

LOOSE BUYER-SELLER RELATIONSHIPS AND THEIR DEVELOPMENT IN THE EU PUBLIC SECTOR

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ABSTRACT

As the substantial intricacy of EU public procurement practices has become apparent and the scope of statutory services has extended, both public and private sector actors have come to understand the importance of developing cooperative relationships in the EU public sector. Nonetheless, those relationships remain under-researched because several types of cooperative relationships in the EU public sector result from EU public procurement characteristics. The purpose of this study is therefore to understand buyer-seller relationship development based on the looser structure of cooperation in the EU public sector. Qualitative case study methods are used to propose that loose buyer-seller relationships in the EU public sector are discontinuous structures of cooperation, developed episodically through the states of initiation, operation, inactivity, or termination. In practice, the study offers tools with the potential to help public and private sector actors understand and develop buyer-seller relationships in the EU public sector.

Keywords: discontinuous relationships, episodic relationships, process approach, EU

Type of paper: work-in-progress

INTRODUCTION

In the European Union (EU), the public sector is an essential customer faction. The sector has a notable impact on the economy of the EU nations as public procurements cover 30–40 % of supply contracts and provide both substantial and relatively stable sales for private sector actors (Purchase, Goh & Dooley 2009). Nonetheless, the purchase behavior of any customer can be difficult to understand and address, as purchase processes can consist of several states and activities that closely concern groups of people with distinct interests (Johnston & Lewin 1996; Svahn & Westerlund 2009). The public sector in the EU is perceived as intricate, obscure and essentially different from the private sector (Rainey & Bozeman 2000) as its procurement practices are strictly constrained to ensure transparency and to open procurement to a wide range of suppliers (Erridge & Mcllroy 2002). In practice, responsibility for enforcement of the EU directives on public procurement rests with the individual nations of the EU (Lindskog, Brege & Brehmer 2010).

The principles of EU public procurement stress transparency and the avoidance of corruption (Lindskog et al. 2010), and consequently favor arm's length relationships. That is, to achieve fair treatment (Lindskog et al. 2010), public sector actors have stressed by tradition competitive approach (Erridge & Mcllroy 2002). For this reason, while private sector actors concentrate on close relationships, the public sector has reckoned on transactional activities (Lian & Laing 2004). Nevertheless, as the substantial intricacy of the EU public procurement practices and the scope of statutory services have risen, the lack of effective operational activities has established a need for alternative practices, concluded as 'new public management' (Essig & Batran 2005). Therefore, as public sector actors have understood cooperative behavior as a tool to serve public interest, the EU public procurement policies have been altered (Constatino, Dotoli, Falagario & Fanti 2011) to reflect an approach that facilitates the interaction of private and public sector actors (e.g. Erridge & Mcllroy 2002; Rees & Gardner 2003; Lian & Laing 2004; Bovaird 2006). This is because interaction can increase public value through social capital that facilitates access to novel resources, reduce transaction costs, clarifies contract specifications, increases shared risks and enhances cooperative actions (Erridge & Greer 2002). In cooperative relationships, parties also develop the trust (Morgan & Hunt 1994) that is important in the public sector (Rees & Gardner 2003) as it helps reduce opportunistic behavior (Erridge & Mcllroy 2002).

The public sector characteristics (e.g. Rainey, Backoff & Levine 1976; Perry & Rainey 1988; Rainey & Bozeman 2000) and the effect they have on purchase activities (e.g. Lian & Laing 2004; Lindskog et al. 2010), decisions (e.g. Nutt 2006; Khan & Schroder 2009), and recently relationship structures (e.g. Erridge & Mcllroy 2002; Wang & Bunn 2004; Bovaird 2006; Purchase et al. 2009) have attracted scholarly interest. In particular, a strand of theories on public private partnerships (PPPs) has contributed to the public sector research (e.g. Savas 2000; Hodge & Greve 2007). Nonetheless, as cooperative relationships in the EU public sector can adopt distinct structures (Bovaird 2006), the purpose of this study is thus to understand buyer-seller relationship development based on the looser structure of cooperation in the EU public sector, and the study stresses both (1) how these relationships develop in the EU public sector and (2) how this process can be characterized.

The study is structured as follows. First EU public procurement is described and reflected against relationship development theories to create a theoretical basis for the study. Then the research approach is represented. Finally, tentative research results are provided and the reliability and limitations of the study and proposals for future research are evaluated.

