes were derived from the data or from the literature review. They provided the research with an emergent structure (tree node) relevant to the research project. This structure was then used to further organise and

analyze the data (Saunders, Lewis et al., 2007) through several more reviews of the transcripts.

The categories developed initially were essentially descriptive as can be expected from a grounded approach. The index (tree) system provided a functional infrastructure that maximised the way the data were searched for meaning and key themes (Johnston, 2006). Categories were generated and data reorganised (axial coding). Research notes and memos were directly integrated into the mind mapping and coded as the analysis went on. This allowed to work incrementally, and to treat research notes, bibliographies, and memos as part of the project along with field notes (Richards, 2002).

Patterns within the data and relationship between categories were visualised and identified (Saunders, Lewis et al., 2007) on the mind map. Hypotheses could then be developed to test these relationships. Alternative explanations were sought and negative examples that do not conform to the pattern of relationship were tested (Saunders, Lewis et al., 2007). By testing the identified propositions, it was possible to move towards selective coding and to formulate valid conclusions and an explanatory theory.

Of course, the analysis was not as linear as described. Qualitative research is inherently iterative and several laps on the loop (Figure 3-7) were necessary. For example, the first transcripts were coded, both open and axial, before the last interviewees were scheduled. It incited the modification of the questions and the creation of the second interview version. It also obliged a re-coding of the first interviews in the light of the new information gathered. Indeed, new categories were developed from the analysis of the second set of interviews. It was therefore necessary to analyse again (re-coding) the first set of interviews to identify any data belonging to these new categories.

### **3.2.2.6 Data presentation**

In qualitative research, there is a difficult balance to be struck between telling about the data and not showing it; and showing too much data and not interpreting it (Pratt, 2009).

In this study, the data are the words of the interviewees. To show the data, word for word quotations are placed within the body of the study. For easy identification, these quotations are written in italics. Modifications and cuts are put in square brackets.

Nevertheless, limiting an analysis to simply describing what one found is not likely to be enough to achieve a significant contribution (Pratt, 2009). For example, copies of the interviews transcripts can not simply be included in the body of the study. Instead, themes are sorted in the data (core categories, Figure 3-7) and explanations are given to show how this classification scheme leads to new insights. These explanations are written in plain characters.

In the circumstances, Chapter 4 presents a mix of results and analysis, each easily identifiable through the font applied.

## **3.3 Limitations**

With a constructionist qualitative approach, the validity-reliability-objectivity framework commonly accepted in quantitative research can not be applied (Erlandson, Harris et al., 1993). These are not qualities of constructionist qualitative studies.

For example, one criticism could be that more cases or more interviews for each case should have been included to increase the external validity and generalise the study's findings beyond the immediate cases studied. Likewise, the use of two different sets of questions for the interviews also reduces the external validity of the study. Only three interviews were completed with the first set of questions and only four interviews with the

second set. Nevertheless, according to Gummesson (2001, p.35) “*a general rule for the number of cases needed to draw conclusions cannot be set up; anything from one case to several, even hundreds can be justified depending on the situation*”. Indeed, the objective of a qualitative study is not generalisation but understanding of what is going on in the particular cases studied.

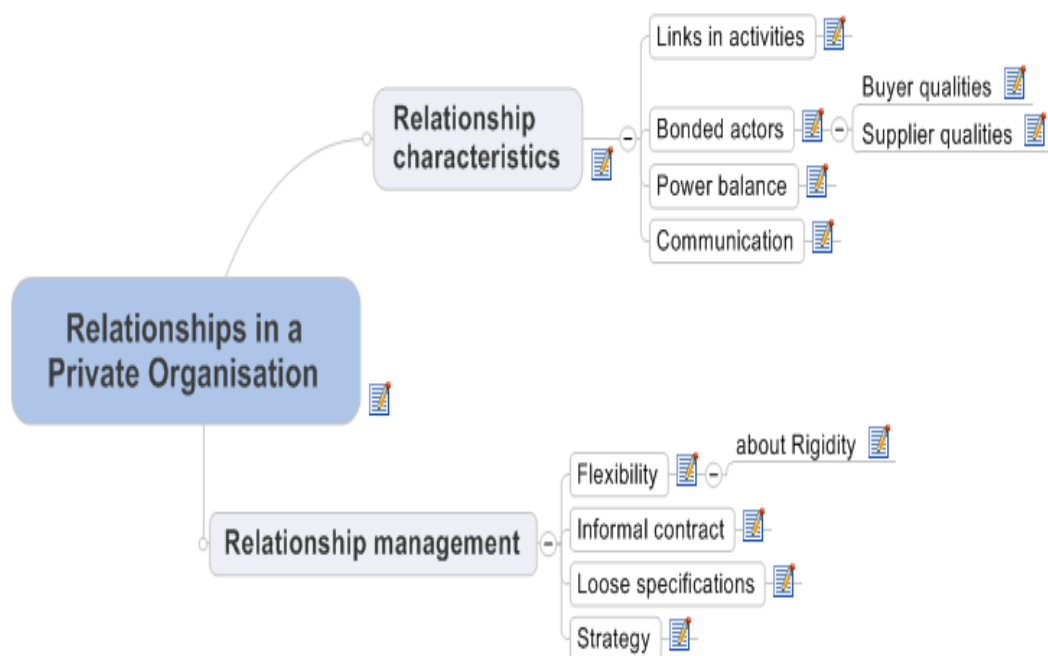
Solely resorting to interviews for the collection of data raises reliability and objectivity issues. Semi-structured interviews are neither replicable nor repeatable. Their analysis is subject to subjectivity and bias as narrated events can be misjudged or exaggerated.

However, the reader should understand that invalid, unreliable and subjective studies may challenge, extend or refine current ideas, concepts and practices and thus, may also contribute to knowledge. Different standards for judging the quality of research are needed. Erlandson (1993) proposed four criteria – credibility, transferability, dependability, and conformability – for judging the soundness of qualitative research and explicitly offered these as an alternative to more traditional quantitatively-oriented criteria. The reader will hopefully judge favourably the study under those criteria.

## Chapter Four Results and Analysis

### 4.1 Relationships in a Private Organisation

The analysis of case 1, lead to the identification of two core categories: relationship characteristics and relationship management. All the pieces of information collected can be classified in either of these categories. Figure 4-1 displays the final mind map resulting from the analysis and classification of all the pieces of relevant information. Only categories are displayed. Data, notes and memos are attached to each category.



**Figure 4-1: Mind map of relationships in a private organisation**

#### 4.1.1 The Context: Case 1

Organisation 1 is one of the world's leading multinational publicly quoted insurance groups. It has the capability to write business in over 130 countries and with major operations in the UK, Scandinavia, Canada, Ireland, Asia and the Middle East and Latin America. Focusing on general insurance, it has around 22,000 employees and, in 2007, its net written premiums were £5.8bn.



In Ireland, this insurance group is one of the leading non-life insurers with over 400,000 customers and it provides insurance solutions for commercial and personal customers. Their extensive range of general insurance products includes tailored packages for Property, Liability, Home, Motor, Annual Travel and Special Commercial Insurances. A major emphasis is placed on delivering effective risk management and claims services to their customers.

Within Ireland the operational focus of their 450 staff members is on commercial and personal lines general insurance. Their business is channelled through a nation-wide network of professional insurance brokers.

#### **4.1.2 Relationship Characteristics**

Efforts are made to be seen as attractive to the suppliers and develop relationships. *We plan to use, to demonstrate our attractiveness to the supplier. We pay properly. We have very few payment issues, and we tend to be easy to do business with. [...] We have to get close to the market level and deliver the most competitive offer that we possibly can.*

Indeed, relationships are valued because *when things are put in the way of the relationship [and] the relationship isn't as strong as it possibly could be, there are potential issues*. Lack of focus, unresponsiveness, inadequate communication and lack of problem escalation were examples of issues mentioned for a particular supplier. These issues are serious enough to consider replacing the involved supplier.

As will be seen from the analysis, there is a willingness to develop links in activities, bonded actors, power balance and communication. This is apparent from the repeated use of the pseudo subjunctive form “should” and conditional form “I would expect/like”. These forms are used to express the challenging but achievable objectives pursued by the interviewee in all relationships initiated.

#### 4.1.2.1 Links in Activities

There is a will to develop coordination and participation between buyer and supplier. *There should be one or two people managing the relationship in a coordinated way, to ensure that any potential benefit at an operational level, such as a supplier coming up with a good idea or a new notion, is not lost.* Decisions result from a discussion process *to ensure that you have a consistent approach* and both buyer and supplier participate to the planning and goal-setting. They are jointly *reviewed, commented on and changed until agreement* is reached.

All these exchanges and discussions have to be organised between the organisations. *It doesn't have to be individuals contacting each other on a regular basis, it can be channelled through one or 2, or 3 or 4 people rather than 10, 12, 13 people.*

Several levels of the procurement hierarchy should be involved to strengthen the relationship. *It is important that there is interaction on a number of different levels to connect each other through a network, a supply network.* Otherwise, if only one person is involved on each side of the relationship, the relation might be lost when one of this person move or leave.

It is insufficient to *have frequent and daily contact operationally. I would expect a connection at a higher level, I guess managerially,* in order to commit the organisation to the relationship and not only one or two individuals. *I would expect to at least be on first name terms with somebody either at my level, or at more senior levels in the organisation.*

#### 4.1.2.2 Bonded Actors

*One other factor that would make a good relationship would be mutual respect.* Both buyer and supplier should respect the qualities of their partners.

*They want to do business with us because we either pay on time (predictive trust), we respect the work and quality of service that they offer (intentionality trust), and it is easy to be doing business with us (predictive trust).*

*From a buyer's point of view, we have respect because they are competitive in the market place (capability trust), they are quite active in terms of innovation (capability trust) and they would be actively looking to see how they can improve themselves in the market place (capability trust). There are an awful lot of things that the supplier would know about the market that I wouldn't necessarily know (capability trust). That would be another reason for me to have some degree of mutual respect.*

All the ingredients of trust defined in Section 2.1.1.3 (p17), predictive, capability, and intentionality are present. In particular, capability trust is favoured, which seems reasonable when selecting suppliers. So trust, or in the interviewee own terms “respect”, appears as a predominant factor in the development of a good relationship.

Social exchanges *outside the business and friendship* are also welcomed to develop *more contact, more credibility with the supplier and a greater channel of communication.*

The frequent interactions and the development of trust result in commitment toward the relationship. *We would like to fully engage with the [suppliers], to offer them that little bit more security in return for some other advantages.* In other terms, they are willing to develop and maintain a long term relationship in order to achieve enhanced results.

The interviewee commitment can also be seen in the support provided to his suppliers against his own organisation. *That's a responsibility that I have, to try represent suppliers in this organisation. And that's a difficulty, that's a big responsibility I think, on the procurement team.* The

procurement team has a mediator role between both organisations. It has to use every effort to find compromise.

#### **4.1.2.3 Communication**

Communication is also seen as a crucial aspect of the relationship to achieve satisfactory performance. In pair with interactions, *a structured level communication, a structured level contact is expected. So that information can be communicated up through the channels from operational to senior levels.*

Accurate communication develops understanding and promotes information exchange. *Communication with suppliers get better [...] when we are clear about what we want and what we don't want. [...] The supplier can respond to us, and there is a better management of the information flowing between the two organisations. [...] There is a crossover.* In other words, a bi-directional transfer of valuable information can be initiated.

Timeliness, adequacy, and intimacy are also important factors. *Suppliers should be responsive at all levels. [...] The right information should be communicated at the right level. [...] They should actively provide market information to us and they should be relatively open.*

#### **4.1.2.4 Power Balance**

A balanced relationship is always sought. *Obviously the ideal position is when there is equal match between [buyer and supplier].* So suppliers that would be too highly dependent on the relationship would not be selected. For example, *we wouldn't engage with a supplier if we were commissioning anywhere 40% of their business or revenue.*

Precautions are taken when dealing with organisations of lower resources to avoid any domination of the relationship. *Certainly that would be something I would be mindful of. Whenever you engage in discussing or*

*talking with the partner, you try to create a level playing field as much as you possibly can.*

Even if it might, at times, kind of suit tactically to dominate and even sometimes work short term if used correctly; using a dominant position to influence the supplier is risky. *It is a very, very difficult thing to do. It can actually go against you quite easily.*

Indeed, *there is a risk, to jeopardise a relationship by trying to assert yourself through the medium of your organisations.* A risk to lose the cooperation of the partner and thus a risk to lose all the resources the partner was sharing. In particular, suppliers can be very good sources of information for the buyer. *Although they may be small in size of resource, from a knowledge base, a knowledge resource, they are far, far stronger than I [the buyer] would be.* Everybody brings something to the relationship and all contributions are valued.

So using one dominant position is *not a long-term solution to any one problem.* Settlement through mutual agreement is preferable.

### **4.1.3 Relationship Management**

Trying to determine what will happen in any market or business is a complex task. *The further and further you might go, the more and more assumptions that you make.* And with any assumption, the risk that something goes wrong increase. Therefore, *I would say nobody can predict what's going to happen beyond the next three years.*

In these conditions, committing an organisation to longer undertakings is a hazardous venture. *So putting in place something that has an effect of 30 years, 40 years, 50 years, and in some cases in the states where there were management projects that are 70 odd years long for roads... I think, it is very, very difficult to do that.*

The difficulty is even further increased when *relationships have a part to play, because recognising how the relationship works dynamically is very, very difficult.*

Therefore, managing a long term relationship *in a rigid system [...]* would be so crazy. Nevertheless, it does not mean that any attempt should be forfeited. *In certain circumstances, it can work.* However, the difficulty of the task should be taken into consideration and appropriate measures have to be implemented.

[Projects] *need to be very, very tightly controlled and managed and they need to have a lot of resources put into, far more than I think anyone has ever considered before.* Moreover, the difficulty and the amount of work involved raise another issue. *People don't like doing difficult things. People like to do easy things, and they will get the short term way and don't necessarily want to comprehend something that may happen.* Therefore, dedication and commitment of the people involved are essential.

Difficult, control intensive, resource consuming, dedication are not features sought by any individual or organisation. So how does the procurement group manage its agreements, specifications and strategies?

#### **4.1.3.1 Agreements**

The relationship with suppliers is managed informally. *[A typical agreement] is quite light on details. I am not a great firm believer in a huge amount of measures.* No detailed contract with minute recordings of roles or responsibilities is established to seal the relationship. Actually, it even occurs with some suppliers that *there are no agreements in place, no formal agreement signed.* The relationship is built on *a code of conduct, or informal service level agreement.*

When an agreement is signed, *it has only few measures in it, the fundamental measures in there for us and them.* Most importantly, it has a

structure of communication. *So it has an escalation path, it has how we discuss things, which premises we go to discuss the matter, who is involved for what type of discussion and how minutes are completed and written on and presented and how quickly they are presented after each meeting and so forth.* So from a communication standpoint, they are quite detailed. It emphasises the importance of communication and exchanges. Indeed, without detailed agreement, procedures or specifications, the only possible solution to coordinate the activities of both organisations is through communication.

These agreements are simply ratified *by a couple of signatures that by their very nature involved senior stakeholders in both organisations to recognise the importance of the relationship, to give it some grounding.* The signatures are not seen as handcuffs tying and binding the organisations to a contract. Instead, they seal the good will of both organisations towards the relationship.

This informality, built on the good will of the organisations, allows flexibility. *[Agreements] are something that do get reviewed and changed on a regular basis.* They can be adapted if flaws appears or the external environment change.

#### **4.1.3.2 Specifications**

In conjunction with informal agreement, no tight specifications are imposed to suppliers. *Instead we provide the aim, we provide guidelines.* From a performance standpoint, *there are maybe 3 or 4 points that we want them to adhere to the basic level, but we are inviting them to create their own solutions.* There is an emphasis on the results more than on the process.

The suppliers are let free to handle their tasks in the way they see fit. Indeed, if a buyer were to prescribe to suppliers their activities, through very specific specifications, *in some way you are discrediting the very*

*organisation that knows more about their market place than you. Suppliers are specialists in their domain. A buyer cannot reach such level of expertise. So it would be misplaced of me to direct a supplier to how to manage their business in their industry. Loose specifications give suppliers the opportunity to bring to the relationship all their knowledge without constraints. Their expertise allows them to met objectives more effectively than the buyer could have anticipated.*

#### **4.1.3.3 Strategies**

Another attribute of flexibility is the capacity to modify the relationship strategy to adapt to circumstances. There is not a set approach to the selection and management of suppliers. Even if a collaborative relationship is valued, when a relationship is not successful some competition needs to be re-introduced. *We don't necessarily want to give them carte blanche for a never ending relationship.*

The procurement group wasn't satisfied with the services of one of their main suppliers. *They had got maybe a little complacent because they are all dominant in the market. This was manifested in the lack of support to some of the action base they have taken. Therefore, the long term relationship was ended, and a service contract was put to tender. The new term agreement is a 3 years term. The strategy for this particular service was switched from a collaborative strategy to a competitive strategy. It demonstrates that each supplier situation is analysed independently and appropriate measures are devised.*

The flexibility is even further illustrated by the same example. *We would probably re-tender it [the service], probably about 2 to 3 months before the term. But maybe after a year and a half, 2 years, we may reconsider that. The recently tendered contract might be modified to switch back to a long term strategy. We may say, 'Look, we will just rule this contract on,' because there may be other priorities in the business. Nothing*



is written in stone, decisions and strategies have to follow the flow of events.

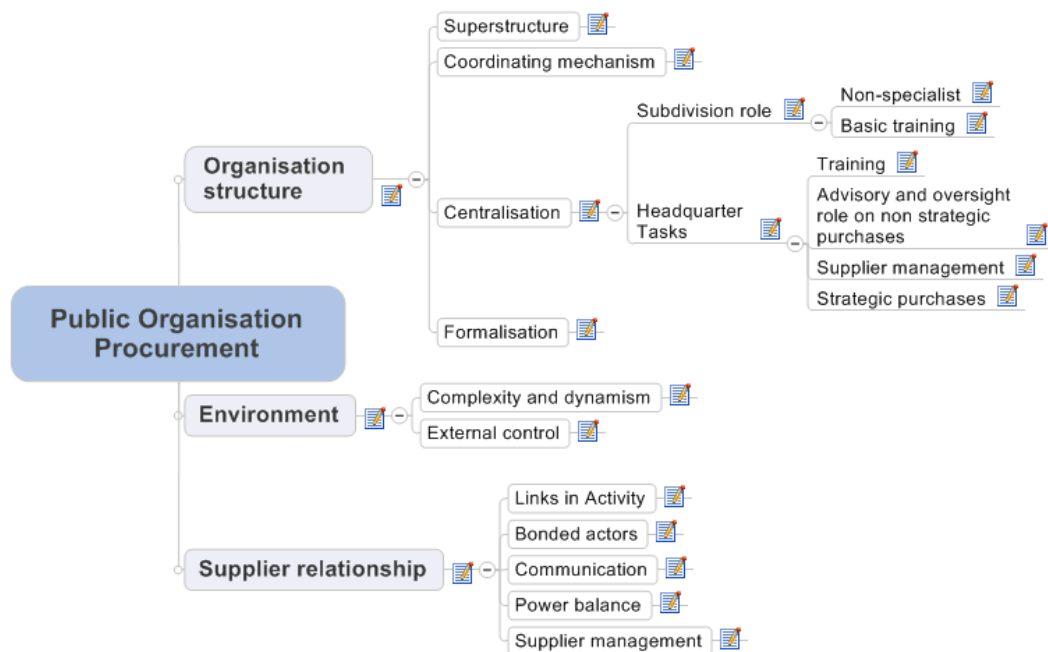
Questioning regularly the relationship strategy brings several advantages. Indeed problems do not necessarily reside entirely with the suppliers. Some might reside with the buyer as well. Therefore the relationship might greatly improve *on both sides* from the reappraisal.

