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**PARADOXES IN INTERACTIONS BETWEEN BUYER AND SUPPLIER IN
FACILITIES MANAGEMENT**

Competitive paper

Abstract

Facilities management is an overall management approach for all the services that support the core business of a company. These services include *building services* (building maintenance, plants, etc.), *people services* (environment health, waste disposal, etc...), and *space services* (furniture, common areas, security, vigilance, green space etc.). The interaction with sellers of these services is becoming increasingly strategic for companies in order to increase performance, improve quality and flexibility, and to face the lack of specialization and of innovation. Although the IMP interaction approach seems ideal to analyze buyer-seller relations in facilities management for public companies, some specific normative rules (public administration laws) together with contextual factors (economic crisis, management competences and attitudes in public administration, etc.) can hinder and limit its application. In this paper the authors aim to examine which are the purchasing models of service in the facilities management and how emerging paradoxes can impact on the approaches to buyer-seller interactions in the business service that are defined in the theoretical contributes of the IMP Group (industrial marketing and service marketing). The investigation is based on 15 case studies of Italian Municipalities, analyzing their orientation in facilities management. The case studies are built on in-depth interviews with technical staff who, together with the mayors, perform the role of facility managers; the empirical analysis is focused on the interaction between Municipalities and the specific sellers of services supporting their core business.

Keywords: business service, interaction, facility management, Municipality

PARADOXES IN INTERACTIONS BETWEEN BUYER AND SUPPLIER IN FACILITIES MANAGEMENT ¹

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1. Business service as interaction

In scientific management literature we find studies on industrial marketing, which are focused on the examination of interactions between buyers and sellers in business-to-business markets (Ford et al. 1986; Håkansson, 1987), and those on service marketing, which are particularly concentrated on the service as the object of interactions in consumer markets consumed (Grönroos, 1983; Gummesson, 1983). Both these approaches converge in the interpretation of buyer and seller interactions in business services that include “ICT services, consultancy, cleaning, marketing and legal support” (Van der Valk and Rosemeijer, 2009, p.3). According to Jackson and Cooper (1988), they can be divided into two different categories: on the one hand *maintenance, repair and operation services* (MRO) and on the other *production services*. MRO services are purchased by an organization to run its operations and generally constitute indirect costs while production services become part of the production process for a given product or set of products and, as such, produce direct costs. Jackson et al. (1995) identify in legal and financial services typical examples of MRO services and in product tests prior to shipment cases of production services. Business services are no longer considered as integrative attributes of a final and tangible offering to customers, but rather as functional components of a

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company's business process. Extending the classification proposed by Zeithaml et al. (1985), Jackson and Cooper (1988) propose a differentiation of business services based on how the buying company applies the service with respect to its own business processes. In particular they distinguish between "component services", which are delivered to customers without a transformation by the buying firm (a call center for customer service), and "semi-manufactured services" (data information system to interact with customers), which are transformed by the buying firm before being delivered to the customer. They make a further distinction between "instrumental services" and "consumption services": while the former affect how the buying firm's primary processes are carried out, the latter do not. An office cleaning service for an airline, for example, is considered a consumption service; information and technology services used to support flight operations, on the other hand, are instrumental services.

Business services have all the *distinctive characteristics* of *consumer services*; they are intangible, not stored, heterogeneous and consumed and produced simultaneously (Axelsson and Wynstra, 2002). However they are more risky to manage than consumer services (Stock and Zinszer, 1987; Fitzsimmons et al. 1998). In fact it may be quite more problematic for an organizational buyer to examine services in advance of, or even after, the purchase (intangibility), to make an accurate forecasting and planning of outsourced services (perishability), to face the variability in the services' production (heterogeneity), and especially to be both buyer and producer (simultaneity). Among all these characteristics, it is the ability to assume the *dual role* of *buyer* and *producer* that is considered particularly critical in the purchasing of business services (Jackson et al., 1995). According to Grönroos (2000) and Gummesson (1998), the quality and productivity of a service depend in fact on the interactive involvement of the buyer and the seller in service production, delivery and consumption (Grönroos, 2000; Gummesson, 1998). Moreover, Axelsson and Wynstra (2000) highlight how the high interactivity (*the ongoing buyer-seller interactions*) is a main determinant of success in exchanges for business services.

It follows that business service is *interaction*. In other words, it is not only the result of interactions between buyers and sellers, but it finds in *interactions* its *essence*. Business services can be seen as a dialogical *problem-solving process* that exists in interactions; it is in them that buyers and sellers contribute to "co-create" value (Vargo, 2006; Vargo and Lusch, 2004). In business services interactions can generate a "confrontation process that occurs between companies and which changes and transforms aspects of resources and activities of the involved companies and of the companies themselves" (Ford et al., 2008, p.3). The more knowledge intensive business services are (e.g. consultancy, advertising), the more interaction changes who and what is involved in it, thus becoming an irreplaceable source for the co-creation of value (Stenroos and Jaakkola, 2010) and a way to transform a buyer from a simple client to a productive resource (Vargo and Lusch, 2008). This co-penetration of business services and interactions has led researchers of both industrial marketing (in particular the IMP Group) and service marketing to develop a particular interest in the study of buyer-seller relational approaches in business services. It is on these approaches that we are now going to concentrate our attention to analyze their application in the interpretation of the buyer-seller relations in facilities management. The empirical analysis is focused on Italian Municipalities and especially on their interactions with sellers of facilities services whose externalization is increasingly encouraged by specific normative rules and by a reduction of municipal employees due to a decrease in public funding.

2. Buyer and seller interactions in business services: an interpretative approach

Decisions concerning the purchasing of business services are becoming increasingly important for organizations (Axelsson and Wynstra, 2002; Van Weele, 2005), which have to face the make-or-buy question and decide whether to make required services in-house or buy them outside (Gadde and Håkansson, 1994). Despite the growing outsourcing of business services and the complexity of their purchase, contributions in literature maintain a predominant focus on consumer services as compared to business services. Converging and synthesizing the available academic research on buyer-seller interaction, we elaborate an interpretative approach that can analyze these interactions at two different levels: 1) as a sequence of interactive moments, from the selection of suppliers until the purchasing of business services (“*extensive view*” approach) and 2) as a combination of critical conditions, interactive approaches and performance in business service production (“*focused view*” approach). The first level contains the second one, which concentrates on the ongoing interactions in which service’s production and service’s consumption are combined. Our attention will be especially directed toward the *focused view* approach that will be our theoretical framework for the empirical research.

