



TENSIONS IN BUYER-SUPPLIER RELATIONSHIPS IN THE PUBLIC SECTOR

PUBLIC SUMMARY

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DATE: February 6th 2017

1. INTRODUCTION

1.1 Research motivation and problem statement

Buyers and suppliers interact on many levels and in many different ways. They participate in economical transactions (Borden, 1964; Felton, 1959), but they also take part in social exchanges (Bagozzi, 1975; Borg, 1991; Piercy & Cravens, 1995). As such, social exchange theory and transaction cost economics serve a prominent role in explaining exchanges in buyer-supplier relationships (Hawkins, Wittmann, & Beyerlein, 2008). These exchange mechanisms are also present when governments or public organizations buy goods and services from suppliers, which is referred to as public procurement. However, a key difference between public organizations and private firms is that public organizations, as opposed to private firms, are limited by European public procurement legislation when they buy goods or services. Public organizations are also limited in deciding whether, when, and how to reciprocate their suppliers. These constraints may have considerable implications for the development of the buyer-supplier relationships in the public sector and may possibly result in tensions between public organizations and suppliers.

Application of European public procurement legislation may also have implications for value creation and the development of innovative solutions in the supply chain. Moreover, it may slow down the development of innovative or alternative solutions, which may further increase tensions in the relationship between suppliers and public organizations. Given the many different practices and procedures associated with the procurement process and given the many factors that determine the procurement policy design, there is still an ongoing discussion on how different conditions and decisions influence innovation through public procurement (Uyarra, Edler, Garcia-Estevéz, Georghiou, & Yeow, 2014). Consequently, it can be argued that these mechanisms may be a driver of tensions in buyer-supplier relationships in the public sector. Surprisingly, research on how these procurement conditions and decisions influence the development of relationships between public organizations and their suppliers remains underdeveloped.

European procurement legislation also has strategic implications for relationships between public organizations and suppliers. Although public organizations want to cooperate with suppliers, European public procurement legislation forces them to ensure fair competition between suppliers. Following this line of thinking, it can be argued that relationships between public organizations and suppliers are characterised by both cooperative and competitive orientations. The presence of both cooperative and competitive element might be beneficial. As both the cooperative orientation and the competitive orientation have their own benefits, public organizations try to combine and exploit both orientations. However, combining the best elements of cooperation with the best elements of competition will not be likely to succeed, as the combination of both models will be more likely result in a complex interaction between both (Exworthy, Powell, & Mohan, 1999). Consequently, it can be argued that combining the cooperative and the competitive orientation is likely to result in tensions within the buyer-supplier relationship.

Based on the previous sections, this study proposes three core problems:

- First, social exchange mechanisms between buyers and supplier develop differently in a public procurement context and may be a driver of tensions if they are not properly managed.
- Second, decisions regarding public procurement procedures and practices can be a driver of tensions and may negatively influence the buyer-supplier relationship.
- Third, different or contradicting relationship orientations may be a driver of tensions in the buyer-supplier relationship if the relationship is not properly managed.

This study focusses on exploring the buyer-supplier relationship between a buying public organization and one of its key suppliers in the public sector. This case study provides an interesting environment to examine and deepen our understanding of drivers of tensions in buyer-supplier relationships in the public sector.

1.2 Research aim

This study aims to contribute to literature on buyer-supplier relationships by conducting an in-depth analysis of driver of tensions between public organizations and private supplying firms. This analysis is approached from a multitude of theoretical perspectives in order to deepen our understanding of the development of tensions in buyer-supplier relationships (see Figure 1). As such, this study's contributions are threefold.

First, this paper examines the buyer-supplier relationship in a public environment from a social exchange theory perspective and transaction cost analysis perspective. More specifically, this study examines to what extent mutual expectations and relational norms are aligned and to what extent the buyer and supplier perceive opportunistic behaviour from their counterparts. In addition, this study examines to what extent and how trust and perceived opportunism of exchange partners explain the buyer's and supplier's behaviours in their interactions. Therefore, this study's purpose is to get a better understanding on how social exchange mechanisms between buyers and suppliers develop in a public procurement environment that is subject to European public procurement legislation.

Second, this study contributes to literature on public procurement of innovation by examining how public procurement procedures influence the possibility for suppliers to propose innovative solutions. More specifically, this study examines the possible implications of decisions of procuring public organizations on innovation and performance outcomes. For instance, too rigid and narrow tender specifications in tender procedures are perceived to be a barrier to innovation (Uyarra, 2010). In addition, it is argued that when public organizations do not position themselves as intelligent demanders of innovation, it prevents them from capturing innovative solutions through procurement (Uyarra, 2010). Furthermore, this study examines how decisions of procuring organizations and low perceived justice of suppliers in tender procedures influence the buyer-supplier relationship.