- It forces the reassessment of the organisation needs and brings understanding. *Before [the reassessment], I don't think this organisation really understood what it wanted. So through the process, one of the key things was actually understanding.* It results in an accurate definition of the needs. *Understanding what we wanted, what we didn't want. What we wanted to pay for and what we didn't want to pay for, more importantly.* Thus improving focus and clarity of communication. *Our communication with suppliers probably got better as a result and the exchanges enriched. The supplier can respond to us, and there is a better management of the information flowing between the two organisations.*
- It requires a return to the market to gather information. *The market information we have about suppliers' organisations, and about who else works in the market, is greatly improved as a result.* Standards and practices are updated.
- It improves the buyer credibility. *I think that they now understand that we understand what we are doing, and therefore maybe our credit in their eyes has improved, so that's good.* It builds trust and commitment in the relationship.
- In extreme cases, it may bring a rebirth of a relationship that was legacy driven and had lost its momentum. *I am not even sure how they became a supplier to this organisation, so it has been a long, long relationship.*

*Anybody who ever knew how they actually became our supplier, is long gone. So it is almost like, like a rebirth almost of the relationship.*

## 4.2 Public Organisations Procurement

The analysis of case 2 to 7, lead to the identification of several core categories: central procurement unit and business unit roles and responsibilities, formalisation, coordinating mechanisms, environment complexity and dynamism, external control and supplier relationship. All the pieces of information collected can be classified in either of these categories. Figure 4-2 displays the final mind map resulting from the analysis and classification of all the pieces of relevant information. Only categories are displayed. Data, notes and memos are attached to each category.



**Figure 4-2: Mind map of public organisations procurement**

## **4.2.1 The Context**

### **4.2.1.1 Case 2**

Organisation 2 belongs to the Government education function. The Planning and Building Unit is responsible for planning accommodation provision, and for managing the capital funding allocated by the Government each year to upgrade, replace and expand buildings and infrastructure. This includes the purchase of sites, provision of new buildings, (including furnishing and equipping) and extending and refurbishing existing buildings.

The unit is charged with two main tasks:

- **Planning:** ensure that there are enough infrastructures, and that the use of existing accommodation is optimised. The planning section process applications for recognition of new buildings and applications for capital funding. Planning decisions are based on issues such as building rationalisation, optimal utilisation of existing provision, diversity, population shift, demographics and best value for money.
- **Building:** authorises building projects to commence design, approves the appointment of Design Teams and drives projects through the various stages of design and construction. The Building section offers advice to design teams on their particular projects. The Building section also deals with applications for contingency funding in respect of emergency repair works.

### **4.2.1.2 Case 3**

Organisation 3 belongs to the Government economic affairs function. It is a commercial organisation operating in natural resources. The organisation is a private limited company registered under and subject to the Companies Acts 1963-86. All of the shares in the organisation are held by the Minister for Agriculture and Food and the Minister for Finance on

behalf of the Irish State. The Board of Directors is appointed by the Minister for Agriculture and Food.

The organisation is divided into three divisions with three support functions. The three divisions respectively manage the organisation's natural resources, manage its by-products and manage a range of auxiliary businesses developed from the organisation's core skills and assets. The three support functions are Corporate Affairs which provides services and supports to the organisation including legal, procurement and public relations, Human Resources and Finance.

The Purchasing Division assists user groups in placing, monitoring and reviewing major contracts for all the organisation's requirements, as well as contracts for overhead and professional services. Contractors are central to the success of a wide range of operational programs. Organisation 3 is a commercial semi-state organisation. So its purchasing procedures are based upon the principle of competitive tendering and operate in accordance with the Public Procurement Guidelines, the Code of Practice for the Governance of State Bodies, and the European Union Directives.

#### **4.2.1.3 Case 4**

Organisation 4 belongs to the Government general public services function. Its collective mission is to help make Ireland a safer and fairer place in which to live and work, visit and do business. Its remit stretches across aspects as diverse as the protection of life and property; the prevention and detection of crime; maintaining and promoting equality of treatment between people; the provision of services for the buying and selling of property; the management of inward migration to the State; supporting integration and providing a Courts Service and other forms of investigative tribunals.

The primary role of the Central Procurement Unit is the advancement and refinement of procurement and purchasing practices/activities within the Department, towards best practice.

#### **4.2.1.4 Case 5**

Organisation 5 belongs to the Government public order and safety function. Some of its core functions include the detection and prevention of crime; ensuring homeland security; reducing the incidence of fatal and serious injuries on Irish roads and improving road safety; and working with communities to prevent anti-social behaviour, and improve the overall quality of life.

The Procurement Section has a staff of 18. It buys goods and services for the organisation including specialist equipment, furniture and office equipment. It also liaises with the Office of Public Works in relation to new building developments and refurbishments.

#### **4.2.1.5 Case 6**

Organisation 6 belongs to the Government economic affairs function. Its principal activities are the provision of transport services. The Engineering unit manages the maintenance and renewal of facilities, equipments and buildings.

The Engineering unit purchases services such as security services nationwide, cleaning services, vehicle engine overhaul and repair services. It also purchases high value engine components such as gearboxes or cooling systems.

#### **4.2.1.6 Case 7**

Organisation 7 belongs to the Government health function. It offers a number of health related products and diagnosis services to hospitals throughout the country. It manages the donation, procurement, testing,

processing, preservation, storage and distribution of all tissues (heart valves, ocular tissues, cord blood, stem cells). It is also charged with monitoring programs and promotion of best practice in hospitals throughout Ireland, through advice, guidelines and education.

#### **4.2.2 Superstructure**

The procurement departments of all studied public organisations are structured on similar models. An illustration, provided by case 6, is given in Figure 4-3. From organisation to organisation, the positions may be labelled differently, for examples Chief Administrative Officer (CAO) (case 5) instead of Chief Executive Officer (CEO) case 6, Executive director of finance (case 7) instead of Chief Financial Officer (case 6), or Superintendent (case 5) instead of Assistant CEO (Case 6). Nevertheless, their functions are similar. The number and roles of business units may also differ, but each business unit is built on the same model.

At the top there is a CEO and then underneath there are various business units (Engineering, Operation, Transport...). The central procurement office comes under the finance and procurement division, managed by the Chief Financial Officer. Then there is the Head of Procurement and finally the procurement Section. Within the business units, the CEO assistant would head up a divisional procurement committee. The complexity of the business units' procurement committee is linked to the complexity and amount of purchases. In some cases, only one person handles all the procurement tasks (Case 4). In other cases, a whole office is set up (Case 6) as illustrated in Figure 4-3.

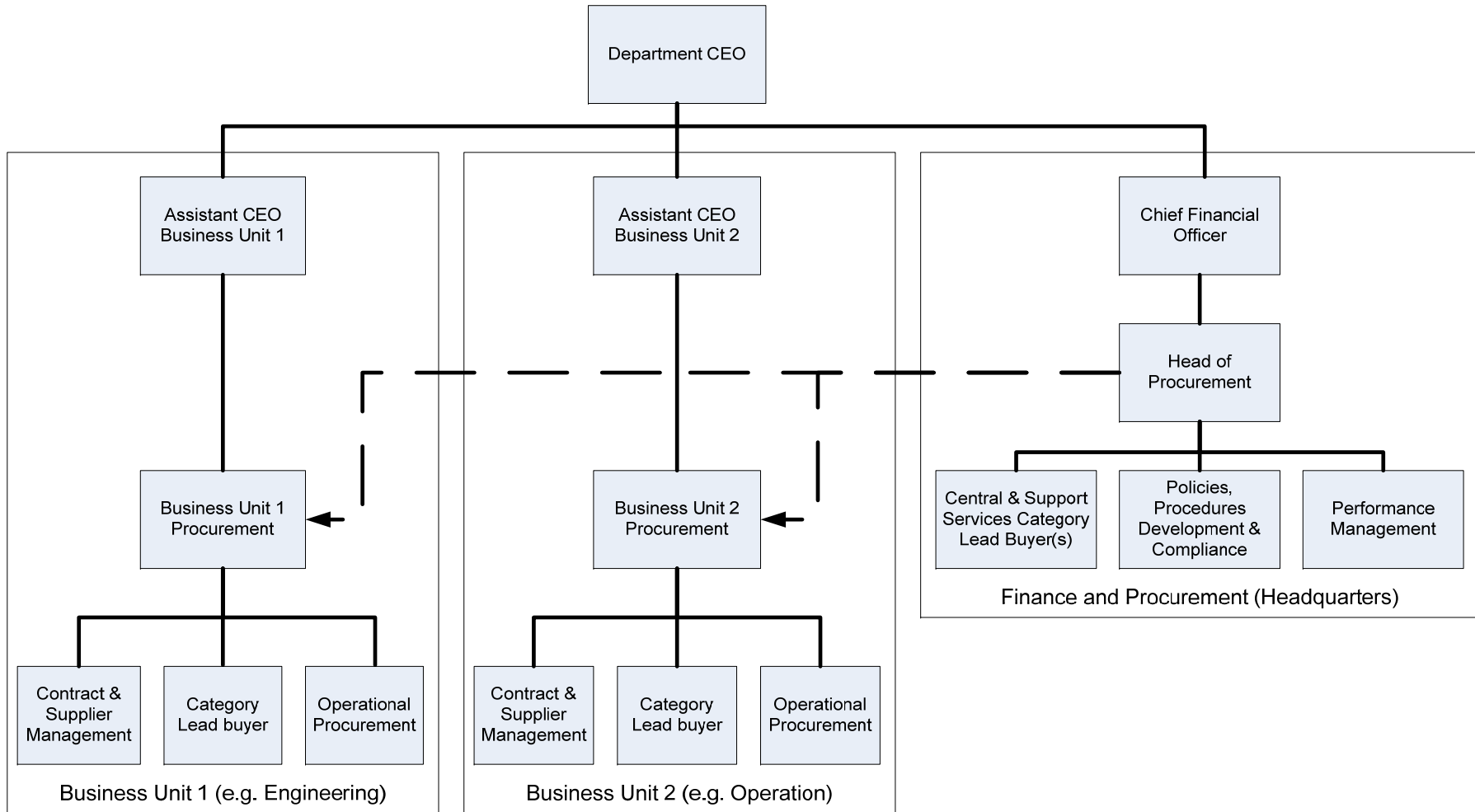


Figure 4-3: Procurement structure of public departments

### 4.2.3 Central Procurement Unit Roles and Responsibilities

A clear distinction appears between the procurement roles and responsibilities of the central unit and those of business units. A compilation of the roles and responsibilities provided by the interviewee results in the following list of functions for the central procurement unit:

- *Formulation and promotion of the corporate procurement plan*
- *Ongoing development of procurement policies, procedures and best practices for the department with the objective of achieving enhanced value for money from procurement effort.*
- *Disseminating procurement knowledge and directing the evolution and implementation of best procurement practices within the department.*
- *Provision of accurate, relevant and timely procurement advice and guidance on purchase order requests initiated by business units' procurement staff.*
- *Monitoring and enforcement of procurement practice compliance within the department.*
- *Development and delivery of key category sourcing plans for high value products and services.*
- *Fostering of strategic collaborative opportunities across the business units.*
- *Regular procurement performance reporting to finance and business units.*

Therefore, the central procurement unit *has a mixture of roles (case 5): guidance and oversight (case 4) of business units for non-strategic purchases and tendering of strategic high spend purchases (case 6).*



#### 4.2.3.1 Business Units' Guidance and Oversight for Non-strategic Purchases

*We have an oversight role when it comes to monitoring payments made [by business units] over a threshold value (case 4). Any expenses above EU threshold have to be funnelled through the headquarters procurement division. Business units have to come through the procurement division for tenders to be processed at the e-tenders and published at the Official Journal of the European Union (case 4). So that's to be open and transparent (case 5). Business units prepare most tenders themselves but the central unit is the one publishing the calls for tender above value thresholds. If [business units'] tenders are over 6000 in value, [the central procurement unit] publish them on the e-tenders. And every tender over 125000 is published in the official journal (case 5). Note that not all the public departments apply the same threshold limit for publication on e-tenders.*

*It's a sort of compliance role and that gives the [central unit] more control than it had previously (case 4). It insures the compliance to the rules and procedures. Our role is to make sure they all comply with the European directives (case 5). [...] We do have the supervisory role, the responsibility to monitor all their tender documents to make sure they comply with the directives [...] and that tender process follows the guidelines (case 5). No tender publication is allowed until it conforms to rules and procedures. And then, if it is in order we would approve it.*

*Therefore, for purchases above EU thresholds, business units would draft a tender. They would send it to us [central procurement unit] to be proofed. And we would give them whatever assistance and advice to ensure that the tender is in an acceptable format (case 4). [...] If ICT wants to put a tender in place, we would work with them to make sure the tender document was right (case 5). [...] We would be suggesting changes to*

*tender documents (case 4). [...] We may have directives put into the document ourselves. There may well be several iterations of a document until we are getting it right. And at the end of that process, we arrive at a document which is ready for publication (case 4).*

So there is an *advisory and guiding role (case 6)* involved as well for the central procurement unit. *Quite a lot of our time is involved with giving advice to business units on procurement (case 4). [...] We guide them in relation to technical specifications, their tendering (case 5). [...] If there is a problem with a tender, we would advise them maybe to go back to the market or maybe to scrap the tender completely and start again (case 5).*

Finally in the evaluation and award process, the central procurement unit also guides and oversight the business units. *The evaluation and award is done by the business unit. They would need guidance in that. And so we would often help them. We may be involved directly in the evaluation process or maybe stand back and just have an advisory role, but we have to insure that the process is done in a proper manner (case 4).*

In conclusion, the central procurement unit holds both *a compliance role and an advisory role to the business units (case 4)*. Both roles are intertwined. Interviewee report that these roles occupy most of their time.

#### **4.2.3.2 Strategic Purchases**

The central procurement unit is in charge of the main purchases, *any critical item for core activities, comes through ourselves (case 7)* as well as high expenses easily centralised. Hence, *the centre spend can be fully leveraged on strategic and high spend categories well suited for centralised sourcing (case 6)*. For example in Case 5, *Headquarters procurement would look after office furniture, uniforms, specific equipment, their pepper sprays, their guns, and this kind of stuff.*

In those cases, the whole procurement process is handled by the central procurement unit. *We would draft and process the tenders ourselves. [...] The specification stage and the evaluation of the tenders take up quite a lot of time (case 4).* Indeed details are reviewed in details. *It depends on the criticality of product. Where it is critical and a big spend, there would be quite a formalised user requirement specifications and testing criteria against. For critical items, specifications are very in depth, very formalised. And that can be applied to services as well (case 7).* Draft and process of the tenders are the two biggest areas (case 5). You must set up the tenders committee, organise everybody, and make sure that everybody is ready to evaluate the tenders with you (case 5).

Nevertheless, in departments not requiring any specific equipment (case 4), all the purchases are handled by the Business units. *It's actually very rare that we would get involved in any procurement ourselves (case 4).*

#### **4.2.4 Business Units Procurement Roles and Responsibilities**

Business units handle *local minor contracts (case 5)* under EU thresholds, such as *cleaning (case 4, 5 and 6), maintenance of local offices (case 5), security (case 6) or gardening (case 5).* *A lot would be just sourced locally, maybe getting quotes from suppliers or whatever (case 4).* *There is flexibility with [business units] where they can buy locally (case 7).* *It does not need to go up on e-tenders, so they don't come to us [central procurement unit] (case 4).* They control those contracts on their own. *By buying locally, it creates good will towards the organisation (case 7).*

Business units also handle *specific requirements* above EU thresholds, *such as specific service level requirements or local regulations, in other words non-strategic categories which are not suited to centralised sourcing (case 6).* Nevertheless, they have to seek approval from the central procurement unit which process e-tenders and publications to OJEU. *They draft the initial tender (case 4).* Then *they must apply through their ranks,*

*through their structure. You know through their [assistant CEO] basically. And then that request comes across to us [central procurement unit] (case 5). And then that's where we would get involved and try to get the tender to such a state that it would be ready for publication (case 4)*

Before a tender's publication, the business units *also have to confirm to [the central unit] that they have the necessary budget to perform the procurement (case 4). It is coming back to finance now more and more (case 5). And that there isn't a supply arrangement anywhere else in the department that they could draw down on, in other words that they are not going on with a procurement that's not necessary. Only then the procurement division [central unit] publishes the tender (case 4).*

*Once the supply agreement has been setup as a result of a procurement exercise, the relationship with suppliers is managed locally by the business units. [The central unit] role usually ends there (case 5).*

In other words, the business unit procurement team will be responsible for (case 6):

- *Lead category sourcing for agreed categories [under EU thresholds]*
- *Support cross-business unit category sourcing projects as required*
- *Undertake business unit tenders and procurement activity [above EU thresholds]*
- *Comply with centre-led policies, procedures and processes*
- *Full lifecycle cost management*

#### **4.2.4.1 Technical Expertise**

Because purchases done by the business units are not strategic, *in the most part they are done by non-specialists (case 4) with minimum knowledge about procurement. These people are not specialist procurers (case 5). In other words, procurement to the most part was done by, I called*

*them sort of well meaning amateurs, people who made the best of it, but without being fully aware of the processes (case 4).*

Their main function in the business unit has nothing to do with procurement. *They have another job to do. Their products may from time to time involve them in procurement process but their day to day task is not to do with procurement (case 4).*

Moreover, there is the relative novelty of the procurement processes. *There is much more consciousness of the public sector procurement rules. [...] And some people have only just discovered there is a public sector procurement requirement (case 3). The idea of specialist procurement units is a relatively new one (case 4).* Processes are not yet totally assimilated by the staff and the transition is not without problems. *The initial reaction is basically around 'let's do the procurement process' [and results in] an over concentration on just going through the process (case 3).*

The previous statement needs to be qualified however. The procurement function in some business units is much more developed as illustrated in Figure 4-3 (p103). Typically, technical units (case 6) require the purchase of numerous parts, tools and equipments. The transactions volume can be sufficient to justify dedicated staff.

#### **4.2.4.2 Training**

Purchases might be processed by non specialists, but *one of the control set we have brought in is that they have to have received some degree of training in procurement before they are allowed to proceed with the procurement. [...] They have to have some sort of training when it comes to evaluation as well (Case 4).*

Nevertheless, training is very basic. *The civil service training centre does it in two days (case 4). We [central unit] provide training courses to the business units. We go through the procurement rules with people (case*

5). The objective is more about raising awareness about public procurement rules than procurement training. *It's a kind of an overview of the public procurement process (case 5).* Even if it makes people aware of the issues, it remains difficult to master a subject when it is not one's main function, and the knowledge is not regularly used. *This sort of knowledge is often quickly forgotten if people are not using it (case 4).*

Furthermore, processes and procedures are modified regularly. *They change too often. I am only there over three years, and we've made four changes in administration to date (case 2).* This constant state of change does not favour the development of automatisms. And the confusion is even enhanced when the workforce has to juggle with two set of procedures simultaneously. *At the moment, we are in an interface, so we are dealing with two Design Team Procedures (case 2).* Without familiarity with the procedures, the personal has to focus on them to ensure that they are not breaching them.

Fortunately, business units can develop their knowledge about procurement through repetitive interactions with the central procurement office while they seek approval for one of their tenders. *They are interacting with us [central procurement office] and, you know, we are passing on our knowledge to them.* Moreover within the business units, it will probably fall to the same person, who would be involved when it comes to procurement (case 4). Therefore they can accumulate their knowledge from tender to tender. Moreover in case 7, training is more advanced. *I would have training twice a year for all staff.*

#### **4.2.4.3 Command of Processes**

Business units are in charged of enforcing all the procurement processes defined in the rules and procedures. Nevertheless, their command of those processes is insufficient to do it with ease. It results in an overwhelming of the procurement group by their daily tasks. *There are pools of work which*

*have already been tendered. And in the meantime, there is always another pool of work that needs to be tendered. I have to design X, Y, Z and work on the tendering (case 3). Then, the procurement staff does not have the option of stepping back to see a bigger picture and aim toward the final target. The energy is focused on the particular area which requires a procurement process. It inhibits you from managing the quality of these relationships that you have and contacting your relations (case 3). They go through their jobs at hand without planning the long-term strategy. It certainly uses up your time, your attention, your energy, and you focus on that aspect also at the cost of, well, strategically watching what you are doing here (case 3).*

#### **4.2.5 Formalisation**

Entrusting all non-strategic purchases to non-specialist raises a question. How can non-specialists write tenders?

##### **4.2.5.1 Process Rationalisation in Business Units**

Tasks are broken down into simple, specialised tasks and set into manuals and procedures. *The Design Team procedures manual sets out series of steps that have to be followed to bring a concept of a school from inception to completion (case 2).* These manuals are very specific and cover all aspects of the project. This is shown in case 2 by the long list of topics covered. *They give guidance on the appointment of the design, the appointment of contractors, the national procurement rules, EU procurement rules, thresholds, what documents are required, what contracts are required, requirements for contract notice, if its above the threshold requirements for EU notice and assessment of contractors, assessment of consultants, assessment of specialists under the EU form (case 2).*

Description of project management systematically refers to rules and procedures (EU rules, EU thresholds...), everything is organised, systematic with *milestones* (in order *stage 1, 2a, 2b and 3*) and *frameworks*. Overall, the system appears rigid and inflexible. *Under the new procedures, you cannot go to the next stage, until you clear the first steps. So everything has to be correct here before you proceed (case 2).*

Actually, most of the rules and procedures are defined at a European or National level. So, the procurement group has more a role of enforcement of procurement rules and regulations than a role of rationalisation. It is essentially a legal role. It ensures that the tenders and the contracts are respecting the various national and European laws.