2.1. The “*extensive view*” approach

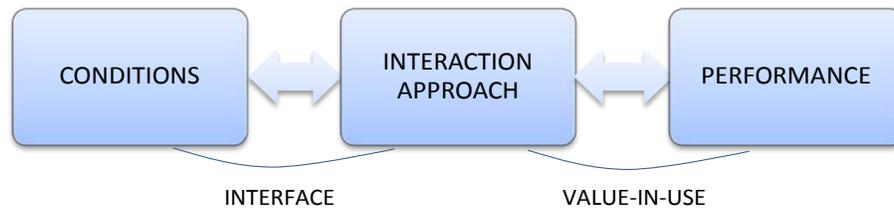
The buyer-seller interactions in business services can be seen as a process made up of different interactive moments. These moments precede, accompany and follow the purchase. Jackson et al. (1995), inspired by industrial research (Grönroos, 1979), identifies three different stages of business services purchasing: a) the initial step characterized by need awareness, information gathering and consideration of the make versus buy choice; b) the second step constituted by formal information for the analysis of different proposals; and c) the last step based on consumption and evaluation of the business service. Van der Walk and Rozemeijer (2009) introduce before these three stages, a preliminary phase of “specification”, which involves the identification of the “purchasing goals”. This phase is critical because it affects the desired level of quality concerning both buyer-seller interactions and the final outcome (Day and Barksdale, 1994). Combining the two analyses, the procurement of business service consists, then, of specification, proposals analysis, consumption and evaluation. Each stage is characterized by interactive moments that constitute interrelated episodes whose aggregation levels produce interactions (Grönroos, 2004, p.104). Along the process, the interactive moments progressively change their frequency and intensity, reaching the maximum level in the business service consumption, due to the dual role of buyer as user and producer. However, the stage of *specification* is also a driver of frequent and intense interactive moments; this is why the correct definition of purchase’s objectives strongly affects the success of buyer-seller interaction. The different steps of the purchasing process are correlated and strictly interdependent: “specification” influences “purchase”, which at the same time affects “consumption”, which in turn conditions service’s “evaluation”. The specification, differently from the other phases, extends its effects on all the interactive moments characterizing buyer-seller interactions in the purchasing process.

2.2. The “*focused view*” approach

The analysis of buyer-seller interactions can be focused on the simultaneous stage of service production and of service consumption. It is on this stage that the most of the ongoing interactions between buyer and seller are concentrated. Abstracting from literature, these

interactions can be analyzed in their combination of critical conditions, interactive approaches and performance (Figure 1).

Figure 1 – Interpretative approach of buyer-seller relationship in business service



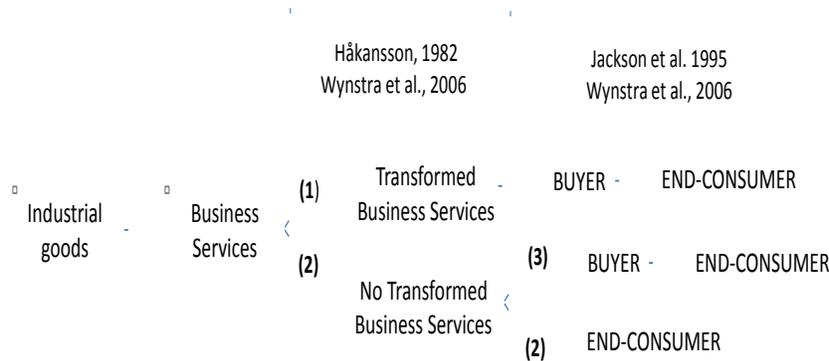
(a) *Critical conditions.* In business service interactions, the definition of *objectives*, including the recognition of reciprocal roles, and the presence of *relational attitude* are critical conditions for their success. The *objectives* include the “purchasing goals”, but also a *projection* of the role that buyers and sellers have to assume in the interaction. In fact, since buyers contribute to the success of a business service, they have to be aware that the service produced is partly a result of their participation (Jackson et al. 1995). Moreover, “to be successful, the supplier or service provider has to align its [.....] process with the customer’s value generating process” (Grönroos, 2004, p. 102); this alignment, since it is the result of an interactive participation in the service production, implies a definition of the reciprocal roles in interactions. *The relational attitude* (Callaghan et al. 1995, Ruyter and Wetzels, 2000) as interactive capability is important in business services because of the coincidence between the business service interaction and solutions it produces in terms of aims pursued by actors involved. In other words, the interaction is a problem solving process whose objects can be goods and services. While for goods the solution is represented by the results of the interaction, for services the *solution* is the *relationship itself*. It follows that in business services the interaction as problem solving process presupposes relational attitude as an indispensable propensity to share, interpret and create alignment with buyer’s practices and value-generating processes (Grönroos, 2004). Relational attitude refers to the willingness of both buyers and sellers to invest time and resources in a relationship; it is composed by trust, commitment, reciprocity and empathy. Trust and commitment reduce uncertainty in interactions and produce cooperation; reciprocity and empathy increase the mutual exchange of favors and the respect for reciprocal perspectives (Molin, Agndal and Axelsson, 2008). Objectives and relational attitude characterize the *interface* of interactions that identify the participants on both sides of the interaction process and their interactive approaches (Mota and De Castro, 2011). In other words, the interface includes the representatives of buyer and seller, their objectives and relational attitude; but, as we will see, it is at the same time the expression of the interactive approach implemented in buyer and seller interactions. If we consider interaction as an exchange of actors, resources and activities involved in the interaction, we see that different interfaces may produce different “transformations” in interactions (Ford et al., 2008). In particular, the effects in terms of transformation increase in the transition from “standardized or specified interfaces” to “translation or interactive interfaces” (Araujo et al. 1999). In the first two interfaces buyers and sellers interact to exchange respectively a standard supply and a customized supply defined by the buyer itself. In the other two interfaces buyer and seller interactions co-produce business services; in particular, in the “translation interface” the business service is functionally adapted by suppliers on the basis of

buyer's needs while in the interactive interface ,it is the result of an “open-ended dialogue” (Araujo et al., 1999, p.149) between buyers and sellers.

b) *Interactive approach.* The paradigm of interaction developed in the studies of IMP Group has been recently applied in the studies of buyer-seller interactions in business service (Eriksson and Mattson, 2002; Leek et al., 2004; Wyntra et al., 2006). From these, it emerges that the different interactive approaches depend on the kind of business service and on the way it aligns in the buyer's business service.