LOOSE BUYER-SELLER RELATIONSHIPS IN THE EU PUBLIC SECTOR

EU public procurement characteristics

The EU public sector consists of tax supported actors and institutions responsible for services provided for society. As the private sector purchases to increase revenues or decrease costs, the public sector procures to support its statutory duty of serving society (Wang & Bunn 2004). Strict political constraints and authoritative orders have been set to ensure the public interest is taken into account (Erridge & McIlroy 2002; Purchase et al. 2009). The nations of the EU are bound by the terms of their accession treaties to adhere to the EU directives on public procurement (Lindskog et al. 2010) that stress effective and fair trade (Lian & Laing 2004; Wang & Bunn 2004). In practice, as private sector actors can select a procedure that best suits a particular occasion (Wang & Bunn 2004), there are options within authoritative EU procedures (Rainey et al. 1976) that are incorporated to facilitate the selection of an appropriate proposition either through open procurement, or a restricted or negotiated procedure (Lindskog et al. 2010).

In contrast to the private sector, the public sector is accountable to both political authorities and society to assure the probity of procurement activities (Erridge & Greer 2002; Wang & Bunn 2004; Murray 2007), and is subject to inspection to secure transparency (Erridge & McIlroy 2002; Wang & Bunn 2004) and to avoid corruption (Murray 2007; Lindskog et al. 2010). The decisions of the EU public sector rest upon several, occasionally contradictory, strands of objectives (Erridge & McIlroy 2002) rooted in authoritative rules and orders (Wang & Bunn 2004). This is the opposite of the situation in the private sector where contracts are concluded through privileged negotiations (cf. Wang & Bunn 2004). Table 1 summarizes and compares EU public procurement characteristics to the private sector.

Table 1. The procurement characteristics of public and private sector.

	Public sector characteristics	Private sector characteristics
Procurement purpose	Support statutory tasks to serve public interest (Wang & Bunn 2004; Purchase et al. 2009)	Increase revenues or decrease costs (Wang & Bunn 2004)
Procurement process	Authoritatively stated procedures to facilitate effective and fair selection of a proposition (Rainey et al. 1976; Lian & Laing 2004)	Adaptable (cf. Wang & Bunn 2004)
Accountability	Periodic inspections to secure transparency and the probity of public sector actors (Wang & Bunn 2004; Erridge & Greer 2002; Erridge & McIlroy 2002)	Less accountability (Wang & Bunn 2004)
Procurement decision	Several, occasionally contradictory, strands of objectives, rooted in set rules (Erridge & McIlroy 2002; Wang & Bunn 2004)	Privileged buyer and seller negotiations (cf. Wang & Bunn 2004)

As a result of the EU public procurement characteristics, buyer-seller relationships in the EU public sector are convoluted (Purchase et al. 2009) and stand out (Bovaird 2006), hence they cannot be described by theories designed for the private sector (Wang & Bunn 2004). Thus, to understand loose buyer-seller relationships and their development in the EU public sector, the EU public procurement characteristics are compared to private sector relationship development theories.

Loose buyer-seller relationship development in the EU public sector

Authorities in the EU public sector have started to understand the benefits of cooperation as a tool to enhance the effectiveness of their procurement practices, and to serve the public interest. Consequently, several variations of cooperative relationships have arisen in the sector (Bovaird 2006). Hence, a buyer-seller relationship in the EU public sector refers to the looser structure of cooperation, conducted according to the EU policies. Nevertheless, this cooperation rests on the interaction of public and private sector actors (Holmlund & Törnroos 1997) which develops through a process of activities conducted by individual actors in interaction episodes (van de Ven 1992; Pettigrew 1992).

In the EU public sector, loose buyer-seller relationships develop in four states (see Figure 1). As in the private sector, relationships in the public sector start with the search and evaluation of potential suppliers (Ford 1980; Dwyer, Schurr & Oh 1987; Heide 1994; Wilson 1995; Batonda & Perry 2003; Polonsky, Gupta, Beldona & Hyman 2010). In the public sector, this initiation state is, nevertheless, conducted through competitive tender that delivers the prerequisite open and fair trade. The search for a potential supplier is thus conducted by way of a request for quotation, and

suppliers capable of meeting its terms responding. In contrast to the private sector, public procurement cannot be based on social or personal relationships that could interfere with the process (Wang & Bunn 2004). Nonetheless, the state refers to the phase through which parties become attracted, discover their resources fit (Kanter 1994) and the point when the purpose of cooperation is declared (Ford 1980; Dwyer et al. 1987; Kanter 1994; Wilson 1995; Ring & van de Ven 1994; Batonda & Perry 2003).