Procurement tasks are standardised. One of the roles of the head procurement office is to *develop practices and procedures manuals (case 5)*. Procedures precisely and explicitly formulate the steps to be followed.

Forms and documents are also standardised. *We have tender templates [...] and standard forms. Sort of standard documents that they can actually, just drop their specifications and requirements into (case 4)*. And to make sure that they are correctly filled, *there are guides within the template about what information they should be putting into it. The template itself would tell them the sort of information they need to be putting in at certain places within the document (case 4)*. Thus, variability is reduced. *The outlook of the tender is always pretty much the same (case 4)*.

In conclusion, non-specialist can handle procurement thanks to the standardisation and rationalisation of the process into simple steps. In other words, public buying centres rely on a bureaucratic organisation.

#### **4.2.5.2 EU directives in Central Procurement Units**

Central procurement units have to apply EU procurement rules and procedures. *We are a public sector body, so we have to comply with the EU*



*directives that a private organisation doesn't have to comply with. That kind of creates a tension to seek best value for money but very compliance driven (case 7). The emphasis is more on the respect of procedures than in getting the best deals possible. For example, we have one situation where it appears to make economic sense to extend the [contract], from the point of view that it will cost us less money; it would be a better economic proposition for us to do that. [...] But as a public sector organisation, we are obliged to go back out to market without respect of whether it makes financial sense or not (case 3). Extending a contract is not possible. Even for new contracts, having recourse to tenders do not warranty the best prices. When I get sealed tenders is that the best market price? I would say, well, not necessarily. I can tell you, it might be the lowest price of those tenders but that doesn't mean it's market price (case 7)*

*That's certainly creates tension because, I wouldn't have the freedom that a purchasing manager in the private sector would have. I must comply to certain rules with suppliers (case 7). Any form of discussion or negotiation is proscribed. I don't have a huge amount of flexibility to negotiate with suppliers (case7). No strategic management of prices and offers is possible. It puts a lot of power in the suppliers' hands (case 7). Public services are obliged to give the contracts to the lowest bidders. We do need to pool it, up to tender, give everybody the opportunity at it (case 3). There is obligation to tender, even if it is not a strategically viable alternative.*

*Even though it can mean that the parcels of work the people are getting, you would question how economic is it (case 3). For example, we are in hard times now. The name of the game is to get the tender. People are going at the lowest price; I mean I have prices at the moment which are just staggering (case 2). Contractors desperately need some cash flow to keep their business running. So they dramatically cut their prices, whatever is*

needed to secure the tender. Nevertheless, *once you get the tender, if you have written it down by 10% for instance, you are going to recover that 10%. You may get you some contractors to cut prices, but you will certainly reduce the quality, which has us extremely worried (case 2).*

Despite the awareness of this problem, procurement managers are not allowed to develop alternative strategy. *It is not easy for us to develop specific strategy in the point of view of the public sector. No deal profitable for both organisations can be struck. If it were a totally private business, you would certainly look at nearly making a selection process within the existing pool [of contractors] and you would be looking at developing relationships with certain key ones (case 3).* Nevertheless, this is not possible in public procurement. *We are not a private organisation, we are not in a situation that we can have 10 selected suppliers and manage to work between them (case 3).* The only possibility for the contractor is to recur to more control and more thorough quality checks to insure quality requirement are met. In other words, resources and time have to be spent.

*I suppose that depending upon what services, there is some kind of balance to be struck there about the length of the relationship or the contract (case 3).* For simple, cheap services whose outcomes cannot be modified or improved, the tendering process seems better adapted. *For low value spending, stationary or minutes for phones, things like that, commodities, you won't be looking at a 5 years contract; you throw them out to the market. But if there is any real spend (case 3)...* On the other hand, for complex services whose outcomes depend on many variables, developing a relationship allows joint efforts for the adjustment of all these variables and the delivery optimisation.

#### **4.2.6 Coordinating Mechanisms**

Procurement activities involving several public organisations' units are coordinated through standing committees or *cross-functional teams (case 7).*

*We do have committees to kind of, improve communication I suppose. And that's made up of the representative bodies. These would be the unions, the [department] representative associations, the [CEO assistants], our HR people, and the government supplies agency (case 5).*

They would review the previous tenders, and discuss the modifications that need to be implemented. *Well next time we go to contract, we should do a, b and c with [this equipment]. And finally, they would agree on the specifications for the next tender. In other words, they give you the specifications for the tender (case 5).*

## **4.2.7 Environment Complexity and Dynamism**

### **4.2.7.1 Products and Services**

*A huge range of products and services are purchased basically to support the organisation in its delivery of service (case 7). Most of them are simple and stable such as uniforms, vehicles, equipment maintenance, security, cleaning, furniture or utilities. A lot of the stuff we buy, particularly on the product side, are available off the shelves (case 4). They are mainly renewal purchases to replace old and obsolete items.*

In this case, to achieve savings the solution adopted is to increase centralisation by joining various public organisations. *We cooperate now more and more with other departments in relation to common purchases like utilities. We have done a few joined tenders in relation to electricity, gas, and we are now going to do a join tender with other [Irish public organisations] in relation to heating oil (case 5). Case 7 even went further afield. We went to tender for [basic health products] with the UK, We are the first state body to purchase with another state body outside the jurisdiction. Another advantage is an improved support from the supplier. Because we are part of a bigger group, when we have a quality issue here, it is prioritised.*

There are also few complex items as well (case 7). And in this case an important shift in power occurs. The making of choices (Figure 2-5, p38) is transferred from the buying centre to the specialists. Specialists decide what products are needed. *They are drawing up specifications; they need to identify the testing criteria. Because there is no use saying well I want the product X that does X, Y and Z if you have no way of testing it (case 7).* It explains why they receive more training than business units in other public organisations (Section 4.2.4.2, p109). They have a more influential role in the procurement process. Training is particularly important because *they are very quality driven, very interested in their own set of regulations but financial regulations are not their main focus.* Nevertheless the authorisation power remains with the buying centre. *When you first ask the question people [specialists] tend to put everything as critical. We have to push them and say, look think of what your core activity is (case 7). It is trying to strike a balance between operations and procurement.*

#### **4.2.7.2 Processes**

The respect of all the European rules and procedures is quoted as one of the main difficulties. First, the public organisation's own procedures have to be written in line with the EU directives. *I suppose the challenge is to make sure that our packages of procedures are proper, they are in line with European directives and that's a challenge for us (case 4).* And second, these procedures have to be respected and the tender specifications properly written. *The difficulty is in making sure the specifications are in accordance with the directives. Maybe the reward criteria or the qualification criteria are not quite correct (case 5).* They must be open enough to give a chance to several organisations to tender. *In other words, more generic specifications because you know, [business units] do have people crawling on them, visiting them and saying this product is perfect. And so, they would start maybe writing a spec that would be reflecting that*

*organisation's product. So you have to get them back (case 5). The difficulty is therefore in complying with EU directives.*

*Moreover, as already mentioned in Section 4.2.4.2 (p109) procurement has changed quite radically in the last 18 months. So we are still somewhat in a stage of change (case 4). And there is a new remedies directive, just signed into, in Ireland and that's going to make it [procurement] harder again (case 2).*

*Ultimately, when processes become too complex, only specialists can handle them. Centralisation and formalisation are not insufficient anymore. Our history has been, well a poor, poor practice because we don't have the resources, we don't have the specialist resources (case 4). Then, the solution is to minimise the amount of procurement the department does (case 4).*

*Organisation 7 is aware of the focalisation of other public organisation on compliance. If you interview anybody from central government, you may get a totally [different point of view], it would be very much compliance... That's because of the culture and the organisation [structure]. Nevertheless, organisation 7's main concern is about selling its products. We are a state body right, but we are operating in a commercial environment. We have to sell our products. We are fully aware of compliance, we have compliance coming out of our ears but we have to manage the compliance to get best business decisions (case 7).*

#### **4.2.8 External Control**

*Public servants face high accountability for any of their actions or decisions. [In the public sector] if you sign your name to something, you are much more liable to critics than you would be in the private sector (case 2). This sentiment is deeply rooted in all participants. For example, the simple fact of talking against the rules, for an illustrative purpose,*

immediately brings to the front rules of caution and safeguard. *Now, if we were a private sector organisation, I would not even be nervous about talking to you about this, you know, from the point of view of, some supplier or somebody comes in, I could be in breach of the rules (case 3).*

This sentiment of accountability result into the scrupulous application of the public procurement principles of equal treatment and transparency. Particularly, to avoid charges and claims, everything has to be perfectly transparent. *You have to be above suspicions. [...] it does not even have to be proved. It just has to be an indirect relationship (case 2).*

#### **4.2.8.1 Accountability**

If the rules are not perfectly followed, there is always a risk to be attacked in court by an unsuccessful supplier. *With the new remedies directive in particular, we are kind of conscious that we need to get that process exactly right and we want to minimise the risk for the department that an successful supplier might attack, go down the legislative route (case 4).* Therefore, procurement processes are enforced through monitoring and infliction of penalties if they are not respected. *I would illustrate that with the need for 14 days notice to place a business, and the fact that there are penalties associated then with all the communication in the public arena (case 3).* In these conditions, the workforce carefully considers all the rules and procedures to avoid any shortcoming or error.

Respect of rules and principles is essential. The top hierarchy is held accountable for any infraction. *There have been a number of highlighted cases of non-compliance which have, ended up with, with our secretary general being before the public accounts committee. [...] It highlighted the need for greater controls (case 4) by the central procurement unit. So, we [central procurement unit] have that monitoring role now, much more than we ever had previously (case 4).* Cases go through extensive investigation and consideration, in particular cases above EU thresholds. *We are more*

*interested in the big payments, [...] in the big procurements because that's potentially where the most risk is. And so that's why it has to be going through the procurement division for control (case 4).* External control pushes toward centralisation of the buying centre to enforce procurement rules and principles.

Not only processes, but actions and decisions can also be judged a posteriori. *In the public service, maybe you have to account in front of the public committee even [for decisions taken several years ago] (case 2).* In private sector, the decision process needs to be efficient to keep up with the market. The timing of the decision is capital to catch opportunities. This imposes a part of risk as all possibilities cannot be analysed in the time frame imparted, but this risk is accepted. *On a particular day, on a particular time, at a particular place, on a particular situation, that was the right decision. Five minutes later he could be wrong, but in that time, that place, that situation that was the right decision (case 2).* Managers can only weight the risks against the benefits and do the best they can in any given situation. *If I make a mistake, I build a building and it is wrong because the market change, provided that the risk was clearly thought out etc, people just move on (case 2).* The best decision was taken considering the situation and the amount of information available. Nobody could have predicted what happened, so no need to linger. It is more urgent to adapt to the new situation.

*That does not happen in the public sector.* In the public sector the emphasis is not on the efficiency or the timing of the decision. The emphasis is on the accuracy. *The public committee goes back seven years to say: you approved this amount of money, why (case 2)?* If there is any doubt, then the decision must be postponed and more information should be gathered. *Why did you waste people's money building, why didn't you wait until you knew what the market was?* Any drawback appearing, even

several years after the decision was taken, will be reproached to the decision maker for lack of anticipation. *You should not have started it, you wasted public money (case 2).*

*And they wonder why public servants are adverse to risk?* This high level of accountability pushes civil servants to limit the risks. Safeguards are multiplied to ensure that mistakes or errors do not occur in the decision process. *There has to be ultra-traceability (case 2),* to demonstrate the decision process and prove that all possibilities were considered in case justifications are required. Therefore, an emphasis is given on documentation. Everything has to be documented in *formulation documents, tender documents, pre-qualification documents, conditions of engagement...* These documents are safeguards built to ensure that decision process can be adequately defended if later questioned. *Everybody judges roles and responsibility (case 2).* Public servants protect themselves behind procedures and guidelines. They can't be blamed for following the instructions that were given to them, whereas autonomy and initiative can be reproached. External control pushes toward formalisation of the buying centre.

#### **4.2.8.2 Transparency**

*One of the essential differences with private enterprises is that public services are driven by the need for openness, transparency and fairness.* This is very restrictive, and do not leave much leeway to the procurement group to manage suppliers. *If you have to be above suspicion, everything must be transparent, has to be fair, and has to be open. Your hands are absolutely tight (case 2).*

EU procurement rules are in place to enforce the transparency. *The most economical advantageous tender is chosen.* Not any other consideration can influence the decision. There is no case by case adaptation depending on



circumstances. The rule is the same for all suppliers whatever the product purchased.

Suppliers cannot be selected on their performance. *In the private sector, while price was important it was not the primary driver. And if they felt somebody could do their work more efficiently with the least disruption, especially on the service side, they would say 'I want those contractors. Just make sure they don't excessively overcharge' (case 2).* This is not possible in the public sector.

Suppliers cannot even be rejected due to their poor records. *Within EU guidelines, it is very difficult, even if somebody has done a bad job, to keep them off the list in a way that is seen as clean transparent and absolutely open, without favouritism applied. Why are you keeping me off the list, is it because you are friendly with Joe, and he is on the list? (case 2)*

Contract flexibility in a relationship is an interesting feature for procurement managers. *I think if you can develop a relationship with a supplier, unanticipated needs can be asked. There can be flexibility if you are missing something that you didn't anticipate when you went into the relationship. This perspective is quite useful for me, the contracting entity (case 3).* In a relationship, you can modify the terms of the service delivery by common agreement in function of the circumstances occurring during the length of the relationship.

Nevertheless, in public procurement if you placed business with somebody but as you are working along through that, all of a sudden, you use this flexibility to change the overall substance and content of the contract, that would or could have changed the offering or other service providers, you know, there is a genuine dilemma (case 3). It could be interpreted as favouritism. Contracts cannot be modified to adapt to new circumstances. *There are detailed specifications that you required [in the tender], expectations in respect to the quality of the goods or products.*

These specifications can not be modified. *It is not an easy thing to legitimate within the public sector procurement processes, in the point of view that unsuccessful bidders could complain 'well if I knew you were going to do that, if I knew I had the flexibility to do that, sure I would have priced something differently' or whatever (case 3).*

Various case scenarios, corresponding to all the possible unfolding events, could be introduced in the contract and procurement process. *In theory, you can [incorporate flexibility], if you are creative enough, if you can anticipate enough (case 3).* That would avoid situation of the type *had we known when we went to market that it might be a good idea..., but four years ago nobody would have thought (case 3).* And this is exactly the point, how can you anticipate events four years down the line, with enough accuracy to write it down in a contract?

These examples show that procurement groups are very limited in their decisions and actions. Transparency leaves no leeway to manage the relationship. The strategy is built around removing as much risk as possible and not around performance. *Basically the department's corporate procurement strategy involves really taking as much risk out of procurement for the department as possible (case 4).* In a less regulated context similar to the private sector, *what I would be doing is, I would have a relationship with [a supplier]. I would manage that relationship for the benefit of my organisation as the contracting organisation, you know, as an entity it represents (case 2).* Procurement managers do not have the autonomy to decide the procurement strategy.

## **4.2.9 Supplier Relationship**

### **4.2.9.1 Links in Activities**

Procurement managers agree that developing co-operation *does give the space for looking at better ways of working.* Building a relationship bring

the possibility of working on the outcome of the service. *Well we might do this, do that and it may help them. They will save, optimise our operation and you can share savings, stuff like that. There is scope for that (case 3).*

However, interactions with contractors are proscribed. *We don't have that direct relation [...] in order that you can form a one-to-one relationship with. We are also precluded from that because of the procurement rules (case 2).*

Moreover, public and private organisations cannot co-operate to develop specific products or services. Indeed, *we have to use generic specifications. So the market [any organisation] can look at the tender document and say 'I can reply to that'. And then we would evaluate the tenders (case 5).* The tender process prevents the public organisation to work with a specific supplier.

In those conditions, little exchanges or cooperation are expected from contractors. *All we want of them is that their offer meets the minimum specifications. And if it does, well then we will score it against the standards set in the specifications (case 5).* They have to do what they are told in procedures and guidelines. Innovation or alternative solutions are not sought. To win the market, suppliers have to be as close as possible to the specifications defined by the public organisation. *Good contractors follow the procedures, they follow the guidelines, and they do what they are meant to do (case 2).* Supplier cannot bring their expertise of the field.

#### **4.2.9.2 Bonded Actors**

*Direct relations cannot be developed with suppliers due to transparency concerns. If I start talking to X directly about a project, within a week the papers would be saying why is X talking to the Department directly and why isn't Y talking to the Department? Is that because X went to a dinner for [this political party] 6 weeks ago? So, you are caught. This is a*

*difficulty and an imposition from a procurement perspective (case 2). Indeed, it goes against standard understanding of the procurement function. I cannot actually work with my supplier to get more out of the situation [...] in the longer term. This is the major problem (case 3).* The task of the procurement group is limited to the management of processes. *An over concentration on just going through the process prevents a longer term view of the type of contract and infrastructure that you require over a 3-year, 5-year period (case 3).* A short term view is adopted instead of long term strategic planning. Projects are processed *without coming back into the stage of defining the need, what exactly is that you need, what shape, what's your overall strategy, what do you want to end up with (case 3).*

Public services cannot show commitment towards favourite suppliers. It is against the basic principle of fairness required in public procurement. This is illustrated in the actual economic conditions where procurement manager cannot support specific suppliers to weather the storm or in the impossibility to develop and maintain a stable and long term relationship. *In the private sector you could develop [with efficient contractors] a relationship that built over years, years, years. In the public sector the rules preclude you doing that (case 2).*

In absence of interactions, the individual actors cannot learn about each other and build trust. *Public sector is seen as a soft target in my view. And that's because of the structure (case 7).* Only calculative trust is possible. Trust that the interlocutor will respect the terms of the contract because the cost of breaching them is too high. Nothing less than the terms of the contract is accepted, but without commitment nothing more can be expected. Only what is clearly stipulated in the contract will be done. Therefore, contracts have to be very specific and very detailed and lot of care is given to their writing.

### 4.2.9.3 Tied Resources

Public organisations emphasise the *contractual, legal and financial responsibility (case 2)* of all organisations involved in a project in order to keep a clear separation of resources. *Legally, the public [organisation] is a funding agency (case 2)*, and thus holds a very limited liability in case of issues with the project. Functions are isolated to compartmentalise the liabilities. *[The public organisation] is in contact with the board of management and their design team, but has no contractual duty to the contractors (case 2).*

### 4.2.9.4 Communication

Pre-tender direct information exchanges with suppliers are proscribed. *We cannot talk to the market, before we go to tender, because we are a public sector bodies, we are governed by the procurement rules (case 4).* Only indirect exchanges are allowed through the e-tenders website. *Any queries about the specifications or the tender details are dealt with by the business unit on the e-tenders website. It is not, it's not through e-mails. It's done through the website. There is a questions and answers facility on the website and that's where that's managed (case 4).*

Post tender, even if several *liaison persons are specified through formal contracts* at various levels of the private organisation *as an option for an urgent issue or a major issue*, in reality only one representative (*agent*) is involved. *That would be the person that we would always meet with (case 5).*

Suppliers are called in only when an issue arises. *We would call the supplier in, and try to identify together what the problem is and resolve it.* Only items associated to health and safety risks have their contract monitored *depending on the risk issues* on a more regular basis. *If it is a*

*high risk contract we would meet with them monthly, two-monthly to keep an eye on the development there, and even daily if necessarily (case 5).*

Once again case 7 behaves differently. *We [central procurement unit] do encourage a liaison. We would encourage our departments as well to talk to them. When we are not doing a tender, you need to talk to your suppliers. During a tender, communication is forbidden by EU procurement rules. Find out what technologies are out there, what's coming down the track, is there going to be a change. Complexity and dynamism of the purchased items necessitate regular updates. So there is a huge amount of communication from procurement to suppliers and back and even with our departments, we don't have issues with our departments meeting suppliers without us. However, only information is exchanged. They are all fully aware, nothing can be contracted unless, we [central procurement unit] are involved and suppliers have also got that message. It has to be managed properly. In the early days, suppliers were going to departments and things became a done deal, but the message was pushed out that this can't happen.*

#### **4.2.9.5 Power Balance**

Public services use their dominant position to obtain a better quality of service. *We find we get our best service from medium size contractors and medium size consultants [...] because their practices are vulnerable if they do not get work from us (case 2).* Suppliers are in a situation of dependence. Their practices would be threatened if they were not getting the contracts. Nevertheless, this strategy only works with medium size enterprises.