Extending Håkansson's classification of industrial goods to business services (1982), it is possible to make a distinction (Figure 2) between business services destined to buying company's production that are *transformed* by buyer before being delivered to end consumer (1) and business services that do not undergo other transformations and are *directly* used by *end consumers* (2). Wyntra et al. (2006) define the former “semi-manufactured” services and the latter “component services”. For buyer-seller interactions involving *semi-manufactured services*, the interactive approach is characterized by adaptation, a high level of commitment and

FIGURE 2 - Interactive approach and business services



interdependence. In these business services, the interface may be that of “translation” or even of “interactive” (Araujo et al., 1999). Since sellers have to optimize the form and the degree of business service's processing (Axelsson and Wyntra, 2002), they strive to customize a service on the basis of functional specifications defined by buyers; thus doing, sellers

translate functional specifications of business services into practical specifications improving the efficiency and the efficacy of buying company's service production (translation interface). The joint development of service specifications may even push buyers and sellers towards a reciprocal participation in an “open ended” dialogue, thus favoring a convergence of knowledge and competences (interactive interface). Adaptation and high commitment are drivers of change in resources and in activities (Håkansson and Ford, 2002) of both buyers and sellers generating as result a reciprocal interdependence. In contrast to semi-manufactured services, *component services* are destined to a direct use; they are usually realized and customized on the basis of market needs identified by the buying company. The interface in these interactions can be “specified” (Araujo et al. 1999): seller has to adapt the service on the base of the buying company's customer segment. While in the semi-manufactured services, the adaptation concerns the buyer's service production, in the component services the adaptation is based on the customer requirements filtered by buyer. It is precisely on the deduced market inputs and also on the design and delivery timing required by buyers that the content of the interaction with sellers will be focused. It follows that in buyer-seller interactions having as object components services, the levels of involvement, adaptation and interdependency tend to be lower than in interactions for semi-manufactured services. Thus, even if buyer and seller can act respectively as a “teacher”

and as “learner” (Dahlquist, 1998; Håkansson and Johanson, 2001), the interactions in component services produce a lesser change in actors, activities and resources involved.

Business services not transformed by the buyer, can be *destined* not only to consumers, but also to the *buyer* itself (3). Applying the distinction between production service and MRO services (Jackson, 1995), business services that do not undergo transformations by buyers can be distinguished in “instrumental services” and “consumption services” (Wynstra et al. 2006). The instrumental services can *influence* how the primary processes of the buying company are carried out. As for semi-manufactures services, also in these services the interface is mainly that of “translation”: since sellers have to integrate the provided business service with the primary process of the buying company, they translate specifications provided by buyers to transfer them in the business services destined to be used for producing final services for customers. In other words, suppliers have to adapt the business service for the context in which it is used. This adaptation makes these interaction appear as a “continuous problem solving process in which [...] interactions, actors, activities and resources take their form, are changed and are transformed. The greater the involvement of a company in a particular interaction, the greater will be the effects on its own activities, resource and on the company itself” (Ford et al., 2008). Adaptation acts as driver of involvement and of exploitation of seller’s specialization in interdependent business interactions. This interactive approach does not characterize consumption services which *do not affect* the way in which *buyer* implements its *primary processes* (e.g. office cleaning for a bank agency). Given their limited importance not only for the primary process but also for the buying firm’s customers, buyers look for a cost-efficient delivery process. The interface tends to be “standardized” (Araujo et al., 1999): the buyer purchases a standard service from the supplier. So suppliers are called on to run an efficient service production and delivery process optimizing resource allocation and utilization. In this case sellers and buyers are linked by transactional exchanges that involve single short-term events with a distinct beginning and end. Sheth and Shah (2003, p.628) consider transactional exchanges characterizing by a “short term nature or by one-time exchange, with no commitment beyond the limited interaction [between actors]”. They look for operational efficiency and not effectiveness. Efficiency is connected with price orientation and cost-reduction, while effectiveness is linked with improvement and value orientation (Svahn and Westerlund, 2009). Transactions are single exchanges based on the transfer between actor of “unchanging entities [...] and as a mechanism that connects the actors for the time of the exchange, but which does not have any content of its own” (Ford et al., 2008)

c) *Performance*. Buyer-seller interactions are analyzed in terms of performance. Contributions of industrial marketing and of service marketing converge in the identification of assumptions and conditions characterizing a buyer-seller interaction to contribute in a positive way to company’s performance. According to the IMP Group industrial marketing, performance mainly depends on how activities and resources relate to each other within an interaction. In particular, on the one hand the ability to coordinate *activities* enables actors involved in the interaction to exploit external specialization in a more extensive way through seeking and accepting dependence on others (Dubois, 1998). Dependence generates stability in interactions over time with consequent gains in *efficiencies*. On the other hand, interactions can generate adaptation and combination of *resources*; this new joint resource combination emerges as a source of innovation process (Håkansson and Waluszewski, 2002, 2007). The combination of heterogeneous resources represents a means for *value creation* across company boundaries; at

the same time a company can increase the value of single heterogeneous resources through interaction. Interactions imply a sharing of activities and of resources that can be matched producing positive effects on performance in terms both of efficiency and of effectiveness. While efficiency is associated with cost-reduction, effectiveness is linked with improvement and value orientation (Axelsson and Wynstra, 2002; Svahn and Westerlund, 2009). These dual effects in terms of efficiency and effectiveness differentiate interactions from *transactions*. Transactional exchanges find their driver in the awareness of competitive prices and in the efforts to minimize costs (Cavinato, 1999). They are characterized by short duration, occasional goals, and the absence of trust and collaboration (Håkansson, 1982). Thus their logic is essentially inspired by efficiency conditions, which, if strategically integrated with the company's strategic orientations, can impact performance.

Contributions in service marketing (Lapierre, 1997; Ravald and Grönross, 1996; Grönroos, 2004) consider that in the interaction process the value attributed to a service is created together with customer. Extending these contributions, Grönross (2008) distinguishes the "value-in-use" and the "value-in-exchange" of a specific service; on the basis of this distinction it follows that the performance produced by interactions depends on the relation between these two kinds of service's value. The "value in use" is the ability a consumer has to increase the potential value of a service by using it. "When customers use [...] resources (goods and services) and add other resources (goods, service, and information) and skills held by them, the value potential of the resources is developed into value-in-use" (Grönross, 2008, p.303). In services value-in-use is created when consumers use goods and service. The "value-in-exchange" is the value for customer embedded in goods and services as outputs of a company's production. Value-in-exchange is functional of value in use (Ravald, 2001); so value-in-exchange exists if value-in-use can be created. In particular if consumers are not able to make use of the service, value-in-use does not exist; there results a low value-in-exchange of the service. Performance as a result of value-in-exchange depends on the value-in-use and in particular on the role customer has in the creation of value-in-use. (Normann and Ramirez, 1993; Holbrook, 1994; Vargo and Lush, 2004). In fact "if value is created in customer's value generating process and should be understood as value-in-use, and if value-in-exchange for the supplier is dependent on whether value in use is emergent or not, the customer have to be the value creators" (Grönroos, 2008, p. 305). It is important for customer to understand how services are to be used for value creation by integrating them in their value-generation process.