Finally, this study aims to contribute to literature on coopetition by understanding key drivers of tensions in cooperative buyer-supplier relationships. As stated earlier, the purpose of cooperation is to create value and to generate shared benefits, while the purpose of competition is to appropriate value and to gain private benefits (Das & Teng, 2000). Coopetition combines these contradicting logics, resulting in cooperative relationships to be paradoxical by definition (Smith & Lewis, 2011). Yami, Castaldo, Dagnino, and Le Roy (2010) argued that the core of the problem in a simultaneous cooperative and competitive relationship is paradoxical and can only be captured by using the coopetition concept. Indeed, this study sheds a new light on buyer-supplier relationships between public organizations and suppliers by analysing their relationships from a coopetition perspective.

2. METHODOLOGY

2.1 Case study

Concerning the case selection for building theory, theoretical sampling of single cases is chosen because of their revelatory and extreme nature, which can provide useful opportunities for accessing knowledge that is difficult to access otherwise (Yin, 2013). Although it is often suggested that single cases should be representative to ensure generalizability, the rationale behind theoretical sampling is that cases are chosen because they are suitable for revealing relationships and logic behind constructs (Eisenhardt & Graebner, 2007). Considering the extreme circumstances of the buying organization in case study, it is highly plausible that this case study will lead to clear results on how tensions in public procurement develop.

2.2 Research design

As the aim of this study is to observe how tensions within buyer-supplier relationships develop, the research strategy of this study involves the use of a case study to build theory from empirical evidence (Eisenhardt, 1989). The basic idea is to use a case study as basis to develop inductive theory, which is developed from observing a case and recognizing patterns and underlying mechanisms of relationships among constructs (Eisenhardt & Graebner, 2007). Building theory from cases can develop accurate and interesting theory, which can also be tested in practice (Eisenhardt & Graebner, 2007). More specifically, this study develops theory on buyer-supplier interactions that can be tested by other procurers in other public organizations.

2.3 Data collection

Conducting interviews can provide rich empirical data. In order to increase data reliability, obtain a valid assessment of the buyer-supplier relationship, and limit bias of data collected using semi-structured interviews, people from different functional areas, with different positions, with different perspectives on the buyer-supplier relationship have been interviewed for this study. In total there have been seventeen informants interviewed. In addition to direct semi-structured interviews, secondary sources in the form of documents have been made available by the companies (e.g. strategy formulation and tender documents). The researcher also had the possibility to have informal chats with different employees of the buying firm and has been given the possibility to attend different meetings in order to observe internal processes. This use of primary sources and secondary sources assures triangulation of data and increases construct validity (Eisenhardt, 1989).

2.4 Data analysis

All interviews have been transcribed by the researcher within 48 hours and have been sent back to the interviewee for validation of the transcript. In addition, interviewees were given the possibility to comment on the transcript in order to make sure the data was correct. Data of each interview was coded using qualitative data analysis software ATLAS.ti, which made it possible to code data in an efficient and structured way. Open coding involves breaking down data into distinct units of meaning (Goulding, 2002). First, each interview was separately analysed. The coding process made it able to expose thoughts, ideas and meanings in the text (Strauss & Corbin, 1998). The coding process enables the development of pattern codes in the data, which gives more meaning to the constructs (Strauss & Corbin, 1998). Subsequently, codes were clustered and causal relationships between the constructs could be identified, which provided the basis for the application of narrative (Langley, 1999; Pentland, 1999). The identified causal relationships are linked back to existing literature, moving from the analysis of empirical data back to the theory-driven research question. This process made it possible to connect empirical data to existing theory and extend the existing literature on tensions in buyer-supplier relationships in a public environment.

3. SOCIAL EXCHANGE MECHANISMS IN PUBLIC PROCUREMENT

3.1 Mutual expectations in relationships with high relational embeddedness

Key observation: Through a history of close interactions between the buying and supplying firm in this case study, high relational embeddedness and relational norms developed in the buyer-supplier relationship. This relational embeddedness and relational norms resulted in the supplier having certain expectations from the buying firm. As the buying firm initiated a shift from a cooperative to a more competitive relationship, it resulted in a mismatch of mutual expectations in the buyer-supplier relationship. This development led to disappointment and frustration from the supplier, which resulted in increased tension in the relationship between the buyer and the supplier.