Public services lose their dominant position and the associated advantages when they deal with big conglomerates. *And one of the problems with the EU procurement rules is that it forces aggregation. We are getting bigger and bigger consultancy practices, they are multi-disciplinary, they are getting bigger and bigger, they are aggregating all the time, and you are not getting the service you get from your medium*

*small contractors (case 2). Suppliers defend themselves against the public services dominant position by aggregating together. Thus they reduce the competition and can obtain better deals. And the problem is one day we will wake up and there won't be any medium or small contractors, we will be left with these big conglomerates, and there won't be competition anymore (case 2). This is probably the natural result of over using a dominant strategy in supplier relationship.*

#### **4.2.9.6 Supplier Management**

Suppliers management does not appear to be the main concern. *We kind of know who our main suppliers are (case 5). That's not a definite answer. And the lack of supplier management is admitted. I would say that the contract management side, supply management side, in the public service has been quite weak (case 4). We do need to do a lot more work on grouping them towards the Kraljic's model, where you have them divided into four quadrants, four categories (case 5) [Figure 2-10, p55]. That kind of categorisation of suppliers and perhaps strategies for each market, we are no way near that yet (case 4).*

Nevertheless organisation 7 uses a *category management software package and basically it pulls in the information and it gives you a model, something like the Kraljic's model. They use it to identify critical supplies. That's how we manage our suppliers that we would give the attention to critical products. Some products it is ok if you haven't got them. People will be moaning about it but nobody is going to loose a life. In health services, people can literally loose their life on missing supplies. It is therefore not surprising that supply management is critical and more advanced than in other public organisations.*

However, market analysis and strategy differentiation are not yet part of standard practices for most public organisations. *The task really has been around getting the department compliant. That sort of categorisation of*

*suppliers, interaction with suppliers, if you like market analysis, we are a little bit away from that (case 4). It would require an analysis of what we are buying, if they are critical products or routine products (case 5). And then it would necessitate (case 5) the adoption of a different approach to each one in terms of our strategies, like emphasising tendering for routine products or... [Interviewee stopped] We don't because we are a public body we don't do with negotiations really; you know because of the European procurement directives (case 5). Interviewee stopped his sentence because in the Kraljic's purchasing model, long term relationships and negotiations are emphasised for strategic items (Kraljic, 1983). However, these approaches of supplier management are not allowed to public organisations in the EU directives. Well, I think certainly on occasion quality of service does suffer, in being unable to focus on managing the quality of that relationship (case 3).*

Another issue, brought up about implementing strategic management of the suppliers, is the non-specialisation of business units. *As long as the procurement is happening in business units, that's going to be more and more difficult to supply [strategic management]. Because the idea of market analysis, these are concepts which they would not be familiar with at all (case 4). Strategic procurement is not currently possible, as most of the procurement is done by non specialists who only have a basic knowledge of procurement. So, it's definitively a focus on compliance (case 4). It is already hard enough to have them compliant to existing processes and there are not enough resources available to do anything more than that. Then the strategic around procurement, at the moment, more or less doesn't occur (case 4). And, until we really arrive at a final structure and have procurement done in the [central procurement unit], it's no question (case 4). In other words, even further centralisation of the procurement process is recommended to implement strategic procurement. [Restructuring] would*



*be an ideal but I can't see that happening. In the current climate [economic crisis, budget cut], I can't see that happening (case 4)*

However, public organisations are conscious of the issue and try to address it. *It is slowly changing. That is something that we are trying to address (case 4).* The solution proposed is to standardise the management of suppliers. *For instance, we have templates up now for framework agreements. A copy of the framework agreement itself is published with the tender and a copy of a draft service level agreement [case 4].* Also in case 2, the interviewee describes his function as: *my function is to take a project from preliminary, pre-formulation through to completion, to upgrade policy and guidelines for issue to the private [organisations], and to make sure that the projects are carried out in accordance with our procedures and design guidelines (case 2).* In other words, the management of suppliers through the rationalisation of processes into procedures and guidelines and an enforcement of those pre-defined processes.

## Chapter Five Discussion

---

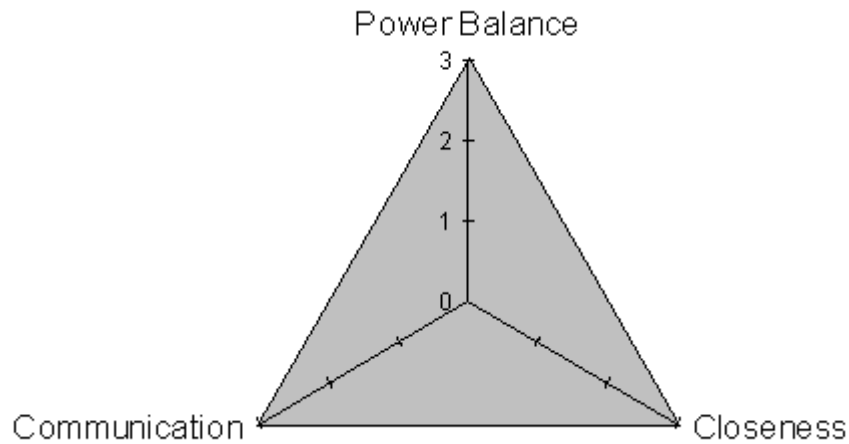
### **5.1 Buyer – Supplier Relationship Characteristics**

Buyer-supplier relationship characteristics were first studied with a review of the B2B literature. It was concluded that the characteristics can be classified under five main categories: links, communication, power, atmosphere and dynamics. Various relationships between these parameters were reported and three clusters were identified. It resulted in the definition of three types of relationship named collaborative, transactional and adversarial relationships. Finally, the type of relationship maintained with each supplier should be the result of a strategic choice (using Kraljic's model for example) made by the procurement group.

One private organisation was studied to check the previous analysis. It was found that the points emphasised by the buying centre with its critical suppliers are:

- Coordination and participation through a network of links at different level across the organisation.
- Trust and commitment toward the partner
- Structured, adequate, responsive and transparent communication
- Equilibrium in power and resolution of issues through mutual agreement.

In other words, a collaborative relationship is favoured. The characteristics are illustrated in Figure 5-1 according to the chart introduced in Section 2.4.1.4.



**Figure 5-1: Case 1 Relationship Characteristics Chart**

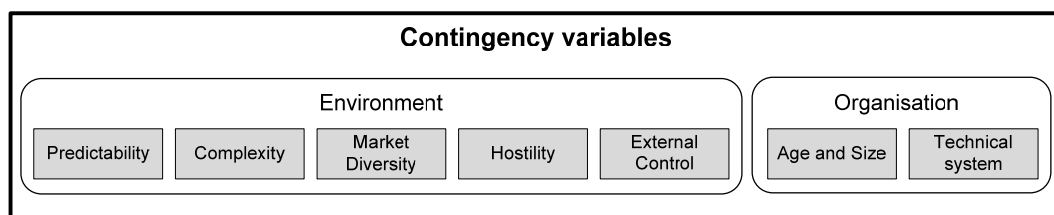
In terms of management, the difficulty of managing uncertainties in a rigid system, pushes the organisation to adopt informal agreements, loose specifications, and adaptable strategies. In other words, decentralised and flexible processes are applied.

This case is fairly representative of what has been described from the B2B literature (Mohr and Nevin, 1990; Ford, Gadde et al., 1999; Johnsen and Ford, 2001; Cox, Watson et al., 2003). Collaborative relationships and flexible processes are the two fundamental principles driving the procurement team's strategy towards supplier management.

The buying centre can adapt its strategy and resort to leveraging methods such as tendering when it considers it necessary. Nevertheless, the studied buying centre appears reluctant to use adversarial strategies even if it could make sense in Kraljic's matrix. There might be a bias for collaborative relationships and an oversight of their liabilities (Section 2.4.2, p53). A fairly optimistic view of business relationships is also adopted and collaborative relationships appear always achievable. The possibility that the supplier might use a dominant position to impose an adversarial relationship (supplier dominant) is not considered. Another issue, are legacy driven relationships that are not questioned. Flexible processes lack procedures to enforce systematic review and routine may set in.

## 5.2 Constraints on Public Procurement

Several contingency variables were identified from the literature review (2.3.2, p42): predictability, complexity, market diversity, hostility, external control, age and size, and technical system (Spekman and Stern, 1979; Mintzberg, 1983; McCabe, 1987; Chow, Henriksson et al., 1995; Lau, Goh et al., 1999; Trent, 2004; Lewin and Donthu, 2005).

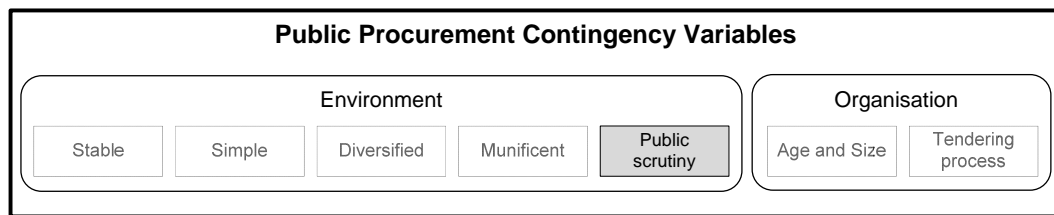


**Figure 5-2: Generic Contingency Variables**

An analysis of the results allows the determination of the variables predominantly influencing public procurement. These include

- The procurement environment: which seems relatively stable (predictable) and simple for most of the purchases.
- The market: which is diversified. Public organisations cover a wide range of clients, products, services and geographical areas. Nevertheless, while the products and services are split into various organisations (subdivisions), the procurement function retains its unity. Each organisation includes a buying centre which has to follow the same rules and regulations governing the other buying centres. They are all part of a unique public procurement unit.
- Hostility: which might become an influent factor in current economic conditions. The Procurement managers did express the difficulty of managing the procurement with tighter and tighter budgets. If the IMF were to gain some control over Ireland's budget, it might increase the level of hostility under which Irish public procurement is working. However, the results did not show any major influence at the time of study.

- External control: which shows up as the main constraint on public procurement. Public scrutiny of procurement decisions has a major impact on the procurement function. This scrutiny enforces accountability and transparency on all the purchases.
- Age and size: which did not appear in the results. It might be due to the relative small size of the buying centres studied. In particular size might have been more apparent if the procurement function had been studied higher up in the hierarchy. The number of procurement personal directly or indirectly supervised might then have become an issue.
- Technical system: which is relatively simple. The tendering process can be broken down into simple, specialised tasks that can be applied to all type of products without adaptations.



**Figure 5-3: Public Procurement Contingency Variables**

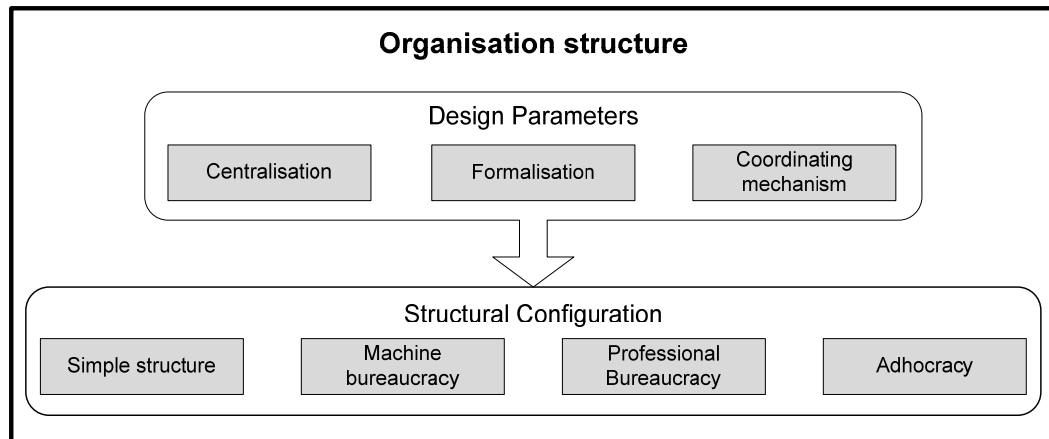
The most influencing contingency variable appears to be the external control exerted by the public through the scrutiny of procurement decisions.

As expected from external control (Section 2.3.2.7, p46) procurement executives are held accountable for their decisions. As a result, all processes are recorded to justify and prove the legitimacy of the actions undertaken. It results in the multiplication of documents for ultra-traceability and safeguard. Moreover, it results in a culture of risk avoidance. Carefulness and caution are promoted. Cases go through extensive investigation and consideration to limit as much as possible the occurrence of errors.

A second effect, non-anticipated, of external control is transparency. Processes have to be transparent firstly for the public to allow an easy assessment of the situation and secondly for procurement executives to

demonstrate and defend their honesty. Thus procurement processes have to be open, fair and impartial. Favouritism to any one person or group is not permitted.

### 5.3 Public Procurement's Organisation Structure



**Figure 5-4: Generic organisation structure**

The cases studied show that accountability and transparency influence greatly the structure of the procurement function. They also explain the establishment of the public procurement principles and legal requirement outlined in Section 2.2 (p25) (Davis, 2004; The European Parliament and the Council of the European Union, 2004; Enterprise Ireland, 2006; Waara, 2008; Bovis, 2009; National Public Procurement Policy Unit, 2009; Procurement Innovation Group, 2009b). Public organisations achieve transparency by imposing clearly defined standards through rules and regulations. Thus, they can ensure that procurement processes are open, fair and impartial. Moreover, as procurement executives are accountable for any error occurring, they hold the decision power to be in control of critical events. They also emphasise a strict enforcement of the rules and regulations to standardise the work of their subordinates. It results in vertical centralisation and formalisation of the procurement function.

### 5.3.1 Centralisation

Purchases simultaneously low in cost (under EU threshold) and non strategic are handled by business units with minimum oversight of the central procurement unit. Purchases simultaneously high in cost (above EU threshold) and non strategic are still handled by business units but the tender are controlled by the central procurement unit. Strategic purchases are completely handled by the central procurement unit. The involvement of the central unit increases with the importance of the purchase. Cases are sent up the hierarchy until they reach the appropriate level of authority.

In other words, non-specialists do the bulk of the work (draft of tenders), then supervisors control and correct details or non standard items. If the decision process analysis depicted by Mintzberg (Mintzberg, 1983) (Figure 2-5, p38) is applied, it can be concluded that the central unit retains the powers of advice, choice, and authorisation. It decides if the tender should be done, advises on its preparation, authorises it when all the pieces are confirmed and controls its execution. The business units only control information and execution. They inform the centre about their needs, and they write all the paperwork.

*You see we are very much centralised procurement (case 4).* Indeed, the central procurement unit retains much of the decision process; formal power is concentrated in the upper reaches of the line hierarchy. Work intensive tasks, requiring low skills, are delegated to the bottom of the hierarchy. And all the strategic decisions are fully handled by the top hierarchy. As a result, the structure is centralised in the vertical dimension.

Even in the most developed business units, the centralisation of decision making prevails. The only difference is the higher number of hierarchic levels and a more detailed categorisation of the purchases. Each category is then handled by the appropriate level in the hierarchy.

### 5.3.2 Formalisation

The results show that accountability and transparency result into a rationalisation of the processes and the creation of rules and procedures. The procurement process itself becomes the centre of focus. Respect of rules and procedures is monitored and enforced. In other words, the work of the procurement group becomes rigid, standardised and formalised. It has no freedom to manage the budget, staff, workload or policies. It is a bureaucratic structure (Mintzberg, 1983).

### 5.3.3 Coordinating Mechanisms

Various coordinating mechanisms are used in public buying centres. Business units apply three main coordinating mechanisms:

- Standardisation of work processes for low cost purchases: the contents of the work are specified. Business units follow procedures and work on pre-defined tasks.
- Standardisation of outputs: tendering documents produced by business units have to follow pre-defined formats.
- Direct supervision for high cost purchases: the central unit takes responsibility for the work of the business units, issuing instructions to them and monitoring their actions.

Central procurement units follow two main coordinating mechanisms:

- Standing committees are used as liaison device between public organisation units for mutual adjustment. Middle management of various units meets to discuss issues of common interest, such as the specifications of tenders concerning all of them.
- Standardisation of work processes for interactions with private organisations. Central procurement units have to work within the rigid frameworks laid down under the EU directives.



Among these coordinating mechanisms, the high formalisation of work processes appears to be the primary driver of both business and central procurement units.

### 5.3.4 Structural Configuration

Public procurement’s organisation structure is characterised by centralised decision making, formalised procedures, proliferation of rules and regulations, standardisation of work processes and direct supervision. All these elements indicate (Section 2.3.3, p47) that the procurement function has adopted a machine bureaucracy organisation structure.

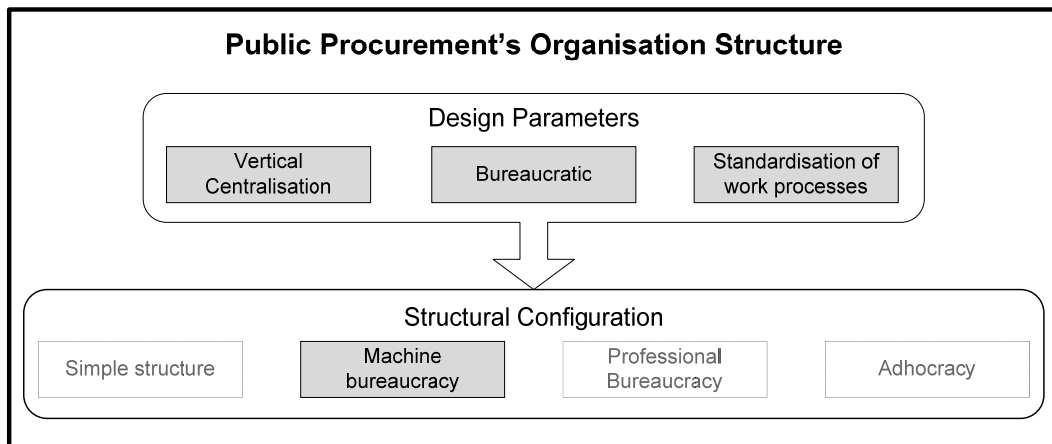


Figure 5-5: Public Procurement's Organisation structure

### 5.4 Public Buying Centre Position

It has been shown that public procurement adopts a machine bureaucracy structure but how does it impact job specialisation, behaviour formalisation, training and indoctrination in the buying centre (Section 2.3.1.4, p41)?

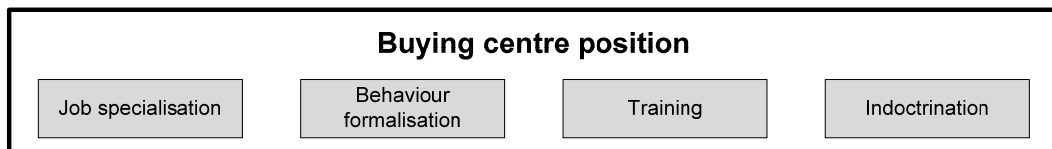


Figure 5-6: Generic Buying Centre Position

### 5.4.1 Job Specialisation

A distinction can be seen between business units and the central procurement units.

Central procurement units appear to perform three main tasks: (1) direct supervision of the business units to ensure procurement rules and procedures are applied, (2) incorporation of the directives and their standards down into the business units' manuals and procedures, (3) tendering the products and service at the core of the organisation activity in line with EU directives. All the time is spent on day-to-day administrative work. Central procurement units have no time to review or evaluate services provided. Market analysis and strategy differentiation are not yet part of standard practices for most public organisations. Instead of being pro-active, adapt to what happens in the world around and to react to the behaviour of other organisations, customers or suppliers (Ford, Gadde et al., 1999), the central procurement unit is struggling to keep the tendering process in line.

In business units process are standardised. Tasks are broken down into simple, repetitive tasks and set into manuals and procedures. The complexity and the amount of work involved in the process monopolise the whole attention of the procurement team. The buying centre is overwhelmed by processes. This over concentration on processes is amplified by its relative novelty. It has not been totally assimilated by the staff in place. The pressure is on respecting all the rules and regulations to avoid penalties. This leads to narrowly defined jobs, specialised both vertically and horizontally – and to an emphasis on the standardisation of work processes for coordination.