Unifying industrial marketing and service marketing perspectives, it follows that in buyer-seller interactions for business services, performance depends on the ability to coordinate activities and combine resources by producing a high value-in-exchange as a consequence of a high value-in-use. Thus buyer realizes exchange of business services to create value by adapting and harmonizing them in their business processes. In semi-manufactured services the value-in-use depends on the ability to adapt service to the processing of service of the buyer (value-in-use for buyer); in component service the value-in-use is correlated to the realization of a service compatible with market needs (value-in use for consumer); in instrumental service the value-in-use is associated with the integration of the service in the buyer's primary process (value-in-use of buyer). In the case of business consumption, the interaction between seller and buyer is limited to transactional exchanges; since they develop in the short term on the basis of opportunistic aims based on economic efficiency, they are considered for their value-in-exchange and not for their value-in-use. Ultimately, conditions, interactive approach and performance are interrelated. The interactive approach is determined not only by the kind of business service, but

also by the conditions of interaction: a specific interface as synthesis of objectives and relational attitude influence the success of interaction. Then it is the way to manage and exploit interactionsto generate value-in-use that affects the performance of actors involved.

3. Research Design

3.1 Empirical Setting. Business service and facility management: a focus on Italian Municipalities

Facilities management is an overall management approach for all the business services that support the core business of a company. In Italy companies have started to externalizenon-core activities and processes in order to improve their performance, thereby exploiting competences and flexibility of specialized suppliers. De Paolis (2000) considers that facilities management is a way to a) involve external suppliers for non-core activities, thus improving the quality of service offered; and b) rationalize costs of the business supporting services, improving the efficiency of the company. Sarshar and Pitt (2009) see facility management as a way to add value to their clients. According to Gruber (2002) “facility management appears as an integrated system of knowledge, tools and methodologies that permits the strategic management of the buildings and all the services strictly correlated with firm’s activities”.In short, facility management is a managerial philosophy that serves to rationalize the externalization of facility services.The services that organizations tend to outsource can be divided (Cott, 1999) in: a) *building services*, which are services aimed at maintaining or increasing the property value and adapting the building to the dynamic needs of the personnel (e.g. maintenance services, building and renovation); b) *space services*, which include services for spaces shared by the personnel such as space design, space project, surveillance and gardening; and c) *people services*, which contribute to improving personnel productivity and to guaranteeing a comfortable environment and technical support (e.g., cleaning service, utility and catering).

Our study analyzes the facilities management of Italian Municipalities, which are public organizations and urban administrative divisions having corporate status and powers of self-government over a territorial area of competence. The analysis sees as focal company Italian Municipalities in their interactions with their suppliers. In the wake of a reduction in public funding and the presence of specific normative rules, Municipalities have had to review their approach towards the purchasing of facility services and, consequently, the interactive approach with their facility services sellers. Among the studies on facilities management in public organizations we underline the contribution of Jones (2000) and of Kanning et al. (2008). While the former highlights how facility management in public service can produce positive effects on the management of building spaces favoring innovation and managerial approach, the latter analyze the implementation of facility management in German Municipalities and their contribution to the development of non-core business activities. We now propose to specify the aims of our study and the research methodology adopted.

3.2 Research questions and methodology

In our research we propose to investigate purchasing models of services in facilities management have been developed by Municipalities. In particular we analyze if the “focus view approach” is valid to interpret buyer and seller interactions in facility management. Moreover considering the reduction of public funding and the specific normative rules charactering the Italian Municipalities, we propose to verify the presence of possible paradoxes in buyer-seller

relation that may have an impact on IMP Group approach (industrial marketing and service marketing). Paradox can be defined as a statement or group of statements that leads to a contradiction or a situation which (if true) defies logic or reason (Sainsbury, 1998). The methodology is based on multiple case study method (Yin, 2009). We have realized 15 cases of Italian Municipalities located in different areas of Tuscany; they are different for organization (number of internal employees), number of residence and territorial superficies (Table 1).

Municipality	E	R	S(km ²)	Municipality	E	R	S(km ²)
(1) Sesto Fiorentino	315	47.623	49.04	(8) Calenzano	125	16.462	76.87
(2) Piombino	246	35.075	129	(9) San Vincenzo	104	7.000	33
(3) Cascina	212	44.201	79.24	(10) Sinalunga	100	12.926	78.60
(4) Poggibonsi	205	29.478	70.73	(11) San Gimignano	98	7.700	138
(5) Campi Bisenzio	200	43.901	28.62	(12) Campiglia Marittima	95	13.339	83
(6) San Giuliano Terme	180	31.775	91.71	(13) Torrita	40	7.522	58.36
(7) Colle Val d'Elsa	140	21.629	92	(14) Suvereto	21	3.171	92
				(15) Sassetta	7	567	26

Legenda. E= Employees; R=Residents; S=Surface

The cases are based on interviews with the purchasing manager of each Municipality carried out over a four months period (between September 2011 and December 2011); the interviews consisted of four stages: a) structural data (organization, management approach, relations with the territory, etc.); b) facility management services (typologies, purchasing strategy –insourcing versus outsourcing–, trend, etc.); c) purchasing process of facility services (selection of sellers, goals, interaction approaches with seller, etc.) and d) trends in facilities management (factors of change, strategic orientation in the management of facility services, etc.). The interviews, realized face-to-face, lasted about two hours and were recorded. The transcripts were subjected to qualitative textual analysis in line with the aims of our research. The principal results of our research are synthesized in the next section.

4. Findings: purchasing approaches in Italian Municipalities

4.1 Italian Municipalities and facility services

As stated in the methodology, in this part of the work we present the results of our research based on interviews with a sample of 15 Italian municipalities located in Tuscany. The Municipalities involved are Calenzano, Campi Bisenzio, Campiglia Marittima, Cascina, Colle Val d'Elsa, Piombino, Poggibonsi, San Gimignano, San Giuliano Terme, San Vincenzo, Sassetta, Sesto Fiorentino, Sinalunga, Suvereto, Torrita di Siena. We have analyzed the interactions that these Municipalities have developed with sellers of facility services and we have identified specific purchasing models adopted in facility management. Before analyzing the principal findings we propose, on the basis of literature, the following classification of facility services that are provided by the Municipalities interviewed.

From the table 2 we can see that the *component services* include mostly maintenance services, utilities, environment services, etc. *Instrumental services* comprise instruments for structural maintenance and technology services to support information exchanges within the Municipalities. Finally the *consumption services* in Municipalities embrace furniture services, cleaning services for buildings and catering. Semi-manufactured services are not provided by the

Municipalities analyzed. The facility services that Municipalities tend to externalize concern: extraordinary building maintenance, environment health, waste management, green spaces, catering, security, vigilance, care and cleaning. By contrast, the services that Municipalities still prefer to manage internally by exploiting their own employees are: routine building maintenance, public illumination, public transport and cemetery services.