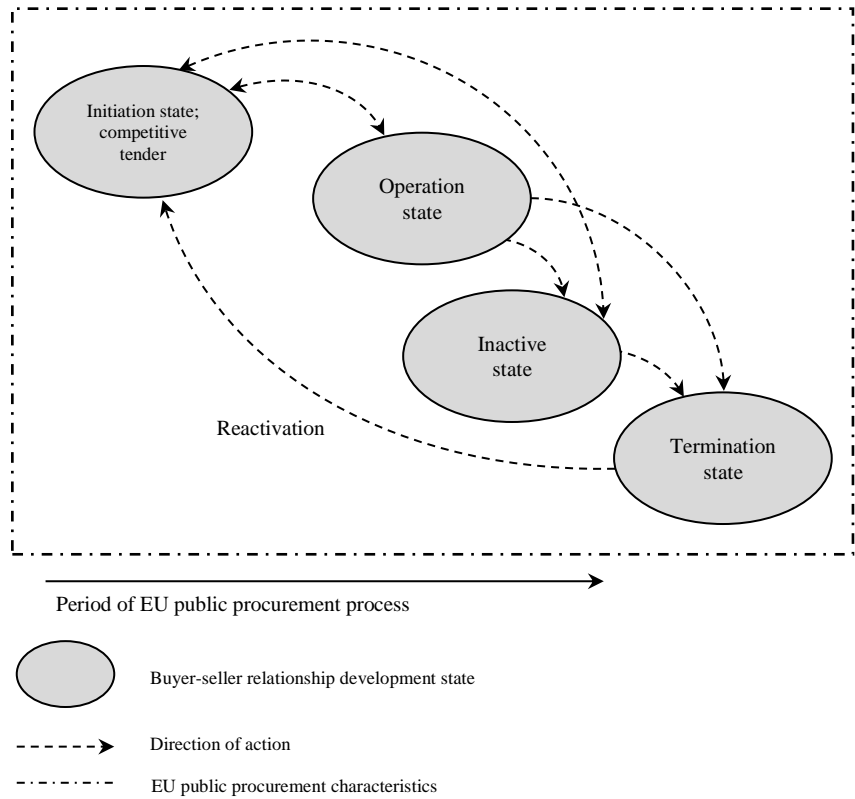


Figure 1. Loose buyer-seller relationships and their development process in the EU public sector.

The relationship is affected by the procurement decision as it leads either to the commencement of an operation (Ring & van de Ven 1994; Polonsky et al. 2010) or an inactive state (Batonda & Perry 2003; Polonsky et al. 2010). In practice, when a contract is awarded, the relationship transfers to the operation state that includes trade. In this state, the parties increase their activity links, resource ties and actor bonds through adaptations (Ford 1980; Wilson 1995), resources compatibility (Wilson 1995), trust, and reciprocal satisfaction (Dwyer et al. 1987). In the EU public sector, as relationships serve to facilitate procurement processes (Wang & Bunn 2004), contrary to the private sector, relations are nevertheless discontinuous. That is, relationships in the EU public sector can consist of both periods of activity and periods of little or no trade and thus there is a potential risk for entry of competitors (see Hadjikhani, Lindh & Thilenius 2012). Further, they tend to develop episodically as relationships are based on contracts active for set periods. That is, their ending is predetermined, but not necessarily desired (see Halinen & Tähtinen 2002). In practice, the contract divides relationship into periods as the performance of supplier is evaluated after each contract period and no promises of future contracts are made (Wang & Bunn 2004).

On the other hand, if a supplier fails to meet the requirements of the public sector actor (Batonda & Perry 2003), the relationship can move into the inactive state. This refers to the phase that lacks trade (Hadjikhani et al. 2012). Alternatively, the supplier can terminate the relationship (Dwyer et al. 1987; Kanter 1994; Heide 1994; Batonda & Perry 2003; Polonsky et al. 2010) if it perceives the costs of continuation exceed the benefits it will derive (Dwyer et al. 1987; Kanter 1994; Batonda & Perry 2003; Polonsky et al. 2010). A relationship is terminated if all activity links, resource ties, and actor bonds that connect relationship parties are broken (Halinen & Tähtinen 2002). EU public sector principles also facilitate the reactivation of a relationship if a supplier desires to provide its services for a novel contract period.

RESEARCH APPROACH

Qualitative methods are applied to understand thoroughly loose buyer-seller relationships and their development in the EU public sector. This is appropriate because it provides a rich description of the studied events (Stake 1995, 47) and it suits the social character of the subject studied (Morgan & Smircich 1980). As a case study can illuminate the decisions and behaviors of individuals involved in interconnected relationships (Halinen & Törnroos 2005), it is used to research the role of social actors in EU public sector relationships, a subject that has been insufficiently explored to date (see Eisenhardt 1989).