Thus, the vertical centralisation of the procurement results in a vertical job specialisation in the buying centre. All decision power has been removed.

### 5.4.2 Behaviour Formalisation

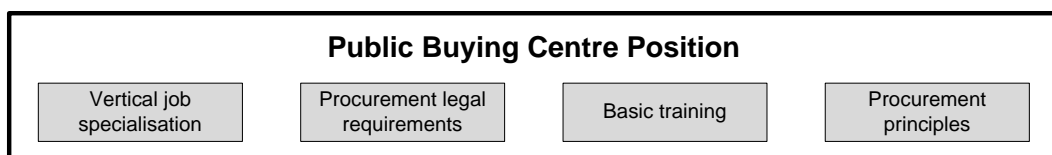
The results show that the public procurement legal requirements (EU directives) dictate the buying centre's behaviours. Formalisation removes any leeway in the selection of suppliers, in the management of contracts and in the development of strategies to manage suppliers. EU directives have to be applied and procurement managers have their hands tied.

Through formalisation, the public centre behaviour is regulated and the power over how the work is done passes from it to the people who design the regulations.

### 5.4.3 Training and Indoctrination

The job specialisation result into simple and repetitive operating tasks, generally requiring a minimum of skill and little training (Mintzberg, 1983). Indeed, it was seen that business units are non-specialists who receive only a basic training. Only the Head of Procurement in the central procurement unit is a trained and educated procurement specialist.

Procurement personal is indoctrinated with public procurement principles. Fairness, openness, and impartiality are values instilled in all their behaviours and actions.



**Figure 5-7: Public Buying Centre Position**

The development of strategic supplier management practices are limited by the rules and regulations, by the lack of expertise and the lack of resources. In other words, the procurement function becomes a clerical bureaucratic function.

## 5.5 Relationship Management in Irish Public Organisations

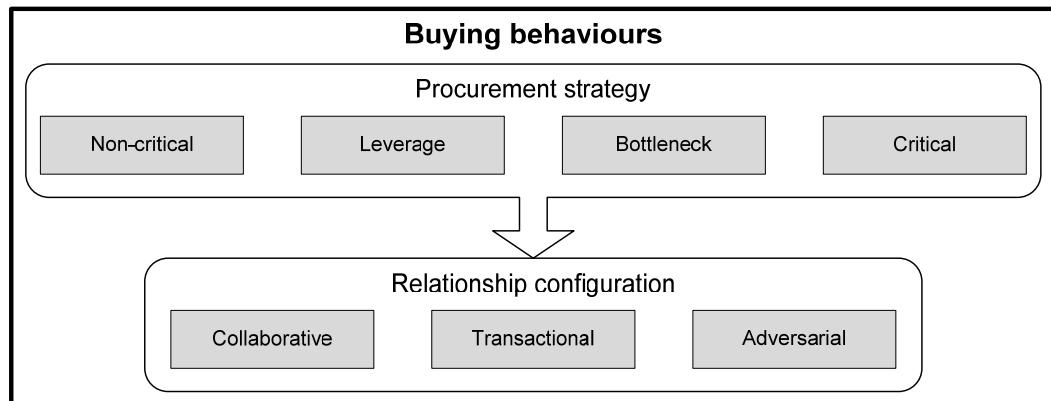


Figure 5-8: Generic Buying Behaviours

### 5.5.1 Procurement Strategy

Four different categories, non-critical, leverage, bottleneck and strategic items were identified (Kraljic, 1983). Buying centres were expected to select for each supplier a different purchasing strategy in function of the items' position on Kraljic's matrix (Figure 2-10, p55).

Nevertheless, it has been shown that strategic management practices are limited in public organisations. Buying centres prioritise the procedures over the management of suppliers. Rules and regulations prescribe interactions with suppliers and prevent co-operation between organisations. The relationship with suppliers is impeded and with it the long term perspective of the projects' management. In those conditions, the development of long-term supply relationships necessary to the management of critical items is not possible.

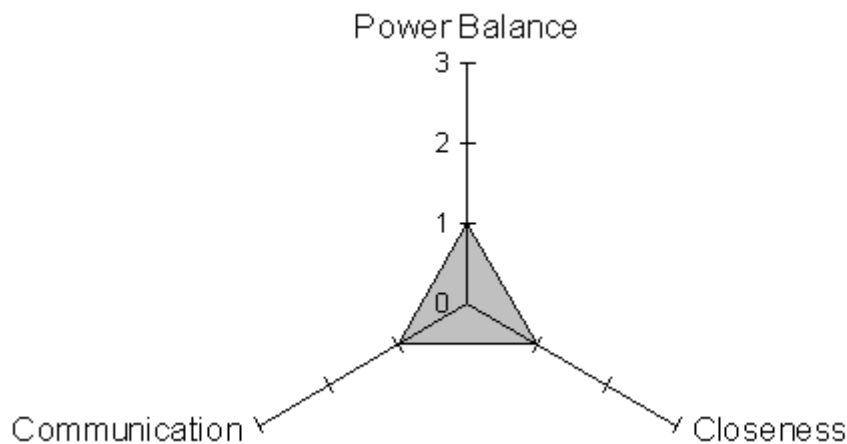
For leveraged items, it is recommended to exploit full purchasing power to obtain best prices and conditions. This is what attempts the tendering process by creating competition between the tenderers. Nevertheless, it has been said that it was not sufficient to obtain the best prices. The negotiation ban is a major disadvantage to exploit purchasing power. The same could be said about openness and fairness. Therefore, the legal requirements and

procurement principles are limiting factors for public buying centres to exploit their purchasing power.

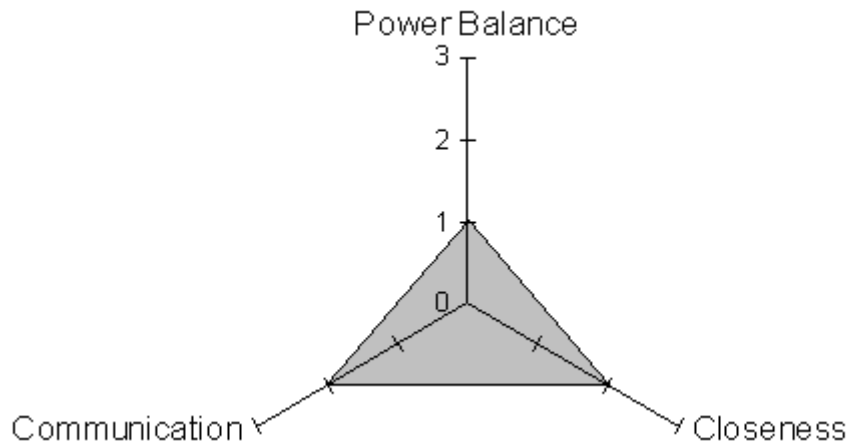
Moreover, the inability to develop collaborative and adversarial (buyer dominant) relationships, prevents public buying centre to manage appropriately the suppliers classified into the leverage or critical categories of the Kraljic's matrix (Figure 2-10, p55). This is particularly annoying as these two categories are those with high profit impact.

### 5.5.2 Relationship Configuration

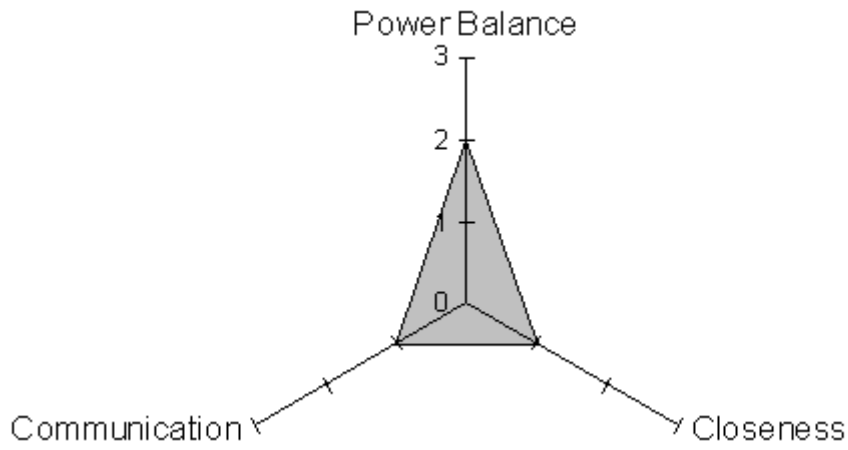
The study's results were presented using a thematic approach. For each theme, the data collected from all cases were grouped. However, if the same data are studied on a case by case basis, the following charts (Figure 5-9 to Figure 5-14) can be drawn to characterise the relationships of each case.



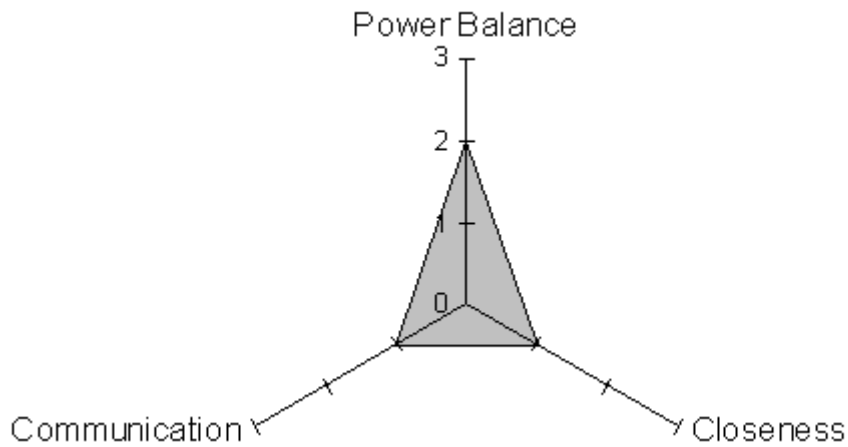
**Figure 5-9: Case 2 Relationship Characteristics Chart**



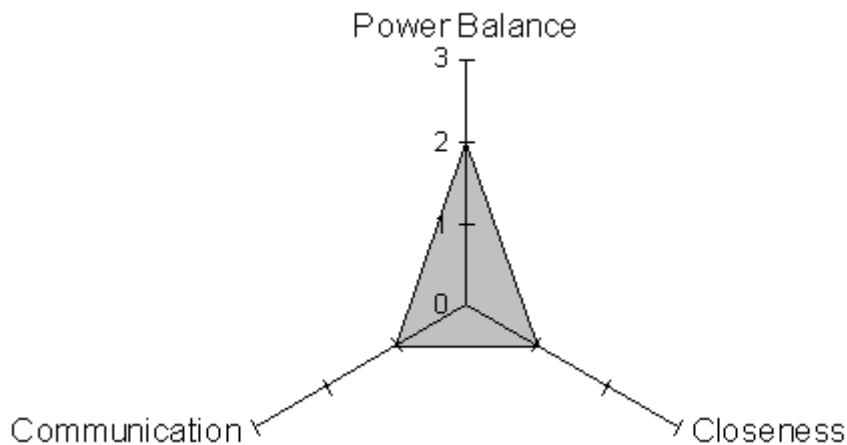
**Figure 5-10: Case 3 Relationship Characteristics Chart**



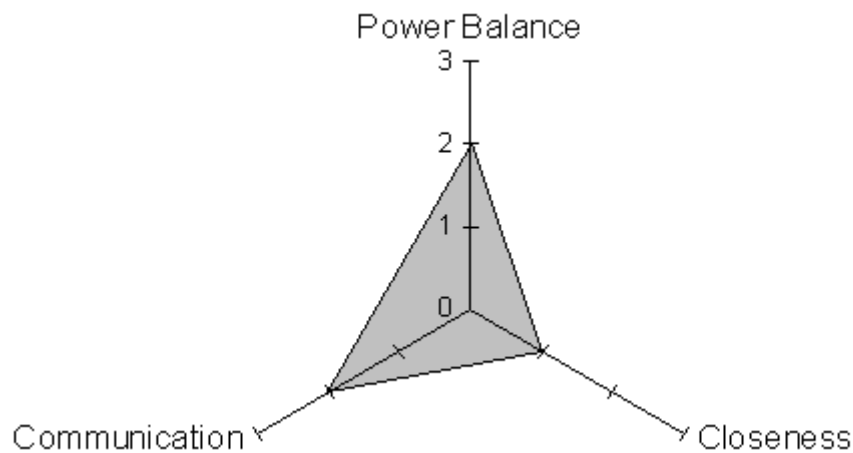
**Figure 5-11: Case 4 Relationship Characteristics Chart**



**Figure 5-12: Case 5 Relationship Characteristics Chart**



**Figure 5-13: Case 6 Relationship Characteristics Chart**



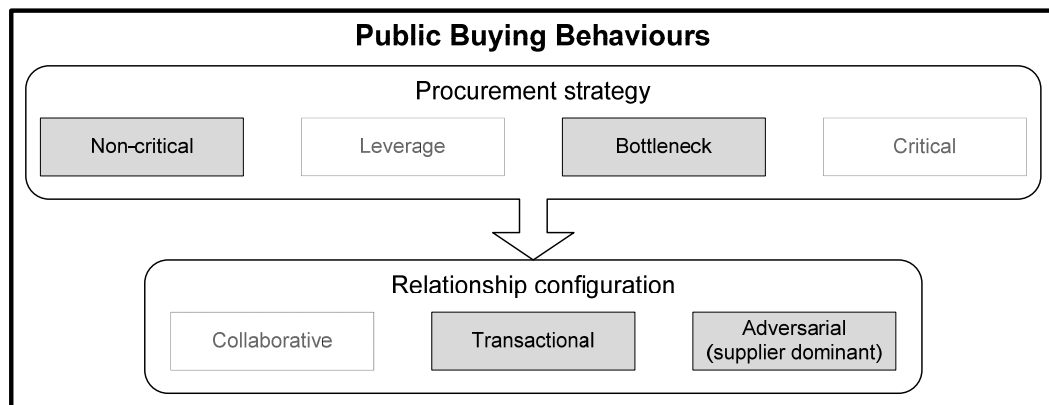
**Figure 5-14: Case 7 Relationship Characteristics Chart**

Generally, no relations can be developed with suppliers to get more out of the relationship. The supplier is not expected to provide any surplus value. The task of the procurement group is limited to the management of processes. A short term view is adopted instead of long term strategic planning. It implies that vendors are favoured over suppliers.

The buying centre cannot commit toward specific suppliers and it cannot build predictive, capability or intentionality trust. Only calculative trust is possible. Therefore, contracts have to be very specific and very detailed and lot of care is given to their writing. Contract rigidity prevents buying centres adapting to evolving environments. Any need not anticipated thus cannot be fulfilled.

Resources are kept apart and individual liabilities are emphasised. Autonomous communication strategy is the standard form of communication.

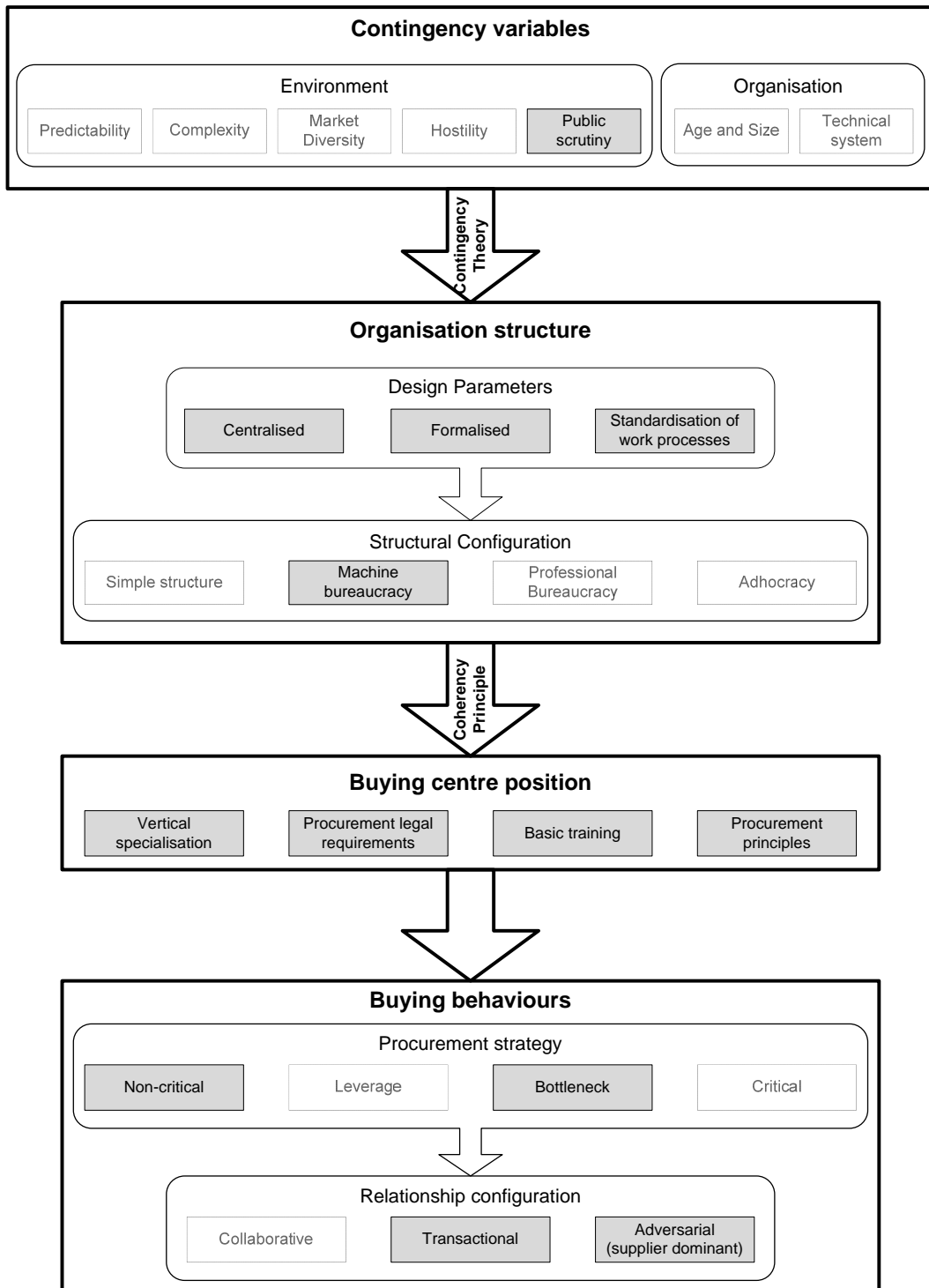
All of these elements prevent the creation of a collaborative relationship. Only transactional and adversarial relationships are possible depending on the power balance. Moreover, the buying centre is not in a position to exploit its purchasing power. Therefore, it cannot establish power dominance on its suppliers and initiate a buyer dominant adversarial relationship. The only two relationships available to buying centres are transactional relationships and supplier dominant adversarial relationships.



**Figure 5-15: Public Buying Behaviours**



### 5.6 Summary of Main Findings



**Figure 5-16: Public organisations' buying behaviours**

From the cases studied, it appears that public procurement managers are perfectly aware of the possible advantages (and disadvantages) that a

collaborative relationship may bring. Numerous examples were given during the interviews and quoted in this study.

Nevertheless, the public scrutinises procurement decisions. It requests transparent processes and holds accountable the procurement executives who carry out these transactions. Transparency and accountability both formalise and centralise the public procurement function. This results in an aversion to risk and impedes decision making by the buyers themselves.

Constrained to follow procedures and overwhelmed by daily processing tasks, procurement groups have neither the leeway to take initiatives nor the time and the hindsight to plan long term strategies. In other words, the procurement function becomes a clerical bureaucratic function.

In turn, formalisation and centralisation prevent the formation of close relationships. Indeed, interaction and co-operation are not allowed. Trust and commitment cannot develop. There is seen to be little or no discussion with suppliers. Buyers are seen to be tied up in paperwork. They are unable to use current practices in procurement and seem to have an inability to negotiate with suppliers. Negotiation is frowned upon, co-operation or partnership with suppliers ruled out. In other words, formalisation and centralisation result into arm length, transactional relationships. It appears that legislation heartily favours vendors and that suppliers are mistrusted.