TABLE 2 - *Facility services provided by selected Tuscan Municipalities*

Business Service	Municipalities business services
Component service	Maintenance (buildings, schools, roads, gyms)
	Utilities (gas, electricity, water)
	Environment services (gardening, green spaces, environment health, waste management)
	Care services
	Security (vigilance, fire safety, guarding security, health safety)
	Public transports
	Other services (cemetery services, cultural services, front office, etc.)
Instrumental service	Tools and vehicles
	IT related services (building automation system, hardware, software)
Consumption services	Office services (furniture, cleaning, catering, printers)

Our research shows that the purchasing models in the Municipalities interviewed range between two extreme approaches: the first involves completely outsourcing services, while the second relies entirely on insourcing. Between these two extreme approaches, it is possible to identify a third approach that is a “mixed model” where outsourcing and insourcing are integrated in a balanced way. A particular case is the Municipality of Sesto Fiorentino, which has developed subsidiary companies performing facility management services. This research does not consider this “in house” model since it is destined to disappear. New normative constraints, in fact, forbid Italian Municipalities to have more than one subsidiary company. We now concentrate on the analysis of the three purchasing approaches.

4.2 The outsourcing purchasing model. The cases of Calenzano, Cascina and Poggibonsi.

The model of service outsourcing is adopted by the Municipalities of Calenzano, Cascina and Poggibonsi; they have decided to externalize their facility services as a consequence of *financial constraints* that have produced a reduction in public funding allocated to Municipalities and, in consequence, in the number of internal employees. It is also important to consider a tendency towards an externalization of services that require *high specialization* in their performance and continuous certifications imposed by specific regulations. The absence of specific internal competences is another reason that pushes public administrations towards the choice of outsourcing “*The problem is that, by law, we can’t replace retired workers and we are facing a reduction in public funding... we have also considered the high level of specialization which is increasingly required for specific services*” (Poggibonsi).

The Municipality of Calenzano has only one internal employee who maintains the municipal office dedicated to the maintenance services to verify reports from citizens with reference to local real estate (for example information on technical failures in schools). As a result, Calenzano outsources all facilities services that require a higher degree of maintenance, such as building maintenance, waste management and cemetery services. This externalization is

formalized by multi-year contracts. By contrast, in the case of services such as utilities (gas, water, etc.) or low cost services which require minor interventions, the Municipality resorts to short contracts involving local suppliers. In fact *“..if we have to make a modest intervention, like repairing a broken door, we cannot look for a company in Bolzano or Palermo, because we need a rapid intervention. In order to find companies we make a market survey and ask for estimates, then we look at the price/quality ratios, and we decide...”*(Calenzano). The Municipality of Cascina manages internally only the maintenance of street lights and modest repair services in the municipal schools. All other services are outsourced through call for bids where the selection process of suppliers is based on the economic principle of the optimal relation between quality and price. The Municipality of Poggibonsi, by contrast, realizes autonomously some routine maintenance (street lighting, road maintenance and furniture); all the other services are outsourced through annual/biennial contracts. In case of minor technical failures (hydraulic or electric), the Municipality does not contact specific suppliers but involves internal workers that solve the problem quickly. The suppliers are contacted only in case of important interventions. The Municipality of Poggibonsi, like the other two Municipalities, in the selection of suppliers also focuses its attention on local companies that are chosen on the basis of their proximity to the Municipal territory; among the different estimates it receives, the cheapest one is usually preferred.

The interviews show that in the externalization, all the relations between Municipalities and suppliers are not based on interaction, but on transactions that, instead of generating flexibility, produce rigidity and a low level of personalization in the management of facility services. Suppliers in fact provide facility services respecting rigidly the contractual terms without performing possible additional services that municipal employee would have been able to do. *“For example, for service concerning green spaces, when our workers cut the grass in our school, they also looked around. If the pine needles needed to be swept up, they did it... All those little things, all these little tricks, together make the difference. The external supplier does not do these tasks, because they stick to the contract”* (Calenzano). Moreover, in cases of routine maintenance services, it may also occur that the suppliers do not have sufficient knowledge either of the municipal territory or of the municipal property; it follows that in these cases the realization of service in outsourcing requires an involvement of internal employees which increases intervention time, adds to costs of service production and compromises efficiency in terms of cost reduction. *“...Outsourcing often leads to higher costs, producing a loss of knowledge and control of property. We can receive a report from one of my schools (for example, about a broken sink)... when we had our internal employees, who managed the building service of the school, they knew the grounds perfectly ... they knew where the object was, they knew what it looked like, so they understood immediately the problem and solved it immediately. Now what happens? We have to call the supplier which is not familiar with the municipal buildings to take care of routine maintenance services... To solve the problem we are often forced to turn to our employees, to obtain all the technical information (for example the localization of a pipe to repair) to realize the intervention”* (Cascina). Ultimately the reduction of contact and control over municipal real estate produces in the outsourcing of routine maintenance service higher costs than insourcing. *“Our major concern is the possible loss of contact on real estate, which leads to an increase of service cost production”* (Poggibonsi).

4.3 *The insourcing purchasing model: the cases of Sinalunga and Torrita di Siena.*

The insourcing purchasing model is adopted by the Municipalities of Sinalunga and Torrita di Siena which manage in a similar way the facility services and share a joint management both of security and of economic-financial services. They internally maintain the same facility services such as the ordinary maintenance of buildings and of roads, gardening, utilities (electricity, heating, water and gas), school bus service, cemetery services and cultural services. For these internal services, Sinalunga involves a team of 30 employees, while Torrita disposes of 14 internal workers. It is interesting to note that municipal teams are truly multifunctional: internal personnel are able to perform many tasks, contributing to guarantee organizational flexibility in facility services production. *“....The majority of our workers are multifunctional. This is one of our great strengths, because we always try to reinvent and use our workers for any job. For example, the person who is employed to drive the school bus from September to June, can whitewash the walls of our schools in the summer.... the person who supervises the cemetery can help gardeners to cut the grass. This internal organizational flexibility is a factor that most probably can't be generated if we resort outside”* (Sinalunga). The Municipalities of Sinalunga and Torrita are very proud of maintaining some services internally. *“..We try to do everything internally. Especially for maintenance, we prefer to involve our workers... the limitation of this involvement is the increase in specialization that requires external resources and that can favor outsourcing”* (Torrita di Siena). The Municipalities interviewed are convinced that, for services of routine building maintenance and of gardening, internal employees offer a service quality higher than external suppliers because of their timeliness, experience and knowledge of the municipal properties. It is necessary to add their great sensibility in service production that favors a supply's customization. *“There is no supplier who can cut the grass better than our employees , because they perform their task with great care and more control, this leads to a higher quality of service management”*(Sinalunga).