Proposition 1: When high relational embeddedness and high relational norms are present in a cooperative buyer-supplier relationship, a shift to a competitive relationship initiated by one of the exchange partners, without consent of its exchange partner, is likely to result in misalignment of mutual expectations from the relationship, which is a driver of tension between buyer and supplier.

3.2 Price-competition to counter perceived supplier opportunism

Key observation: The buying firm in this case study perceived that the supplier's price offers are relatively high in relation to other suppliers. As such, the buying firm perceived that the supplier attempts to appropriate a large part of the value share. The buying firm therefore perceived opportunistic behaviour of the supplier, which resulted in distrust from the buying firm. The buying firm in this case study increased competition and applied transactional control mechanisms to correct for the risk of opportunism of the supplier.

Proposition 2: Perceived supplier opportunism caused by relative high price offers is likely to result in the buyer to apply transactional control mechanisms in order to correct for the risk of supplier opportunism.

3.3 Supplier's low perceived reciprocity and low perceived distributive justice

Key observation: Employees at the supplying firm perceived that they were not sufficiently rewarded for their efforts to contribute to the performance of the buying firm. More specifically, they felt underappreciated because the buying firm did not reciprocate adequately. Therefore, the supplier perceived low reciprocity and low distributive justice, which led to decreased trust and decreased commitment of the supplier to the relationship. This resulted in the relationship falling into a downwards spiral, which dissatisfied both the buyer and the supplier and negatively influenced the buyer-supplier relationship.

Proposition 3: When the supplier perceives low reciprocity or low distributive justice, it negatively influences supplier trust and supplier commitment to the relationship.

3.4 Knowledge protection to counter perceived buyer opportunism

Key observation: Interviewees at the supplying firm stated that they perceived opportunistic behaviour of the buying firm in the form of inappropriate use of information and knowledge that was provided by the supplier. Perceived buyer opportunism resulted in the supplier starting to lose trust in the buying firm. The perceived buyer opportunism and the presence of distrust resulted in the supplier becoming

less willing to share information and knowledge with the buying firm. More specifically, the supplier used information and knowledge protection to counter opportunistic behaviour of the buying firm.

Proposition 4: Perceived buyer opportunism caused by inappropriate use of supplier knowledge is likely to result in knowledge protection by the supplier in order to counter buyer opportunism.

4. EXECUTION OF PUBLIC PROCUREMENT PROCEDURES

4.1 Public procurement legislation may limit cooperation between buyer and supplier

Key observation: Interviewees of the buying firm on the one hand stated that they would like to cooperate with their suppliers, while at the same time they stated that they viewed public procurement legislation as constraint for cooperation with suppliers. They noted that they had to strictly follow public procurement legislation, which tells them to ensure fair competition among suppliers. Consequently, they argued that they had difficulty in maintaining a long-term strategic relationship with their supplier.

Proposition 5: When procurers of public organizations fail to find creative ways of applying public procurement legislation, they are likely to experience difficulty in managing cooperative or strategic relationships with their suppliers.

4.2 Rigid and narrow tender specifications lead to low perceived procedural justice

Key observation: Interviewees from the supplying firm stated that they perceived tenders specifications to be too narrow, thereby leaving little space for the supplier to show its added value in procurement procedures. Therefore, the supplier perceived low procedural justice in procurement procedures, which resulted in frustration from the supplier. In addition, way in which tender specifications were defined put the relationship under pressure, which decreased supplier commitment and increased tensions in the buyer-supplier relationship.

Proposition 6: Suppliers that consider themselves capable of delivering innovative solutions are more likely to perceive procedural injustice from too rigid and narrow tender specifications, which negatively influences their commitment to the buyer.

4.3 The influence of buyer's different views on execution of procurement procedures

Key observation: Different interviewees from the buying firm have different or conflicting opinions on how they should execute procurement procedures. These different opinions are caused by different actors having different interests. Engineers may for example prefer procurement procedures that enable cooperation between the buyer and the supplier in order to ensure high quality standards, while managers may prefer strong competition among suppliers in order to achieve cost savings. These conflicting opinions result different decisions in the execution of procurement procedures. Results from this case study show that particular decisions made by actors which focus on strong competition negatively influence relational benefits that have been generated by other actors which focus on cooperation.

Proposition 7: When different actors within the buying firm have different or conflicting opinions on how to execute procurement procedures, it negatively influences relational benefits generated by other actors in the buying firm.

4.4 Price-competition as a barrier to potential innovation and added value

Key observation: This case study on the one hand showed that the buying firm is not able to properly value and assess the potential value of the supplier. Consequently, the buying firm is not able to translate the suppliers' potential added value to the award criteria in the tender procedure. On the other hand, the supplier is not able to explicitly translate its potential added value into specific performance improvements or other objective figures. This leaves the buyer and supplier stuck in a vicious circle.