Of course, a collaborative relationship is not desirable in all circumstances. Nevertheless, the issue is that a perfect observance of public procurement's rules and principles appears to lead to a transactional relationship even if procurement managers would prefer a collaborative relationship. In contrast, the studied private organisation's approach to relationships is the one typically described in the B2B literature. The procurement group has the flexibility to adapt its strategies to encountered situations and collaborations are favoured for the exchanges with critical suppliers.

## **Chapter Six      Conclusion and Implications**

---

### **6.1 A Recapitulation**

This study started out from the observation that public organisations in the European Union (EU) rely on contractual governance to manage the relation with their suppliers. Contractual governance improves transparency and competition in price and prevents political interference. On the other hand, relational governance as described by the IMP group for private organisations, allows coordination of activities, allocation of tasks and sharing of resources between two organisations. More effective working conditions create some surplus value that the organisations can share. Therefore, the choice of governance is strategic. The issue was to determine if developing relational governance is workable for public organisation as it is in private organisation.

Firstly, the study defined the notion of relationship between organisations. Relationships can be characterised using five main categories of parameters: links, communication, power, atmosphere and dynamics. In particular, parameters of the links, communication and power categories have been shown to be related. They form three extreme configurations named adversarial, transactional and collaborative relationships (Table 2-4, p14). These three configurations are particularly well adapted to the four distinctive purchasing approach recommended by Kraljic for strategic procurement (Figure 2-11, p56). Buyers and purchasing executives determine each supply's position in the matrix and apply the appropriate strategy and the matching relationship. The purchasing group manages transactional and adversarial relationships and channel through collaborative relationships towards concerned departments (Figure 2-13, p57).

Secondly, the study analysed Irish public procurement to isolate any possible particularities that could influence public-private relationships. Public procurement is dominated by the public procurement principles (equal treatment, transparency, proportionality and mutual recognition) and the public procurement legal requirements issued from EU treaties, EU directives and Irish Government guidelines. The requirements impose legal obligations on public bodies in regard to advertising in the Official Journal of the European Union (OJEU) and the use of objective tendering procedures for contracts above certain value thresholds. Following EU directives, procurement is a complex process. A flow diagram adapted from Procurement Innovation Group (2009a) is given in Figure 2-2 (p30). The analysis of public procurement has shown that public and private organisations own complementary resources suitable for cooperation. Yet, public procurement is dominated by rules and regulations. Even if rigid contractual conditions are not ideal to initiate a collaborative relationship and develop bond and trust, collaborative relationships should be possible post-tenders. However, the first set of data gathered was showing that the public organisation structure might be an issue to such relationships.

Thus, organisational buying behaviour was studied and Webster's approach (1972) was adopted. Organisational buying behaviours (Figure 2-4, p37) depend on the buying centre position, the organisation structure and the environment. The environment is traditionally described by the contingency variables: predictability, complexity, market diversity, hostility and external control. The age, size and technical system of the organisation are further contingency variables. The organisation structure (Mintzberg, 1983) is characterised by its centralisation, formalisation and coordinating mechanisms. From these three parameters, four different structural configurations were identified: simple structure, machine bureaucracy, professional bureaucracy and adhocracy. The contingency theory holds that the each contingency variable pushes and pulls the organisation toward one

of the four configurations. The organisation structure is the result of all their influences.

According to the coherency principle, the buying centre should reflect the overall organisation configuration and strategy through jobs specialisation, behaviours formalisation, training and indoctrination. Overall, the hierarchic influence in organisational buying behaviour is represented in Figure 2-17 (p63).

The organisational buying behaviour model (Figure 2-4, p37) indicates that the organisation structure may dictate the operating mode of the buying centre and its subsequent relationship with suppliers. Therefore this model disagrees with the strategic purchasing model used in the B2B literature (Figure 2-13, p57). A new model (Figure 2-18, p66) was developed to bring both approaches together. The buying centre and selling centre are integrated into the organisation to mark they dependence on the organisation structure. The relationship is the result of influences from contingency variables, organisations' structure and centres' position. What happens inside each organisation can be further detailed (Figure 2-19, p67) by integrating into the organisational buying behaviour model (Figure 2-17, p63) the strategic approach to supply from the B2B research (Figure 2-11, p56). In this new integrated model, the environment and organisation influences on the buying centre result into a limitation of the available procurement strategies. Both the purchasing model of the B2B literature and the public procurement model can be represented. This model was tested through the study of seven cases (Table 3-1, p77) selected through purposive sampling. Machine bureaucracy structures were preferentially selected in order to analysis the influence of the formalisation and centralisation on the buying behaviours.

## **6.2 Relationship of Results to Research Questions and Theory**

The general objectives of this study as stated in the beginning were firstly to identify the particular constraints on relationship building between public and private sector organisations, and secondly to assess whether or not these constraints make standard efficient management practices inapplicable to the public service. The specific research questions were:

### **6.2.1 Question 1 - What are the important factors of a buyer-supplier relationship building process?**

The results obtained from the private case study are in good agreement with the literature. Links, communication and power are main characteristics of the relationship. Private organisations adapt their purchase strategies and their relationships with suppliers in function of the supplies purchased. For critical purchases, private organisation attempts to develop collaborative relationships characterised by their closeness, collaborative communication strategy, intimacy and balance of power.

### **6.2.2 Question 2 - What are the constraints (contingency variables), both internal and external, on procurement in the Irish public sector?**

The main constraint identified on procurement in the Irish public sector is the public scrutiny of decisions (Figure 5-3, p133). This scrutiny enforces accountability and transparency on all the purchases and result in:

- Multiplication of documents for ultra-traceability and safeguard.
- Culture of risk avoidance.
- Open, fair and impartial procurement processes.

### **6.2.3 Question 3 - What is the Irish public procurement organisation structure?**

Accountability and transparency impose a formalisation of procurement processes through rules and regulations (EU directives) and a vertical centralisation of decision making. Coordination is achieved predominantly through standardisation of the work processes. The organisation is obsessed with process' control. Respect of rules and procedures is monitored and enforced. Therefore, the Irish public procurement organisation presents all the characteristics of a machine bureaucracy (Figure 5-5, p137).

### **6.2.4 Question 4 - What is the buying centre position and how does it affects the management of procurement?**

The buying centre's tasks are narrowly defined and broken down into simple, repetitive tasks. All decision power has been removed and the time is spent on day-to-day administrative work without considering strategic issues. In other words, jobs are vertically and horizontally specialised. Behaviours are standardised through the procurement legal requirements. Irish public buying centres have no leeway in the selection of suppliers, in the management of contracts and in the development of strategies to manage suppliers. They are manned by non-specialists lightly trained and indoctrinated with the procurement principles (Figure 5-7, p139).

### **6.2.5 Question 5 - How are buyer-supplier relationships currently handled at executive level in the Irish public sector?**

Formalisation, centralisation, lack of competencies and indoctrination all contribute to limitations into the strategic management of suppliers. Public buying centres cannot develop collaborative relationships or adversarial (buyer dominant) relationships. Then, critical and leveraged approaches are not possible. Irish public buying centres can only follow

transactional approaches or be submitted to bottleneck approaches (Figure 5-15, p144).

### **6.2.6 Question 6 - What can be concluded as to the applicability of private sector based organisation practices to the Irish public sector?**

Public procurement managers are perfectly aware of the possible advantages (and disadvantages) that a collaborative relationship may bring. Nevertheless, it was shown that the public scrutiny of decisions activate a chain of reactions (Figure 5-16, p145). It generates accountability and transparency which result in centralisation and formalisation of the procurement structure. Constrained to follow procedures and overwhelmed by daily processing tasks, procurement groups have neither the leeway to take initiatives nor the time and the hindsight to plan long term strategies. In other words, public buying centres are unable to use current practices in procurement. The procurement function becomes a clerical bureaucratic function which favours vendors and mistrusts suppliers.

### **6.3 Implications for Practice and Recommendations**

It has been said that EU directives are to give suppliers and contractors across Europe an equal chance of competing for and winning business. As such public organisations are required to use procurement procedures that are open and fair. And it is true that the European Union has been seen to deliver some Benefits / Opportunities, these include (Davis, 2004):

- Opening up bigger markets that may have been closed in the past
- Creating a greater Opportunity to win business right across Europe
- Providing buyers with a wider choice of goods and services
- Encouraging competition in price, quality and service
- Helping to prevent political interference



Nevertheless, EU directives limit the strategic choices available to procurement executives. Rigid regulations and rules to ensure financial probity and competitive tendering have centralised and formalised the buying centres. It turned them into a machine bureaucracy averse to risk and thus restricted the development of closer supply relations. Constrained to transactional relationships, public organisations lose possibilities, such as increased access to resources and information, reduced transaction costs, improved co-operative actions, and adaptability to quickly evolving environments, offered by collaborative relationships. This suggests that there are advantages and disadvantages to EU directives and the procurement outcome depends on the circumstances. Several recommendations can be given to achieve a better balance between transparency, formalisation, centralisation and the development of relationships with private suppliers in order to realise the benefits of the collaboration and guard against negative outcome.

Firstly, accountability and the associated regulatory procedures need to be reviewed to return some decision power to procurement executives and reduce centralisation. It should allow buying centres to move toward professional bureaucracy structures. Thus, public buying centres should operate more freely and have the opportunity to manage suppliers strategically.

Secondly, the establishment of professional bureaucratic structure requires the presence of highly trained and skilled professionals. Therefore, the skills and expertise of procurement staff need to be enhanced, with training and career development programs. They should be able to overcome the complexity of supply chain management and deal effectively with suppliers, create flexible contracts, ensure financial probity and operate within a strict regulatory environment.

## **6.4 Critical Remarks**

Despite the contributions the research has made, a few critical comments should be raised.

### **6.4.1 Conceptualisation of Relationship**

First of all, a limitation arises as a result from having collected data only on the side of the public buying organisation. Although the interviewees were asked to illustrate their talk with examples, the private suppliers themselves have not been involved in data collection. Consequently, the presented patterns of interaction represent the buying public organisations' views of public-private relationships.

When designing the study, a trade-off had to be made between basing the study on one-sided data collection, thereby enabling the study of more cases, and involving private suppliers, resulting in a limited number of cases to be studied. Involving private suppliers in the study was expected to complicate the identification of patterns. Indeed, private suppliers have certainly constructed their own interpretation of the public organisations buying behaviours. While their interpretations may provide interesting ideas and concepts, as any interpretation they are not fully reliable and objective. It was therefore preferred to have more cases rather than a limited number of cases based on two-sided data collection.

However, it remains to be seen how the private suppliers view the relationships that now have been mapped. Do they perceive these relationships differently, and if so, in what way? Do they perceive opportunities for further improving the relationship? Including the private supplier in future data collection efforts may result in additional insights regarding the public buyer's behaviour.

### **6.4.2 Determination of the Public Procurement Organisation Structure**

The public procurement organisation structure was determined from the information collected in the literature and the buying centres studied. While these sources shed light on the structure and provided very useful data, the inclusion of a case study of the National Public Procurement Policy Unit (NPPPU) would have strengthened the analysis. The NPPPU is responsible for procurement policy, national procurement guidelines, EU directives and the Government Contracts Committee. It is the unit directly responsible for the Irish public procurement structure. Eventually, the study could also have been pushed up to the European Commission as it is at the origin of the EU directives.

### **6.5 Implications for Further Research**

The integrated model of buying behaviour was only tested in organisations applying a machine bureaucracy structure. Further studies should pursue the research into the other forms of organisation structure and test the model applicability to simple structures, professional bureaucracies and adhocracies.

Future research could also address the limitations of this present study, which is solely based on qualitative data. Some quantitative analysis could test the validity, reliability and objectivity of the results.

### **6.6 Concluding Remark**

While the study concentrated on public-private relationships, it might be possible to extend the developed model of organisation buying behaviour to B2B relationships. The type of organisation structure used by both private organisations may determine the type of relationship possible. In particular, procurement managers should be advised against attempting to develop a collaborative relationship with highly centralised and formalised

organisations, even if the supplied items belong to the critical category. Instead, the buying centre should work toward moving the items classification toward the leverage category by locating or developing alternative sources of supply and maybe even starting in-house production if no alternative is available.

## References

---

- Ancarania, A., G. Capaldob, M. Raffab and G. Zollob (2003). Competencies management in integrated services procurement process in public organisations: a methodological approach. 12th International IPSERA Conference, Budapest.
- Anderson, J. and J. Narus (1990). "A model of distributor firm and manufacturer firm working partnership." Journal of Marketing **54**: 42-58.
- Attridge, M., E. Berscheid and S. Sprecher (1998). "Dependency and insecurity in romantic relationships: Development and validation of two companion scales." Personal Relationships **5**(1): 31-58.
- Barretta, A. and P. Ruggiero (2008). "Ex-ante evaluation of PFIs within the Italian health-care sector: What is the basis for this PPP?" Health Policy **88**(1): 15-24.
- Bing, L., A. Akintoye, P. J. Edwards and C. Hardcastle (2005). "Critical success factors for PPP/PFI projects in the UK construction industry." Construction Management & Economics **23**(5): 459-471.
- Bovis, C. (2009). "The Effects of the Principles of Transparency and Accountability on Public Procurement and Public-Private Partnerships Regulation." European Public Private Partnership Law Review **4**(1): 7-25.
- Bryman, A. (2004). Social Research Methods, Oxford University Press.
- Cao, M., M. A. Vonderembse, Q. Zhang and T. S. Ragu-Nathan (2010). "Supply chain collaboration: conceptualisation and instrument development." International Journal of Production Research **48**(22): 6613-6635.
- Cavinato, J. L. (1992). "Evolving Procurement Organizations: Logistics Implications." Journal of Business Logistics **13**(1): 27-45.
- Charmaz, K. (2006). Constructing Grounded Theory. A Practical Guide Through Qualitative Analysis, Sage Publications.
- Chew, I. K. H. and C. Lim (1995). "A Confucian perspective on conflict resolution." International Journal of Human Resource Management **6**(1): 143-157.
- Chow, G., L. E. Henriksson and T. D. Heaver (1995). "Strategy, structure and performance: a framework for logistics research." The Logistics and Transportation Review **31**(4): 285 - 308.
- Clifton, C. and C. F. Duffield (2006). "Improved PFI/PPP service outcomes through the integration of Alliance principles." International Journal of Project Management **24**(7): 573-586.
- Corbin, J. and A. Strauss (1990). "Grounded Theory Research: Procedures, Canons, and Evaluative Criteria." Qualitative Sociology **13**(1): 3.
- Corey, E. R. (1978). "Should companies centralize procurement?" Harvard Business Review **56**(6): 102-110.
- Cox, A., G. Watson, C. Lonsdale and R. Farmery (2003). Developing supplier relationships - The problem of achieving collaboration in supplier dominance relationships. 12th International IPSERA Conference.
- Crotty, M. (2004). The foundations of social research : meaning and perspective in the research process, London : SAGE.

- Crowley, C., R. Harré and C. Tagg (2002). Qualitative research and computing: methodological issues and practices in using QSR NVivo and NUD\*IST. International Journal of Social Research Methodology: 193-197.
- Davis, P. (2004). Public Sector Procurement, Irish Institute of Purchasing and Materials Management.
- Doney, P. and J. Cannon (1997). "An examination of the nature of trust in buyer-seller relationships." Journal of Marketing **61**: 35-51.
- Dwyer, F. R., P. H. Schurr and S. Oh (1987). "Developing Buyer-Seller Relationships." Journal of Marketing **51**(2): 11-27.
- Dyer, J. H. (1996). "Specialized supplier networks as a source of competitive advantage: Evidence from the auto industry." Strategic Management Journal **17**(4): 271-291.
- Eaton, D., R. Akbiyikli and M. Dickinson (2006). "An evaluation of the stimulants and impediments to innovation within PFI/PPP projects." Construction Innovation **6**(2): 63-77.
- Enterprise Ireland (2006). Guide to Tendering for Public Sector Contracts in Ireland and UK.
- Erlanson, D. A., E. L. Harris, B. L. Skipper and S. D. Allen (1993). Doing naturalistic inquiry: A guide to methods. Newbury Park, Sage Publications.
- Fey, C. F. and P. W. Beamish (1999). "Strategies for managing Russian international joint venture conflict." European Management Journal **17**(1): 99-106.
- Fey, C. F. and P. W. Beamish (2000). "Joint venture conflict: the case of Russian international joint ventures." International Business Review **9**(2): 139-162.
- Ford, D., L.-E. Gadde, H. Hakansson, A. Lundgren, A. Snehota, P. Turnbull and D. Wilson, Eds. (1999). Managing Business Relationships. Chichester, John Wiley & Sons.
- Ford, D. and R. McDowell (1999). "Managing Business Relationships by Analyzing the effects and value of different actions." Industrial Marketing Management **28**: 429-442.
- Frazier, G. L., R. Spekman and C. R. O'Neal (1988). "Just-In-Time Exchange relationships in Industrial Markets." Journal of Marketing **52**(October): 52-67.
- Gephart Jr, R. P. (2004). Qualitative Research and the Academy of Management Journal. Academy of Management Journal: 454-462.
- Geyskens, I., J.-B. E. M. Steenkamp and N. Kumar (1998). "Generalizations about trust in marketing channel relationships using meta analysis." International Journal of Research in Marketing **15**: 223-248.
- Grant, R. M. and C. Baden-Fuller (2004). "A Knowledge Accessing Theory of Strategic Alliances." Journal of Management Studies **41**: 61-84.
- Grimsey, D. and M. K. Lewis (2004). "The Governance of Contractual Relationships in Public-Private Partnerships." Journal of Corporate Citizenship(15): 91-109.
- Grimsey, D. and M. K. Lewis (2005). "Are Public Private Partnerships value for money?: Evaluating alternative approaches and comparing academic and practitioner views." Accounting Forum **29**(4): 345-378.
- Gummesson, E. (2001). "Are current research approaches in marketing leading us astray?" Marketing Theory **1**(1): 27-48.

- Hallen, L., J. Johanson and N. Seyed-Mohamed (1991). "Interfirm adaptation in business relationships." Journal of Marketing **55**(2): 29.
- Harris, S. and M. R. Dibben (1999). "Trust and Co-operation in Business Relationship Development: Exploring the Influence of National Values." Journal of Marketing Management **15**: 463-483.
- Harrison, R. T., M. R. Dibben and C. M. Mason (1997). "The Role of Trust in the Informal Investor's Investment Decision: An Exploratory Analysis." Entrepreneurship Theory and Practice: 63-81.
- HM Treasury (2003). PFI: Meeting the investment challenge. HM Treasury, Crown.
- IT Business Services Unit (2006). Corporate procurement plan. department of Enterprise, Trade and Employment,.
- Jap, S. and S. Ganesan (2000). "Control mechanisms and the relationship life cycle - implications for safeguarding specific investments and developing commitment." Journal of Marketing Research **37**: 227-245.
- Jap, S. D. and E. Anderson (2007). "Testing a Life-Cycle Theory of Cooperative Interorganizational Relationships: Movement Across Stages and Performance." Management Science **53**(2): 260-275.
- Johnsen, R. E., R. Angeli Arab and T. Johnsen (2003). Outsourcing relationship development and management - The role of commitment, trust and culture. 12th International IPSERA Conference.
- Johnsen, R. E. and D. Ford (2001). Asymmetrical and symmetrical customer-supplier relationships: a typology. The 10th International Annual IPSERA Conference.
- Johnson, P. F. and M. R. Leenders (2001). "The Supply Organizational Structure Dilemma." The Journal of Supply Chain Management **37**(3): 4-11.
- Johnson, P. F. and M. R. Leenders (2004). "Implementing organizational change in supply towards decentralization." Journal of Purchasing & Supply Management **10**(4/5): 191-200.
- Johnson, P. F. and M. R. Leenders (2006). "A longitudinal study of supply organizational change." Journal of Purchasing and Supply Management **12**(6): 332-342.
- Johnston, L. (2006). "Software and Method: Reflections on Teaching and Using QSR NVivo in Doctoral Research." International Journal of Social Research Methodology **9**(5): 379-391.
- Johnston, R. and G. Clark (2005). Service operations management Person Education Limited.
- Johnston, W. J. and T. V. Bonoma (1981). "The Buying Center: Structure and Interaction Patterns." Journal of Marketing **45**(3): 143-156.
- Kamann, D.-J. F. (2007). "Organizational design in public procurement: A stakeholder approach." Journal of Purchasing and Supply Management **13**(2): 127-136.
- Kehoe, I. and J. Burke (2009). PPPs under siege on both sides. The Sunday Business Post. **24 May 2009**.
- Kraljic, P. (1983). "Purchasing must become supply management." Harvard Business Review **61**(5): 109-117.