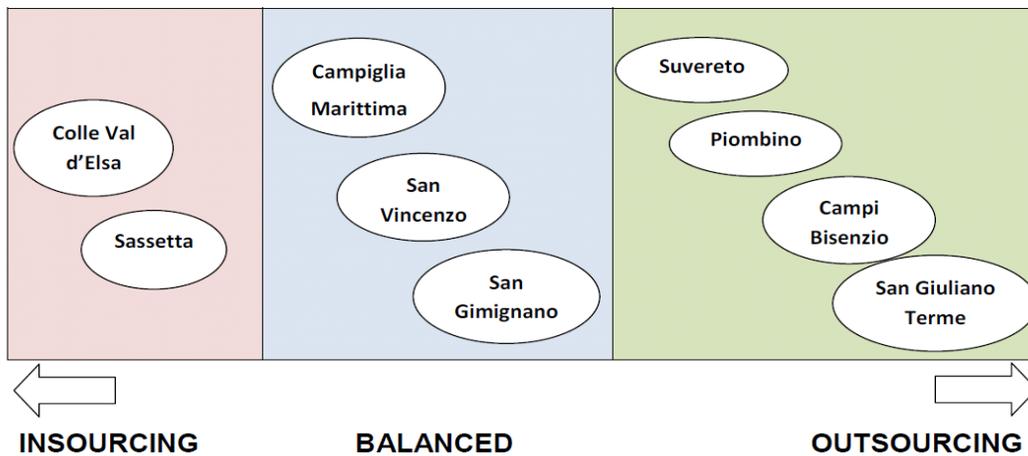
One important concern of Municipalities is determined by stringent regulatory constraints. *“With this new legislation which provides that for five retiring workers the municipalities can replace only one, our internal employees will disappear in the next 5 years”* (Torrita di Siena). However, some services, such as extraordinary building maintenance, require high levels of specialization which cannot be satisfied by internal employees who do not necessarily have all the adequate competences and attitudes. Services that require specialization must be realized by external suppliers. However, even if Municipalities had specialized employees, they would be obliged, because of the reduction in public funding, not to replace them with other internal workers. Ultimately, outsourcing is destined to become an obligatory option for Municipalities. *“There are some services that are worth keeping inside. I can give an example, school buses involve huge costs, such as replacements for drivers on sick leave or on vacation, the purchase and maintenance of vehicles, replacement of vehicles, the rising cost of diesel fuel, which has almost doubled in the last year. So there are many circumstances that make it not feasible to manage internally”* (Sinalunga). In particular in cases of complex interventions that require investments like the design of public works or renovation of a building, Sinalunga and Torrita entrust the job to external suppliers, which are usually local companies that enjoy a relationship of trust. At the moment the two Municipalities have externalized extraordinary maintenance and waste management; they point out, however, that the services in outsourcing are not managed with the same attention and care as when they were provided by internal workers. Externalization is reduced to transactions formalized by contracts limiting the freedom of suppliers in the service production and the increase of service value through interactions with the Municipalities. *“The*

external supplier manages the facility services, limiting itself to respecting contractual terms. We have entrusted the waste management service to the local firm Sienambiente. Every 15 days we must make three trips to clean up televisions, batteries and everything that is scattered around the bins and has fallen from the mechanical arm of Sienambiente's trucks that pass for the collection of waste. We are left with this job, because the firm doesn't do it, and not because it's in default, but because these little tasks are not established by contractual terms" (Torrita di Siena)

4.4. Mixed purchasing model

The mixed model is characterized by a combination of insourcing and outsourcing of facility management services: Municipalities integrate the internal production of facility services with the exploitation of external suppliers. The majority of Municipalities interviewed adopt this "mixed model". Actually, some of them come closer to the insourcing model while others tend towards an outsourcing model; moreover, one group of Municipalities is characterized by a balanced management of the two models. The figure below shows the municipalities positioned in three areas, according to the three reference models.

FIGURE 3 - Mixed models of Municipalities



The Municipalities of Colle Val d'Elsa and Sassetta still manage many services with their internal workers. Although they vary in size and organizational structure, they use the same approach in the management of facility management services. In particular, they produce services of building maintenance, gardening, cemetery and security internally. The services they externalize are extraordinary maintenance services, waste management, and some utilities such as gas and water. The outsourced services are contracted out with call for bids and long contracts; preference is given to suppliers who guarantee quality of service, although ultimately the choice tends to be determined by considerations of cost. The two Municipalities, however, point out that the search for the most economically advantageous supply leads to the development of a contractual relationship, rather than interactions with suppliers that could serve to increase service value and improve the planning of facility services. At the same time sellers also develop their supply thinking in an economic way; in other words, they tend to offer an economically advantageous supply to win the formal contract. "...Suppliers don't reason in terms of offer, nor of product service, but of the design of products and services, of the product

as solution. Our search for low cost solutions prods suppliers to think in the same terms. We have a multitude of needs but often our solutions are left to common sense, sometimes to improvisation, sometimes to emergency plans ... so we and the suppliers will have to manage, even with timid steps forward, to interact so that we can develop a joint offer, though this will not be an easy task... ”(Colle Val d’Elsa).

The municipalities of San Vincenzo, Campiglia Marittima and San Gimignano have adopted a model of purchasing which integrates the insourcing and the outsourcing approaches. They are similar in dimension and organization, although the facility services they manage autonomously are different. For example, San Vincenzo manages internally the services of green spaces and gardening; Campiglia Marittima has a mixed management of this service (one part is produced by its own employees and another part is outsourced); while San Gimignano manages them entirely by outsourcing. This kind of situation characterizes also catering services, utilities, cleaning services, security and school transports. In these Municipalities the balanced management of insourced and outsourced facility services makes it possible for the benefits of the internal service production to reduce the disadvantages generated by externalization. In the case of the outsourcing of facility services, the internal employees can, in fact, intervene to improve the organizational flexibility that in some cases can be compromised by contractual terms or by the limited knowledge of real estate. In fact the limited experience of suppliers concerning the real estate of the Municipality can especially in the production of building services lengthen the time of intervention and reduce the possibility of solving the problem. The involvement of internal employees and the exploitation of their knowledge can favor the coexistence of organizational flexibility and specialization. *“Our workers are multitask, in other words they know how to perform various tasks, but it is clear that everyone has their specialty. They know all municipal properties,their knowledge and experience cannot be found in external suppliers and it is useful to support suppliers in ordinary facility services concerning buildings.....suppliers may find it difficult to find the pipe to repair, do not how many times the same door or window has been repaired...they do not know the history of the building like our workers.....”* (San Gimignano). The coexistence follows if on the one hand it is useful not to compromise the quality of service, and on the other generates an overlapping of competence (both internal and external) in the same service that can have a negative impact on the cost of service production. However, according to the Municipalities of Colle Val d’Elsa and Sassetta, complex services which require high specialization and investment have to be externalized. *“For maintenance, we have a small group of three workers, who deal with small tasks, while we have outsourced the facility management services that require larger and more specialized interventions such as service of waste management or in pest control services .* (San Vincenzo). *“If we had kept everything internal, we would have needed too many employees, which would have been too expensive and difficult to manage... ”*(Campiglia Marittima).