Proposition 8: When the added value of supplier is not visible to managers and decision-makers at the buying firm, the buyer will likely focus on price-competition, which negatively influences the development of innovative solutions.

5. DIFFERENT ORIENTATIONS WITHIN THE BUYER-SUPPLIER RELATIONSHIP

5.1 Product as an explanatory factor for procurement strategy and relationship form

Key observation: The varying perceptions of actors within the buying firm two different implications. First, the different perceptions on the supplier's added value resulted in tensions within the buying firm. Consequently, different actors within the buying firm had different and sometimes contradicting views on how to interact with the supplier. Second, the different perceptions of the supplier's added value resulted in the supplying firm to receive different and mixed signals from the buyer, which resulted in confusion and mixed expectations from the supplier. These confusion signals increased supplier frustration, which resulted in increased tension in the buyer-supplier relationship. It is important to note that in this case study, the same actor from the supplying firm simultaneously managed the cooperative and the competitive side of the relationship, which strengthened the felt tension at the supplier's side.

Proposition 9: Different perceptions within the buying firm on the added value of the supplier result in mixed signals toward the supplier and lead to confusion and mixed expectations by the supplier.

5.2 Unclear or contradictory supplier roles in the buyer-supplier relationship

Key observation: Results from this case study showed that the supplier's role is dependent on the situation. Indeed, the buying firm had different expectations from the supplier in different situations. These unclear or contradicting expectations resulted in the supplier having difficulty to meet the expectations of the buying firm. Consequently, the contradicting logics that are associated with different supplier roles created tensions at the supplier, which negatively influenced the buyer-supplier relationship.

Proposition 10: Unclear or contradicting expectations of the supplier caused by different supplier roles make it difficult for the supplier to determine what is needed to fulfil the needs of the buying firm.

5.3 Direct vertical competition in buyer-supplier relationships

Key observation: Results from this case study show that boundaries between supplier and buyer roles are blurred. In addition, buyer and supplier activities increasingly started to overlap in recent years. This caused the buyer and the supplier to start competing over the same work, thereby increasing vertical competition. These developments resulted in frustration from the supplier, which further put the buyer-supplier relationship under pressure.

Proposition 11: Vertical competition caused by a lack of clear boundaries between buyer and supplier roles is likely to lead to increased tensions in the buyer-supplier relationship.

5.4 Reducing cooperative tensions by developing a framework contract

Key observation: Although interviewees acknowledged that buyer and supplier roles in the relationship are blurred and both firms feel strong tensions in the buyer-supplier relationship, they also both acknowledge that they see sufficient possibilities to complement each other. More specifically, interviewees stated that they would like to develop a framework contract in which clear buyer and supplier expectations are defined. They believed that the framework contract would improve buyer-supplier cooperation and performance outcomes by clearly defining roles and expectations.

Proposition 12: When roles and expectations in a cooperative buyer-supplier relationship are unclear, a framework contract that focuses on defining clear roles and expectations is likely to reduce tensions and improve performance outcomes.

6. CONCLUSION

The finding of this study contributes to the understanding of the development of tensions in buyer-supplier relationships in the public sector by from a number of perspectives.

First, this case study sheds a light on buyer-supplier relationship in the public sector from an exchange theory perspective. Results show that a mismatch of mutual expectations and relational norms form a source of tensions in the buyer-supplier relationship. In addition, low perceived justice and low perceived reciprocity negatively influence trust and commitment in the buyer-supplier relationship. In order to counter perceived opportunism, buyers increase transactional elements in the relationship, while suppliers attempt to counter perceived opportunism by protecting knowledge.

Seconds, this study enriches literature on public procurement by focussing on the impact of decisions in public procurement on the buyer-supplier relationship. For instance, results show that too rigid and narrow application of public procurement procedures are a source of tensions in relationships between public organizations and their suppliers. Another consequences of too rigid application of public procurement and a price-focussed orientation is that it leaves little room for added value and potential innovative solutions. Understanding the influence of decisions in public procurement provides manager with new insight on how to manage buyer-supplier relationships in a public environment, which may positively influence performance outcomes on the long run.

Finally, this case study provides rich insights on the complex and paradoxical nature of cooperative relationships in a public procurement context. As public organizations and suppliers both cooperate and compete with each other, it causes a situation where tensions are likely to develop. In addition, this study's results show that unclear or contradictory expectations, lack of clear boundaries between buyer and supplier roles, and direct vertical competition are sources for tensions in buyer-supplier relationships in the public sector.

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