- Laios, L. and E. Xideas (1994). "An Empirical Investigation of Institutional and Industrial Purchasing Structure." European Journal of Marketing **28**(4): 20-38.
- Lamming, R., N. Caldwell, D. Harrison and W. Phillips (2001). Transparency in supply relationships - concept and practice. The 10th International Annual IPSERA Conference.
- Lau, G.-T., M. Goh and S. L. Phua (1999). "Purchase-Related Factors and Buying Center Structure: An Empirical Assessment." Industrial Marketing Management **28**(6): 573-587.
- Lawther, W. C. and L. L. Martin (2005). Public procurement partnerships. P. Press: 151-177.
- Lewin, J. E. (2001). "The Effects of Downsizing on Organizational Buying Behavior: An Empirical Investigation." Journal of the Academy of Marketing Science **29**(2): 151.
- Lewin, J. E. and N. Donthu (2005). "The influence of purchase situation on buying center structure and involvement: a select meta-analysis of organizational buying behavior research." Journal of Business Research **58**(10): 1381-1390.
- Lin, X. and R. Germain (1998). "Sustaining Satisfactory Joint Venture Relationships: The Role of Conflict Resolution Strategy." Journal of International Business Studies **29**(1): 179-196.
- Mayer, R. C., J. H. Davis and F. D. SCHOORMAN (1995). "An integrative model of organizational trust." Academy of Management Review **20**(3): 709-734.
- McCabe, D. L. (1987). "Buying Group Structure: Constriction at the Top." The Journal of Marketing **51**(4): 89-98.
- Miller, D. (1982). "Evolution and Revolution: A Quantum View of Structural Change in Organizations." Journal of Management Studies **19**(2): 131-151.
- Mintzberg, H. (1983). Structure in Fives - Designing effective organizations, Prentice-Hall Inc., Englewood Cliffs, New Jersey.
- Mohr, J. and J. R. Nevin (1990). "Communication Strategies in Marketing Channels: A Theoretical Perspective." Journal of Marketing **54**(4): 36-51.
- Mohr, J. and R. Spekman (1994). "Characteritics of partnership success - partnership attributes, communication behavior and conflict resolution techniques." Strategic Management Journal **15**(2): 135-152.
- Murray, S. L., P. C. Ellsworth, J. G. Holmes and G. MacDonald (1998). "Through the Looking Glass Darkly? When Self-Doubts Turn Into Relationship Insecurities." Journal of Personality & Social Psychology **75**(6): 1459-1480.
- National Audit Office (2001). Managing the relationship to secure a successful partnership in PFI projects, NAO.
- National Public Procurement Policy Unit (2009). Public procurement guidelines - competitive process. Department of Finance.
- Office of Government Commerce (2003). Effective Partnering. Office of Government Commerce.
- Office of Government Commerce (2007). The OGC Gateway Process: A manager's checklist.



- Patterson, T. T., Ed. (1969). Management Theory, London: Business Publications Ltd.
- Pfohl, H.-C. and W. Zollner (1987). "Organization for logistics: the contingency approach." International Journal of Physical Distribution & Logistics Management **17**(1): 3 - 16.
- Pratt, M. G. (2009). "For the lack of a boilerplate: tips on writing up (and reviewing) qualitative research." Academy of Management Journal **52**(5): 856-862.
- Procurement Innovation Group (2009a). Buying innovation 10 steps guide. Department of Enterprise, Trade and Employment,.
- Procurement Innovation Group (2009b). Using public procurement to stimulate innovation and SME access to public contracts. Department of Enterprise, Trade and Employment,.
- Rae, D. (2007). "Procurement vs purchasing: What is in a name?" Retrieved May 25, 2010, from <http://blog.procurementleaders.com/procurement-blog/2007/1/17/procurement-vs-purchasing-what-is-in-a-name.html>.
- Rangan, S., R. Samii and L. N. Van Wassenhove (2006). "Constructive partnerships: when alliances between private firms and public actors can enable creative startegies." Academy of Management Review **31**(3): 738-751.
- Richards, T. (2002). "An intellectual history of NUD\*IST and NVivo." International Journal of Social Research Methodology **5**(3): 199-214.
- Ring, P. S. and A. H. Van De Ven (1994). "Developmental processes of cooperative interorganizational relationships." Academy of Management Review **19**(1): 90-118.
- Robson, M., S. Spyropoulou and A. B. K. Al-Khalifa (2006). "Anxiety of dependency in international joint ventures - An empirical study of drivers and consequences of relationship insecurity." Industrial Marketing Management **35**: 556-566.
- Rozemeijer, F. A., A. Weele and M. Weggeman (2003). "Creating Corporate Advantage through Purchasing: Toward a Contingency Model." The Journal of Supply Chain Management **39**(1): 4-13.
- Saunders, M., P. Lewis and A. Thornhill (2007). Research Methods for Business Students, Pearson education.
- Sawyer, M. (2005). "The private finance initiative: the uk experience." Research in Transportation Economics **15**: 231-245.
- Selnes, F. (1998). "Antecedents and consequences of trust and satisfaction in buyer-seller relationships." European Journal of Marketing **32**(3/4): 305-322.
- Shaoul, J. (2005). "A critical financial analysis of the Private Finance Initiative: selecting a financing method or allocating economic wealth?" Critical Perspectives on Accounting **16**(4): 441-471.
- Smyth, H. and A. Edkins (2007). "Relationship management in the management of PFI/PPP projects in the UK." International Journal of Project Management **25**(3): 232-240.
- Spackman, M. (2002). "Public-private partnerships: lessons from the British approach." Economic Systems **26**(3): 283-301.

- Spekman, R. E. and L. W. Stern (1979). "Environmental Uncertainty and Buying Group Structure: An Empirical Investigation." Journal of Marketing **43**(2): 54-64.
- Stanko, M., J. Bonner and R. Calantone (2006). "Building commitment in buyer-seller relationships - A tie strength perspective." Industrial Marketing Management.
- Steane, P. D. and D. H. T. Walker (2000). "Competitive tendering and contracting public sector services in Australia – a facilities management issue." Facilities **18**(5/6): 245 - 255.
- The European Parliament and the Council of the European Union (2004). "Directive 2004/18/EC of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts." Official Journal of the European Union(134): 114 - 240.
- Trent, R. J. (2004). "The Use of Organizational Design Features in Purchasing and Supply Management." The Journal of Supply Chain Management **40**(3): 4-18.
- Voss, C., N. Tsikriktsis and M. Frohlich (2002). "Case research in operations management." International Journal of Operations & Production Management **22**(2): 195-219.
- Waara, F. (2008). "Mitigating contractual hazards in public procurement: a study of Swedish local authorities." Construction Management & Economics **26**(2): 137-145.
- Warner, M., N. Gelinas, J. Donahue, E. Sclar, L. Gilroy, S. Tadelis and T. Brown. (2011). "Is privatisation a bad deal for Cities and States." The New York Times, from <http://www.nytimes.com/roomfordebate/2011/04/03/is-privatization-a-bad-deal-for-cities-and-states?hp>.
- Webster Jr, F. E. and Y. Wind (1972). "A General Model for Understanding Organizational Buying Behavior." Journal of Marketing **36**(2): 12-19.
- White, G. O., J. R. W. Joplin and M. F. Salama (2007). "Contracts and conflict resolution strategies in foreign ventures: a transaction cost perspective." International Journal of Conflict Management (2004-current) **18**(4): 376-390.
- White Iii, G. O., J. R. W. Joplin and M. F. Salama (2007). "Contracts and conflict resolution strategies in foreign ventures: a transaction cost perspective." International Journal of Conflict Management (2004-current) **18**(4): 376-390.
- Wood, J. A. (2005). "Organizational configuration as an antecedent to buying centers' size and structure." Journal of Business & Industrial Marketing **20**(6): 263–275.
- Zheng, J., J. K. Roehrich and M. A. Lewis (2008). "The dynamics of contractual and relational governance: Evidence from long-term public-private procurement arrangements." Journal of Purchasing and Supply Management **14**(1): 43-54.

## **Appendix A                      Searching and Selecting Publications**

---

A critical analysis was used to select publications included in the literature review. This was done in three phases: (1) preliminary appraisal, (2) content analysis and (3) synthesis of the information.

In Phase 1, the preliminary appraisal, information relevant to the study was collected from as many different sources as possible. This was conducted using Business Source Premier, Emerald, and the Journal Storage (JSTOR) databases. International Purchasing and Supply Education and Research Association (IPSEEA) conference proceedings were also searched. The selection process was in two stages. The first involved using database search engines to identify articles with various search terms (Table A-1) in the title or the abstract. The second stage involved analysing the abstracts of the selected documents to determine their relevance to the themes. Two criteria were used: year of publication and the number of times the article was referenced by other articles, to narrow the relevance. Further weight was given to recent articles and to highly referenced articles.

In Phase 2, content analysis, the works selected in Phase 1 were read and summarised. Relevant references provided in these works were sourced and added to the pool of documents of Phase 1.

In Phase 3, the information collected was synthesised, and emerging themes were identified. Summaries of the articles and publications were sorted into corresponding categories. The emerging themes were then used as seeds for further searches on the databases search engines, and relevant works were added to the pool of documents in Phase 1. This process was pursued until saturation of the information gathered; where no new themes or ideas were uncovered from the works studied. An example of search terms is given in Table A-1 for the B2B literature.

**Table A-1: List of Main B2B Search Terms**

<b>Original Search</b>		<b>Emerging Themes</b>	
Relationship	Alliance	Trust	Communication
Joint-venture	B2B	Participation	Dependence
Buyer and Supplier	Public Procurement	Cooperation	Conflict
PPP	Private and Public	Commitment	Satisfaction
Customer Service	B2C	Insecurity	Power

## **Appendix B                      Tendering Procedure Selection**

---

### ***B.1 Open Procedure***

In the open procedure, any and every supplier, meeting the minimum financial, economic and technical standards set by the organisation and wishing to participate in a tender process is entitled to receive tender documents and to submit a tender. No negotiation is allowed between the tenderers and the public organisation (National Public Procurement Policy Unit, 2009).

### ***B.2 Restricted Procedure***

In the restricted procedure, only the few organisations selected by the public organisations can submit a tender. Therefore, this is a two-stage process (National Public Procurement Policy Unit, 2009).

- First, the interested organisations submit the required information with respect to their professional or technical capability, experience, expertise and financial capacity to carry out the project. The potential tenderers are then selected according to the advertised selection criteria.
- Then, only those selected organisations receive the tender documents and are invited to submit tenders.

### ***B.3 Competitive Dialogue Procedure***

The competitive dialogue procedure was introduced in the revised 2004 Directives (The European Parliament and the Council of the European Union, 2004), designed to provide more flexibility in the tendering process for more complex contracts, for example public private partnerships (PPPs). Contracting organisations must advertise their requirements and enter dialogue with interested organisations, (pre – qualified on the same basis as for restricted procedure). Through the process of dialogue with a range of candidates, a contracting organisation may identify arrangements or

solutions which meet its requirements (National Public Procurement Policy Unit, 2009).

In conducting the dialogue, contracting organisations must ensure equality of treatment and respect for the intellectual property rights of all candidates. When satisfied about the best means of meeting its requirements, the contracting organisation must specify them and invite at least three candidates to submit tenders (National Public Procurement Policy Unit, 2009). The most economically advantageous tender will then be selected.

The competitive dialogue procedure should provide the necessary flexibility to discuss with the candidates on all aspects of the contract during the set-up phase, while ensuring that these discussions are conducted in compliance with the principles of transparency and equality of treatment (Davis, 2004).

#### ***B.4 Negotiated Procedure***

The negotiated procedure is an exceptional procedure, which may only be used in complex projects when the overall price cannot be determined in advance or when an Open, Restricted or Competitive Dialogue procedure has not resulted in a contract award. Participation is limited only to those suppliers who, having been consulted, are invited to negotiate the terms of a contract (The European Parliament and the Council of the European Union, 2004).

## **Appendix C                      Public Private Partnerships**

---

Originally seen as a solution to the borrowing limits imposed by the European Union on National Governments (Smyth and Edkins, 2007), and as a necessity to reverse the legacy of under-investment in the public service infrastructure (HM Treasury, 2003; Sawyer, 2005), PPPs have evolved towards a search for value for money through an optimal sharing of risk between the private and public sector. The private sector offers project management skills, more innovative design, and risk management expertise resulting in substantial benefits (HM Treasury, 2003). This has led to a body of literature focusing on the procurement process. Nevertheless, very little has been written regarding the management of established relationships in spite of the fact that to achieve real value, there must be an active and ongoing management of contractual obligations (Grimsey and Lewis, 2004). The Treasury itself (HM Treasury, 2003, p.20) recognises that although *“there are now a large number of PPP projects operational; they are all in an early stage in their operation of what are typically 20 to 30 year contracts. The operational performance of PPP contracts, and in particular their ability to maintain a consistent quality of service over the long term, will need to be assessed”*.

### **C.1 Definition**

The term “Public Private Partnership” describes a business venture which is funded and operated through a partnership of government and one or more private sector organisations. It involves a contract between a public sector organisation and a private organisation, in which the private organisation provides a public service or project and assumes substantial financial, technical, and operational risk in the project in exchange for a share in assets and revenue.

Typically, a private sector consortium forms a special organisation called a “special purpose vehicle” (SPV) for the contracted period. Governments select the consortium through a tendering process (competitive dialogue). The terms of a 20- to 30-year contract can include design, financing, construction, operation and maintenance of a specific service infrastructure such as schools, hospitals or prisons by the consortium, in exchange for a series of government payments. So the government pays for services from revenue rather than capital or debt (Smyth and Edkins, 2007). An example of a typical PPP would be a hospital building financed and constructed by a private developer which is subsequently leased to the hospital organisation. The private developer then acts as landlord, providing housekeeping and other non-medical services while the hospital itself provides medical services.

Poor private sector performance or lack of availability within the PPP is penalised by payment deductions. The private consortium is paid only on delivery of a consistent quality of service as measured, by the administration, against desired contractual outputs. Deductions are then made via a defined unitary charge penalizing poor private sector performance or lack of availability (HM Treasury, 2003). Indeed, only if revenue is at risk, will the private organisation assure the quality of each step of a process. Thus it has both control over cost and obtains validation and payment of the service provided (Grimsey and Lewis, 2004).

The PPP procurement process is similar to that as described in Figure 2-2 (p30). It follows the same principles (Section 2.2.1, p26) and the same legal requirements (Section 2.2.2, p28). The tendering procedure is the “competitive dialogue” procedure. This procedure was created in the 2004 directives (The European Parliament and the Council of the European Union, 2004) to give a legal framework to PPP projects.



Nevertheless the stakes are much higher in terms of for example, budget, complexity, size, or time scale. The procurement stage of a PPP deal is very important, not only in negotiating a deal which represents value for money, but also in establishing a basis for good relations between the public organisation and contractor for the contract period (National Audit Office, 2001). *“Indeed, it is the conversion of the contract into delivery of the outputs that is essential to meeting the overall project objectives”*, (Grimsey and Lewis, 2004, p.102).

Hence, much more care is taken in the preparation and procurement phases in setting up the project. In particular, an important part of the preparation phase is the evaluation of risk. The main differences between a PPP and a standard contract are illustrated in the following paragraphs.

## **C.2 Preparation Phase**

Once the desired service is clearly identified, several alternative approaches are evaluated (refurbishment, reconfiguration, new assets) and their various impacts, including financial consequences and risks, are analysed. Clifton (Clifton and Duffield, 2006) classifies the various aspects of the project to be considered in five categories: commercial (agreement conditions), financial (costs, revenue...), technical (planning, technology, efficiency, safety...), service (performance, maintenance) and social (benefits, equity).

In order to compare public and private alternatives, a cost-benefit analysis is compiled via a Public Sector Comparator (PSC). It is used as an indicator, a public sector benchmark. The PSC sets out how public bodies might design, fund, construct and deliver the project, if they were to undertake it without the private sector participation. General costs and risks need to be quantified. The PSC is then used during the selection process to benchmark the quality of bids received from the private sector. Thus, net

public benefit of competing alternatives can be established. PSCs are generally categorised into four core elements (Grimsey and Lewis, 2004):

- raw PSC: this includes an estimate of all costs in delivering the same volume and level of performance publicly, including service and residual asset value which would be required from the private sector under the PPP alternative
- transferable risks: these are the risks transferred to private sector and deducted from the PPP cost
- retained risks: these are the risks added to PPP cost
- competitive neutrality: competitive neutrality adjustments remove any net competitive advantages that may accrue upon a government business by virtue of its public ownership.

Therefore the risks involved in the project need to be assessed. They vary greatly depending on the nature of the goods or services to be acquired (Lawther and Martin, 2005) but there needs to be an optimal sharing of risk between the private and public sectors. There are certain risks that are best managed by Government and to seek to transfer these risks would be either nonviable or would not offer value for money for the public sector. The benefit flows from ensuring that the many different types of risk are borne by the organisation who is best placed to manage them (HM Treasury, 2003). Efficient risk allocation reduces risk premium costs, as the organisation best positioned to manage a particular risk should be able to do so at the lowest price (Bing, Akintoye et al., 2005). Hence project costs are reduced by preventing an organisation pricing a risk that is outside their direct control (Clifton and Duffield, 2006).

Typically, the government retains demand risk, definition risk and business risk. Risk retained must be carefully monitored during the contract management (National Audit Office, 2001).

- Demand risk (Lawther and Martin, 2005) correlates with service needs quantification. If the needs have not been correctly evaluated, and the service provided is not used as much as expected over the life of the contract, Government would be still obliged to continue paying the same unitary charges whatever the usage of the service may be. On the other side, if the demand was underestimated, the Government will have to bear the costs of expansion (HM Treasury, 2003).
- Definition risks are linked to the service standard set by the Government in its specifications (HM Treasury, 2003). If the service is not correctly defined, the public might not perceive the service delivery as accurately or reliably as expected even when the contractor respects specifications to the letter (Lawther and Martin, 2005).
- Finally, business risk cannot be transferred to the contractor because if the contractor fails to deliver the specified project, the public sector is still responsible for delivering the required public service (National Audit Office, 2001).

The main risks transferred to the private sector are:

- Design risks: the design of the service must meet required standards of delivery (Grimsey and Lewis, 2004);
- Cost overrun risks during construction (HM Treasury, 2003);
- Timely completion of the facility (HM Treasury, 2003) as the public sector provides no funding during the construction phase (Grimsey and Lewis, 2004);
- Service delivery risk: if services are not provided at the standard specified contractually by government, provision would normally allow for an abatement of payment and an obligation to cure the problem (Grimsey and Lewis, 2004);
- Availability: the contract will define of what is meant by a service being available. This is generally associated with the quantity and quality of

the service and the frequency with which it is provided. Payment will usually depend directly on availability, by basing a service charge (or at least part thereof) against a measure of available service (Grimsey and Lewis, 2004);

- Asset and operating risks (Grimsey and Lewis, 2004): the costs of maintaining and operating the facilities are born by the private organisation. Therefore, they must remain under control during the life of the project, otherwise they will diminish the private organisation expected return.

All partners should participate prior to contract award and throughout the partnership experience to identify risk, find solutions, and monitor and control their evolution (Lawther and Martin, 2005). However, this task is generally handled by the public sector alone, without private sector involvement, despite the challenges faced by program manager and procurement officials to identify and assess the most relevant types or categories of risk for each given acquisition. As a consequence there is some disagreement between contractors and public sector officials on whether risks have been allocated appropriately or not (National Audit Office, 2001).

### ***C.3 Design the Tender***

Once the PSC has been compiled, project resources are assembled (steering committee, project director, probity auditor, procurement team), and a project plan is created. At this stage, all project specifications are put in writing. To control quality and to facilitate bidding price comparisons, the public sector moved from written specifications in terms of input, to output specifications which establish performance criteria (Clifton and Duffield, 2006). Key performance indicators (KPIs) are specified to ensure requirements are met over project life cycles (Smyth and Edkins, 2007). For example, instead of specifying the size of, say, hospital wards and the

number of beds, the specification will indicate how many patients the hospital should be capable of treating simultaneously. It is then up to the private bidder to propose the best solution to achieve this target when the public sector calls for private tender.

#### ***C.4 Bid Preparation***

Proposed tenders should include (National Audit Office, 2001) adopted organisational structures (consortia and association arrangement), service delivery procedures, and service monitoring and evaluation procedures.