Suvereto, Campi Bisenzio, San Giuliano Terme and Piombino are four different municipalities which manage internally relatively few services compared to those outsourced, such as street lighting or cemetery services. This is explained by the normative constraints which impose more and more cuts on personnel; so they outsource the services that require a high level of specialization. *“The services are more outsourced than internalized, because the personnel has been significantly reduced and there isn’t a turnover for our retired employees. Besides, for some services a high level of specialization is required”* (Suvereto). Therefore this option of outsourcing is often an obligatory choice and it doesn’t lead to economic benefits, nor to an improvement in the quality of service management. The Municipalities interviewed regret the

internal management of these services, both because they have lost control over facility services and their properties, and because if they were managed internally they would ensure a greater quality “*I worked well when I had my workers who could guarantee me an immediate and effective intervention, without delay*” (Campi Bisenzio).

5. Emerging paradoxes: interactions versus transactions in facility services

Drawing a comparison between the interpretative approach and the empirical results (Tables 3 and 4), we can advance a few important observations. (1) In all the facility services analyzed, the interactive approach is composed not by interaction, but by transactions seen as distinct mechanic exchanges that connect buyer and seller in a prospective of efficiency. Compared to instrumental services and consumption services, in the externalized component services, the interactive approaches can take the form of single transaction, but also of “routine interactions” (Ford et al., 2008). In particular a contract that commits buyer and seller for services directly destined to end-consumer, is usually formalized by multi-year contracts and can be subcategorized into simple and sequential transactions such as deliveries, specific interventions and payments that are defined by the contract itself. Ultimately routine interactions define formal and informal rules in business behavior and are developed to improve conditions of efficiency. (2) Besides the “value-in-exchange” of a business service does not depend on its “value-in-use”: buyers seem not to be interested in looking for adaptation, integration and harmonizing business services in their process of activities (business process). At the same time suppliers do not fulfill the role of “service value facilitator” (Grönroos, 2009); this is because they deal with buyers which, being public organizations submitted to specific normative rules, do not strive to develop a managerial culture and a propensity to contribute to the generation of service value. It is evident that the role that buyer and seller have to assume in interactions is not defined. Building upon these remarks and considering the principal research findings, we can find some specific paradoxes in buyer-seller interaction in facilities management with reference to Municipalities under study. It is our intention to analyze them in this part of the work in order to deep the results emerging in the table 4.

Paradox (1). In facility management each buyer and seller need reciprocal adaptation, but normative rules and a reduction of public funding push to adopt transactions instead of interactions. In Municipalities, all *the facility services (not only those belonging to consumption services) are not the result of ongoing interactions, but of transactions or routine interactions*. It derives that in the context under study facility services as business services do not find in the interaction their essence. In the transactions Municipalities tend to involve local suppliers and develop relations in the short time (single count) or in the long time (multi-year contracts). The reasons of this paradox can be found in a) the rigid rules regulating public negotiating contracts that allow a low degree of freedom in the definition of the interaction’s content and in the management of interaction with suppliers; b) the reduction of public funding destined to Municipalities that drive towards a reduction of internal employees and an evaluation of services based on price orientation. In addition to these reasons, it is also possible to consider the lack in Municipalities of a managerial vision that could favor the development of interactions with sellers to create services on the basis of citizens’ needs.

Tab.3 - Buyer-seller interactions in business service: an interpretative approach				
Interaction				
Conditions	Interactive Approach			Performance
Objectives Relational attitude	Component service	Interaction	<ul style="list-style-type: none"> • Sellers adopt the business service on the basis of customer segment of the buying company (specified interface) • The adaptation to market needs is filtered by buyer (specified interface) 	Value-in-use (for end-consumer)
	Instrumental service	Interaction	<ul style="list-style-type: none"> • Sellers translate in the business service the functional specifications defined by the buyer (translation interface) • The translation aim at integrating the business service with the primary process of the buying company (translation interface) 	Value-in-use (for buyer)
	Consumption service	Transaction	<ul style="list-style-type: none"> • Sellers run an efficient service production and delivery process optimizing resources allocation and utilization (standardized interface) • The buyer purchases a standard service from the supplier (standardized interface) 	Value-in-exchange

Tab.4- Buyer-seller interactions in facility services: results from the empirical research				
Conditions	Interactive approach			Performance
Objective (facility service exchanges) Relational attitude (reciprocal role not defined)	Component service <ul style="list-style-type: none"> • Maintenance • Utilities • Environment services • Security • Public transports Care services	Transaction - Routine interaction	<ul style="list-style-type: none"> • Municipalities look for efficiency and tend to externalize specialized services (not ordinary service) developing transactions with suppliers (usually local) • Instead of generating flexibility, transactions produce rigidity and low level of personalization in the management of facility services • Transactions can produce a loss of control on municipal resource (real estate); it can compromise the quality of service. The pursuit of quality requires (especially for ordinary service) the involvement of internal employees, compromising condition of efficiency in service production 	Value-in-exchange → Efficiency
	Instrumental service <ul style="list-style-type: none"> • Tools and vehicles • IT related services 	Transaction	<ul style="list-style-type: none"> • The supplier is not important for Municipalities; instrumental services are chosen on the base of their low costs without looking for their adaptation in buyer's activities 	Value-in-exchange → Efficiency
	Consumption service <ul style="list-style-type: none"> • Office services (furniture, cleaning, catering, printers) 	Transaction	<ul style="list-style-type: none"> • Municipalities choose the cheapest supply without considering its quality and the possibility of optimizing resource allocation and utilization 	Value-in-exchange → Efficiency

Paradox (2). Municipalities require greater efficiency, but low grade of flexibility and control over resources in transactions with sellers for service production, can generate conditions of inefficiency. As results, *transactions and routine interactions do not necessary produce efficiency* and thus economic advantages in terms of cost reduction. In fact in the management of component services that are externalized for their high specialization, service providers keep to the contractual terms, without going beyond their duties to provide an additional service or without intervening in emergency situations that arise suddenly and that can negatively impact on the citizens' quality of life. In order to overcome this *contractual rigidity*, Municipalities take actions involving in a direct way its internal employees compensating the supplier's deficiencies in service production. This organization even if it is useful not to jeopardizing the quality of services, reduces the intervention's timeliness, make the personalization of service difficult to realize and produces an *increase of production costs*. Moreover since the externalization reduces the *control* Municipalities have on their properties, it may compromise, as in the case of contractual terms, the efficiency in the production of building maintenance services. The low supplier's knowledge of the real estate and of their technical characteristics may make it necessary to involve municipal employees. In fact, even if Municipals no longer have direct control over the objects of maintenance, the exploitation of all the information held by its employees makes the service production feasible. In this way it is possible to maintain service quality which otherwise could be compromised; however the integration of knowledge by internal employees lengthens the time of intervention and produces a negative impact on the *cost of the service production*. The attempt to maintain a control over the quality of out-sourced services entails continuous checks on the supplier's production; in the Municipalities where this is realized, the impact on performance is negative. In the component services where the buyer and seller relation is defined by contract, some Municipalities develop monitor actions on sellers which perform the services. This monitoring can become economically unsustainable in the long terms because of the high costs generated by the involvement of municipal employees.