#### ***C.5 Evaluation of Tender***

The procurement group then analyse the adequacy of the technical and organisational structures. Confirmation is required that the proposed service delivery fits the required specifications. A background check of the private organisation is also carried out: quality certification, past experiences, and economical aspects (Ancarania, Capaldob et al., 2003).

The PSC is then used to compare the tenders' proposals against the public solution (Ancarania, Capaldob et al., 2003), using a value for money test (Clifton and Duffield, 2006). The VfM test includes assessments of raw cost, innovation, risk (transferred and retained), improved asset utilisation and service outcomes and management synergies (Clifton and Duffield, 2006). It also estimates if the contract will maintain its value during the entire contract period. For example it ensures, through benchmarking or through market testing, that the agreed future payment price will not exceed future market prices for such services. It will also take into consideration some mechanisms for profit sharing where the public body shares in profits made by the contractor (National Audit Office, 2001).

Some concerns were raised about this value for money comparison (Spackman, 2002; Grimsey and Lewis, 2005; Shaoul, 2005). The difference in value between public and private solutions proposals is often small and

reliant on uncertain risk transfer calculations which are included in the PSC. Discount rate methodology is also subject to fierce debate.

### **C.6 Award of Contract**

If a private solution proposal is found to give more value for money than a public one, then final negotiations occur (Grimsey and Lewis, 2004). A balance needs to be found between the financial return expected by the private sector participants and the value for money expected by the public sector. Very low returns could affect contractors' performance on a given project and could deter them from bidding for future PFI projects. Very high returns could affect the organisation's perception of value for money and their approach to future procurements (National Audit Office, 2001).

The contract includes the allocation of risk, the quality of service required, value for money mechanisms and other working arrangements. It should also take into account the period after the contract has run its full term or cases of early termination, and specify the quality of the assets to be transferred to the organisation, the treatment of intellectual property rights, the arrangements for contract re-tendering if appropriate, and in cases of early termination, the levels of compensation payable by either organisation taking into account the reasons for early termination. These decisions, made during the contract procurement phases, have an impact on how well a successful partnership can be achieved (National Audit Office, 2001).

### **C.7 Contract Management**

The contract management phase includes service delivery and service monitoring and evaluation (Ancarani, Capaldob et al., 2003). The activities involved are shared between the various constituents of the conglomerate. Procedures for service monitoring and evaluation are implemented.

Public entities and contractors have inherently different objectives. The public entities expect value for money in the form of cost effective, reliable

and timely services at agreed prices and to agreed qualities. Contractors expect the PPP to yield a reasonable return. There is a need to reconcile these differing aims if their long term relationship is to be successful. This is possible only if the public entity and contractor approach the endeavour in a spirit of partnership and base their relationship upon a sound contractual framework. It requires a flexible and co-operative approach where roles and responsibilities are clearly defined. Good communication is essential, as are opportunities for innovation, and procedures for reviewing the relationship so that improvements can be identified (National Audit Office, 2001). In other words, a relational governance is needed to ease tension, facilitate the enforcement of obligations (Barretta and Ruggiero, 2008), (Zheng, Roehrich et al., 2008) and to enhance VfM through better risk transfer, innovation and management skills (Clifton and Duffield, 2006).

### ***C.8 Anticipated Closure of Contract***

Once the contract is signed, the public sector has very few alternatives if the contractor fails to live up to its responsibilities, whether due to equipment problems, lack of appropriate personnel or bankruptcy. Indeed what would happen if a service delivery is underperforming or interrupted? Of course the government will attempt to limit this risk in several ways, including checking past contractor experiences, monitoring and approving changes in key contractor management personnel (Lawther and Martin, 2005). Penalties can also be applied as set out in the contract. But unsurprisingly, problems arise from the 'too big to fail' syndrome (Sawyer, 2005).

Under most circumstances, the government is unable to walk away from the consequences of a troubled PPP contract as it remains responsible for the risk of service interruption (Grimsey and Lewis, 2004), (Lawther and

Martin, 2005). Effectively, the onus of risk associated with non-delivery of the service rests with the public sector (Grimsey and Lewis, 2004).

Moreover, *“where a trust wishes to terminate a contract, either because of poor performance or insolvency of the private consortium, it still has to pay the consortium’s financing costs, even though the latter is in default. It would otherwise have to take over the consortium’s debts and liabilities, given that the lending institutions make their loans to the consortiums conditional on public guarantees”*, (Sawyer, 2005, p.238).

### **C.9 Normal Closure of Contract**

This has not yet been seriously studied for obvious reasons. Most contracts run for the following twenty years, so their termination looks like a very distant prospect and no data are available to allow an analysis. Nevertheless, one can anticipate a situation similar to the one seen in the B2B partnerships where contracts and norms take a preponderant position in exchanges between partners.

Another important point to consider is the decision regarding service re-tendering or its transfer to the public organisation. Indeed, with the infrastructure already in place, the private partner cannot justify an efficiency advantage in designing and building a premise. Thus it may lose value for money comparison to the PSC. Nevertheless, the public organisation must acquire knowledge of daily management routines of the service some years before the end of the contract; otherwise, it will have no choice other than keeping the private partner in position until the end of the contract in order to avoid an interruption or a decline in quality of the service delivery. The replacement team has to be trained and ready before the end of the contract. One can expect tension between partners on this subject in the last few years, but it must be solved to allow the public organisation choice on the method of service delivery.



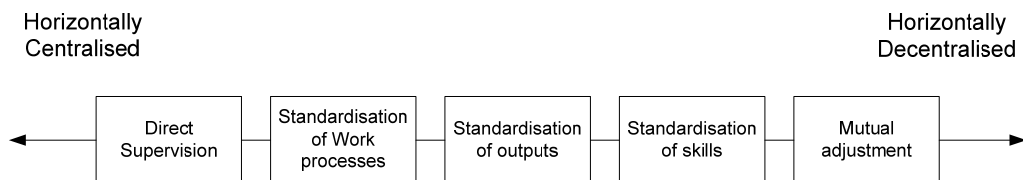
## Appendix D Organisation Structure

---

### ***D.1 Relationships between Centralisation, Formalisation and Coordinating Mechanisms***

#### **D.1.1 Coordinating Mechanisms and Centralisation**

The coordinating mechanisms form a continuum (Figure D-1, p177), with direct supervision the most horizontally centralising and mutual adjustment the least, and with the three forms of standardisation – first work processes, then outputs, and finally skills – falling in between (Mintzberg, 1983).



**Figure D-1: The coordinating mechanisms on a continuum of horizontal decentralisation (Mintzberg, 1983, p.108)**

With direct supervision, the decisional power is concentrated in the hands of a single individual, the manager at the top of the line hierarchy – namely the chief executive officer. The chief executive retains both formal and informal power, making all the important decisions himself and coordinating their execution by direct supervision (Mintzberg, 1983).

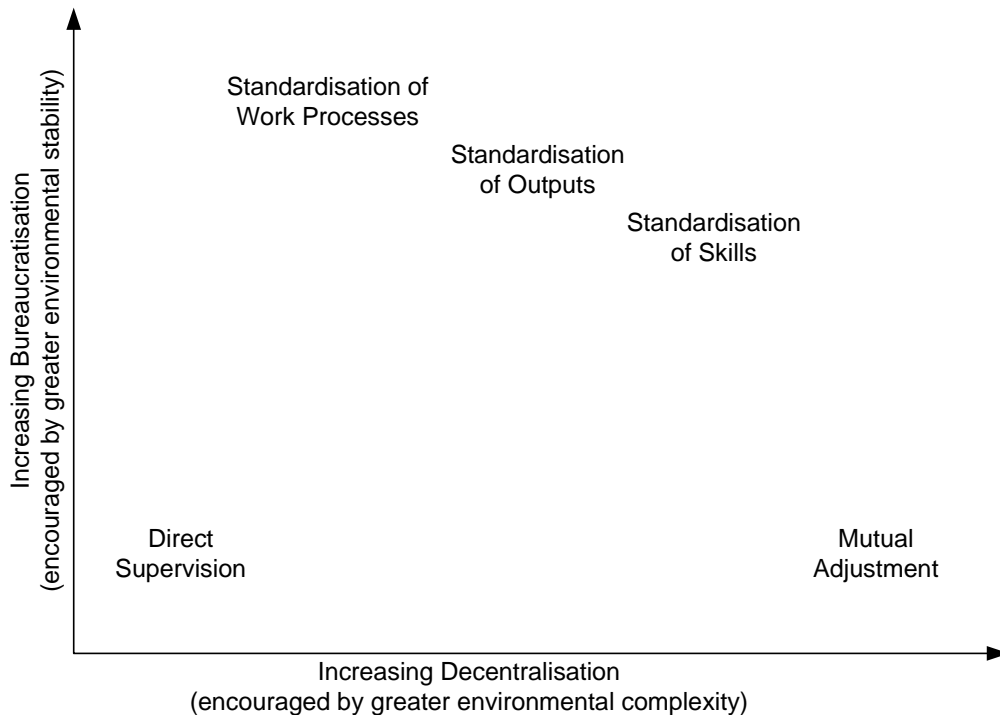
Standardisation of work processes constitutes a limited form of horizontal decentralisation. Only few analysts receive some informal power to design the system. Simultaneously, standardisation of work processes serves to centralise the organisation in the vertical dimension, by reducing the power of the lower-line managers relative to those higher up (Mintzberg, 1983).

With standardisation of skills and the development of experts, selective decentralisation seems to occur concurrently in both the horizontal and

vertical dimensions. Experts are consulted about their field of expertise gathering informal power. They can even share decision making power with managers.

### D.1.2 Coordinating Mechanisms and Formalisation

Mutual adjustment and direct supervision achieve coordination without formalisation. They are employed in organic structures. Whereas standardisation of work processes, outputs, and skills by definition formalise behaviours. Thus they are employed in bureaucratic structures (Mintzberg, 1983).



**Figure D-2: Coordinating mechanisms on scales of decentralisation and bureaucratisation (Mintzberg, 1983, p.139)**

## D.2 Structural configurations

### D.2.1 Simple Structure

The simple structure is characterised by its straightforwardness. It has a small managerial hierarchy and little formalisation of behaviours. The chief

executive officer centralises all important decisions and he/she manages an organic operating group through direct supervision.

This is the starting structure for many new organisations until they elaborate their administrative structure. Many small organisations, however, maintain the simple structure when the environment is simple and dynamic. Their small size means that informal behaviour and informal communication are convenient and effective. Also, the low repetition of work means less standardisation.

Another variant – the crisis organisation – appears when extreme hostility forces an organisation to centralise, irrespective of its usual structure.

### **D.2.2 Machine Bureaucracy**

Above all, the operating work is routine, most of it rather simple and repetitive. This results in highly standardised work processes, with a proliferation of rules and regulations. It allows large-sized units at the operating level and a relatively centralised power for decision making. Communication is formalised throughout the organisation and the administrative structure is complex with a large managerial hierarchy.

The machine bureaucracy is a structure with an obsession for control. Firstly, attempts are made to eliminate all possible uncertainty, so that the bureaucratic machine can run smoothly, without interruption. Secondly, it is a structure prone to conflicts and the control systems are required to contain it

Many of the support services can be purchased from outside suppliers. However, this would expose the machine bureaucracy to uncertainties and disruptions in the delivery flows it so intently tries to regulate. So it “makes” rather than “buys”, which leads to the proliferation of support staff in these structures (Mintzberg, 1983).

Machine bureaucracies are found, above all, in environments that are simple and predictable. Another condition often found within many machine bureaucracies is external control, as in the public machine bureaucracy. Many government organisations are bureaucratic not only because their operating work is routine but also because they are accountable to the public for their actions (Mintzberg, 1983). As a significant portion of the institutional income, is provided by taxpayers and donors, institutional buyers often make use of advertised procurement and therefore enjoy less discretion than industrial buyers. They are held accountable at virtually any juncture in the procurement cycle (Laios and Xideas, 1994). Everything they do must seem to be fair, notably their treatment of clients, their hiring of suppliers and promotion of employees. Thus, they multiply regulations.

When an integrated set of simple, repetitive tasks must be performed precisely and consistently by human beings, the machine bureaucracy is the most efficient structure. However, machine bureaucracies are fundamentally non-adaptive structures, ill-suited to changing their strategies in unstable environment (Mintzberg, 1983).

### **D.2.3 Professional Bureaucracy**

The professional bureaucracy is bureaucratic without being centralised. Indeed the operating work is stable and standardised, but it is also complex, and therefore, must be controlled directly by the operators themselves. The standardisation of skills is thus the coordinating mechanism of choice. The professional bureaucracy relies on the skills and knowledge of their operating professionals to function and produce standard products or services (Mintzberg, 1983).

This third configuration appears wherever the operating core of an organisation is dominated by skilled workers – professionals – who use procedures that are difficult to learn, yet are well defined. This results in an

environment that is both complex and stable – complex enough to require the use of difficult procedures which can be learned only through extensive formal training programs, yet stable enough to enable these skills to become well defined – in effect, standardised (Mintzberg, 1983).

Like the machine bureaucracy, the professional bureaucracy is an inflexible structure, well suited to producing its standard outputs but ill-suited to adapting to the production of new ones. Also, the professional bureaucracy cannot easily deal with professionals who are either incompetent or un-conscientious (Mintzberg, 1983).

#### **D.2.4 Adhocracy**

In adhocracy, we have a fourth distinct configuration: highly organic structure, with little formalisation of behaviour. To innovate means to break away from established patterns. So the innovative organisation cannot rely on any form of standardisation for coordination. Above all, it must remain flexible and the organisation structure fluctuates and changes constantly to adapt to current needs. There is a tendency to deploy specialists in small, market-based project teams according to their expertise. Coordination within and between these teams relies on mutual adjustment, the key coordinating mechanism. They are located at various places in the organisation and involve various mixtures of line managers, staff and operating experts to build new knowledge and skills (Mintzberg, 1983).

The adhocracy is clearly positioned in an environment that is both dynamic and complex. In particular, it is associated with innovative work and research based organisations (Mintzberg, 1983).

No structure is better suited to solving complex, ill-structured problems. In addition, no structure can match its sophisticated innovation, or unfortunately, the costs of that innovation. Adhocracy is simply not an efficient structure. The adhocracy is not competent at doing ordinary things.

It is designed for the extraordinary. The root of its inefficiency is the adhocracy's high cost of communication. There is a lot of discussion within these structures; that is how they combine their knowledge to develop new ideas. As a result, the decision process is slow (Mintzberg, 1983).

## **Appendix E                      Semi-structured Interview: 1<sup>st</sup> version**

---

### ***E.1 Introduction***

I would like to thank you for taking some time on your busy schedule to participate in my interview.

I am collaborating with Paul Davis on a research project to understand the relationship between public and private partners. The information collected in this interview will be treated in the strictest confidence. It will not be possible to identify your responses from the results produced. Anyway if you feel uncomfortable with any of the questions you can freely decline to answer it.

If you agree, I would like to record the interview with this tape recorder. It would help me concentrating on your answers instead of concentrating on my notes. There again you can freely stop the recording anytime you wish.

I will provide you shortly with the summary of the interview and main points discussed.

So is everything clear? Can I start the recorder and ask the first question, it should take us one hour?

### ***E.2 Interview***

#### **E.2.1 General Questions (brief 10 minutes)**

- Description of your role in the organisation.
- Short description of the projects you are involved in.
- Description of a standard project development (phases, milestones...)
- Structure and organisation of the public organisations to handle the project

- Standard issues or concerns identified during the different phases of a project

## **E.2.2 Interaction Between Public Organisations and Private**

### **Consortium – Take Me Trough an Example**

#### **Partnership**

- What is the partnership management structure? (key roles, responsibilities)
- To what extent is the provider involved, or invited to become involved, in internal planning or other activities?
- Do the public organisations have the expertise and resources to manage the supplier relationship?
- Are they appropriate management controls in place?
- How well are the partnership management structures seen to be operating? Any issues?

#### **Communication**

- What are the communication channels?
- How is the information transferred between public and private organisations?
- To what extent is information shared freely and openly between the organisations?
- How successful are communication seen to be? Any issues

#### **Conflict**

- What are the most common sources of conflict?
- How are conflicts being avoided or resolved?
- How effective is it? Any issues?
- Are there other reference sources available for this example? Where are they published



### **E.2.3 Project Management – Again Building on that One**

#### **Example**

##### **Risk**

- How do you identify risks?
- Are outline plans in place for how risks should be allocated between partners?
- Do you have outline risk management plans?

##### **Performance Evaluation and Monitoring**

- How is the service monitored and evaluated?
- Do performance measures include an assessment of the strength and responsiveness of the relationship, as well as its more quantifiable aspects?
- To what extent is adequate monitoring information being provided to both organisations?
- How accessible are financial and performance measurement systems to both organisations?
- How high are the levels of user satisfaction and positive perceptions of the partnership? Any issues?

##### **Value for Money**

- How do you evaluate value for money during the full length of the project?
- Are you actively seeking to improve value for money and performance?
- Is the partnering arrangement delivering clear benefits that would not have been realised through a traditional approach?

### **E.2.4 Conclusion**

- Do the public organisations have enough skills and resources to manage the contract successfully and with continuity of key personal?
- What are the key features you see as critical to success?

- Are there any other points you would like to discuss?
- Could you recommend any other reference person to meet

Thanks again to answer my questions. I will send you a summary of the interview and main points. And as the case is developed I will send it through for comments.

## Appendix F                      **Semi-structured Interview: 2<sup>nd</sup> version**

---

### ***F.1 Introduction***

I would like to thank you for taking 30 minutes of your time to participate in this semi-structured interview. I attached a copy of the intended questions.

I am collaborating with Paul Davis from DCUBS. I am doing research on the impact of organisational structure on supply relationships. The information collected in this interview will be treated in the strictest confidence. It will not be possible to identify the responses of any individual from the results produced, but we will when the work is done send you a copy of the findings.

If you agree, I would like to record the interview with this tape recorder. It would help me concentrating on your answers instead of concentrating on my notes. There again you can freely stop the recording anytime you wish.

I will provide you shortly with the summary of the interview and main points discussed.

### ***F.2 Interview***

1. **Organisation superstructure:** Can you draw for me the organisation structure of the procurement department and its place in your organisation?
2. **Environment complexity and dynamism:** What types of product, service or materials are you purchasing? What are the difficulties, the uncertainties?
3. **Coordinating mechanism:** When a department in your organisation wish to purchase a product, service or materials, how do they proceed? How do you exchange information between your

departments (e.g. informal email, standard forms, liaison position, task force, standing committee)

4. **Centralisation:** When a department request some products services or materials?
  - a. Who provide information (what can be done)
  - b. Who advise (what should be done)
  - c. Who decide (what is intended to be done)
  - d. Who authorise (what is authorised to be done)
  - e. Who execute (what is in fact done)
5. **Tasks' complexity and standardisation:** How complex is the tendering process? Is it possible to break it down into simple, specialised tasks?
6. **Job specialisation and behaviour formalisation:** What activities or tasks occupy most of your working time (e.g. building the tendering case, meeting suppliers or reporting to your hierarchy)
  - a. Why are these tasks time consuming?
  - b. Can you give a very short description of the work involved
7. **External control:** Is there any external control affecting the handling of your daily tasks? How does it affect the decision process and your daily work?
8. **Planning and control system:** How do you specify to your suppliers the products, material or services
  - a. Through some output / result specifications controlled at delivery
  - b. Through some process specifications: you define and control how they are handling the work
  - c. Through interactions: the output / result evolve as the work progress
  - d. Direct supervision

e. No tight specifications: they (specialists, professionals) know better than us what they are doing

9. **Criteria for unit grouping and span of control:** Do you classify your suppliers into groups? What are the grouping criteria? How many suppliers each group contain? How do you share the groups among your taskforce?
10. **Liaison devices:** How often do you contact your suppliers? Do you encourage liaison contacts between your organisation and your suppliers? How do you proceed (e.g. liaison position, task force or standing committee)?
11. **Satisfaction:** What are the sources of satisfaction and conflict with your suppliers?

## **Appendix G      Publications**

---

Peri, R and P. Davis (2008) “From B2B relationships and Service operation management towards B2A service operation management”, 15th annual EUROMA conference, Groningen, Netherlands.

Peri, R and P. Davis (2009) “Public-Private Project (PPP): Value for money, a relationship issue”, 18th annual IPSERA conference, Oestrich-Winkel, Germany.