From the paradox (1) and (2), it emerges that Municipalities look for efficiency developing transactions with suppliers. Acting in this way they show not to be completely aware that transactions can produce conditions of inefficiency; on the contrary, they externalize facility services convinced of increasing efficiency. This interpretative mistake of the effects of transaction can generate a kind of vicious circle where outsourcing, even if activated in good faith, may cause inefficiency that produces a negative impact on performance which, given the reduction in public funding, pushes even more towards an increase in externalization. So the circle outsourcing – inefficiency – performance starts again. The final results can be a progressive decrease in the Municipality's performance.

Paradox (3). *Municipalities externalize in search of flexibility and service quality, but internalization can produce more flexible and greater service quality than a transactional approach*. Internal interactions produce adaptation, generating organizational flexibility in service's production. In our research internalization is considered as driver of flexibility especially in the *production of ordinary services*. This is because many Municipalities can count on multifunctional employees who can perform various tasks (multitask team) demonstrating the ability to act in a timely manner thanks to *knowledge* and *experience* accumulated over time. Moreover their great sensibility in the ordinary service production also favors supply's customizations. They also contribute to compensate situations of low flexibility that Municipalities have to face in the transactions with external suppliers. In cases of outsourcing, the internal employees can in fact intervene to improve the organizational flexibility that sometimes can be compromised by

contractual terms or by the low knowledge of real estate. The involvement of internal employees and the exploitation of their knowledge and experience can favor the coexistence of organizational flexibility and specialization. This coexistence is useful not to compromise the quality of service, but at the same time it generates an overlapping of competence (both internal and external) on the same service with negative effects on the costs of service production. Therefore the compensation between outsourcing and internalization produce a positive effect in terms of the quality of service but not in terms of efficiency. However the interviews evidence that the high specialization of some services require their externalization to specialized suppliers that are called to integrate the lack of internal employees' competences. If we also consider the reductions of public funding and the rigid normative rules, it derives that outsourcing becomes an obligatory option for Municipalities.

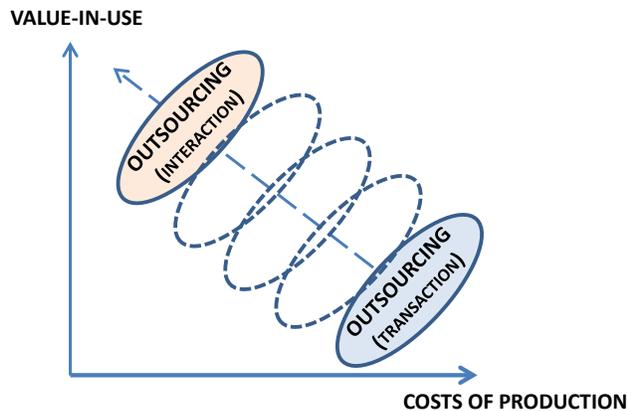
6. Conclusion

In the Municipalities analyzed, we have identified three different purchasing models: one based on outsourcing, another on insourcing and a third mixed model which combines outsourcing and insourcing. The results we have obtained reveal specific paradoxes that render the buyer-seller interaction in facilities management difficult to interpret using the theoretical approach based on the contribution of industrial and service marketing. In particular, the empirical research identity in the buyer-seller interaction in facility management the following propositions: a) facility services are not the result of interaction; b) transactions do not necessarily generate efficiency and c) internalization, if combined with transactions, favors organizational flexibility and service quality. Since transactions are not necessarily associated with efficiency, the outsourcing model may produce a negative impact on performance; at the same time an insourcing model can generate in the long term an increase in personal costs affecting performance. Between the two models, the current political and economic orientation pushes, at least in Italy, towards the development of the first, rather than the second model. This is because public funding is continually being reduced and, as consequence, the investment in personnel has also been reconsidered. The mixed model make it possible to find a temporary balance between specialization and organizational flexibility: the rigidity of external resources is compensated by the organizational flexibility of internal interactions. However the overlap of competence increases the costs of service production.

If the mixed model, which at the moment is the most common, is not sustainable and transactions in outsourcing do not produce efficiency, what are the possible scenarios in the purchasing models in facilities services of Italian Municipalities? In order to answer this question, it is important to consider the purchasing approaches of facility services in terms of production costs and of value-in-use. In particular the empirical research shows that insourcing can be considered in terms of production costs and values-in-use in an extreme position with respect to the mixed model and externalization. Value-in-use recognized to insourcing and to the mixed model is, however, higher than that recognized to outsourcing: in both of them, internal employees produce services that are integrated in the Municipalities' activity processes and that increase service value through reciprocal integration. On the contrary, external services are not identified on the basis of an internal adaptation with the services Municipalities provide to citizens: they are only recognized for their value-in-exchange. Moreover insourcing is not sustainable in the long term due to the high costs and the low specialization. The effects in terms of cost are less in the mixed model where, however, the overlapping on the same service production both of internal employees and of supplier can improve flexibility, but compromise efficiency. It follows that the externalization if, well managed, should generate an increase in efficiency. Since this does not happen, how is it possible to make transactions a driver of efficiency? In order to increase performance in the outsourcing

approach, buyer has to transform transactions into interactions (Figure 4). These latter imply adaptation, coordination, specialization, thus an active participation and a relational attitude of suppliers and buyers in the service production. In other words the improvement in efficiency requires the definition of reciprocal roles actors have in the interaction and the awareness on the part of buyer to contribute to the creation of the service value by using it and integrating it in its business processes. The drivers of this transformation consist of greater flexibility in the negotiating contract so as to achieve greater freedom in the definition of interaction's contents and in its

FIGURE 4 - From transactions to interactions: the impact on the value-in-use of facility services



management, and of the development of a more managerial approach in service production by Municipalities. Municipalities have to manage scarce public funding efficiently, developing at the same time a more strategic vision. The change from transaction to interactions, generates an increase in the value-in-exchange correlated to a recognized value-in-use and produces positive effects on suppliers' performance. Ultimately the development of interaction presupposes a new role of buyer, not as a passive actor, but as an active actor in service production; this change can improve

the economic conditions not only of buyer, but also of supplier. Only a strategic interactive prospective can ultimately overturn the three paradoxes creating a convergence between buyer and seller perspectives. It should be interesting to overcome the national dimension of the research and to make comparative analysis of Municipalities in other countries. In this way it is possible to verify the presence of paradoxes and develop specific normative purchasing models in facility management to apply in Municipalities based on a balance between flexibility, specialization and performance.

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