The empirical part of the study concentrates on the Finnish food industry where private sector actors provide their services to public sector institutions that are responsible for procuring according to EU rules. The competition in the industry is intense, as its actors produce identical products based on retail cooperation and creation of added value. Thus, an open procurement procedure is applied involving a search for potential suppliers using detailed requests for quotations. As there is a bias toward the open procurement procedure in the EU public sector, the selected industry enables a broader use of the research results.

The data collection is built around the public procurement unit that concentrates on procuring food services to support the statutory obligations of public sector actors, such as schools and hospitals, to reflect its cooperation with private sector actors. As a result, two cases are selected: a relationship with contract supplier and a relationship with a potential supplier. At present, the primary data is based on six thematic interviews (see Table 2) from both sides of the relationships (see Arksey & Knight 1999). These interviews are supported and triangulated by secondary data, comprising ten written reports (e.g. requests for quotations, evaluation forms and criteria, and the procurement decision), a lecture on EU public procurement practices, and a thematic interview to understand the selected industry.

Table 2. The primary data of the study.

Actor	Reason	Type of data	Occasion & Duration
Public procurement unit	Responsibility areas relate to public procurement	<i>Group interview</i> Service Manager & Procurement Specialist	12.10.2012, 60 minutes
Public purchaser	Purchaser's perspective	<i>Interview</i> Procurement Secretary	21.11.2012, 40 minutes
Public purchaser	Purchaser's perspective	<i>Interview</i> Area Manager	27.6.2013, 50 minutes
Potential private sector supplier	Responsibility areas relate public procurement	<i>Group interview</i> KAMs (2)	3.9.2012, 60 minutes
Contract supplier	Responsibility area relates to sales	<i>Interview</i> Sales Manager	30.10.2012, 45 minutes
Contract supplier	Responsibility area relates to public procurement	<i>Interview</i> Food Service Specialist	5.11.2012, 40 minutes

The data is analyzed thematically with the help of a theoretical framework but also allowing new themes and outcomes to arise from the data (see Miles & Huberman 1994). Hence, an abductive approach is adopted as it permits theory to interact with practical observations and therefore to construct the research subject. As the analysis is incomplete, the results and conclusions in the next section are tentative.

CONCLUSIONS

The public sector and the relationships within it have attracted research interest. Nonetheless, as prior theories have tended to concentrate on PPPs, other types of cooperation in the EU public sector have remained under-researched. This study contributes to the theoretical basis relating to public sector relationships as it helps to understand buyer-seller relationship development based on the looser structure of cooperation evident in the EU public sector.

The study makes three theoretical contributions. First, loose buyer-seller relationships develop in the EU public sector through *the states of initiation* (see also Ford 1980; Dwyer et al. 1987; Heide 1994; Wilson 1995; Batonda & Perry 2003; Polonsky et al. 2010), *operation* (see also Ring & van de Ven 1998), *inactivity* (see also Batonda & Perry 2003; Polonsky et al. 2010), or *termination* (Dwyer et al. 1987; Kanter 1994; Heide 1994; Batonda & Perry 2003; Polonsky et al. 2010). In practice, cooperative relationships are initiated by a public sector actor that invites

potential suppliers to participate in a competitive tender. This state leads either to an operation occurring or the relationship entering an inactive state. As the contract ends, the contract supplier has several options including raising another tender, altering the nature of the relationship to an inactive one or terminating the entire relationship. As for the potential supplier, it can seek an opportunity for a contract in a competitive tender or decide to terminate the relationship. Public sector relationships can also be reactivated (see also Polonsky et al. 2010). To conclude, the process of buyer-seller relationship development in the EU public sector resembles those found in the private sector. The two forms are, nevertheless, distinguished by the principles and authoritative restrictions that have been set to control EU public procurement.

Therefore second, as loose buyer-seller relationships in the EU public sector cannot feature relational continuity, relationships are *discontinuous*. That is, they can contain periods of activity and periods of little or no trade, thus there is a risk for competitor entry (see Hadjikhani et al. 2012). Scholars have conceded inactivity occurs in cooperative interactions, critical business or political conditions and projects (Hadjikhani et al. 2012), but have not focused on it in the EU public sector where inactivity is at least partly enforced, that is, the state of inactivity is rarely desired, particularly from a supplier's perspective. Third, as the supplier is evaluated after each contract and promises for the future cannot be made (Wang & Bunn 2004), loose buyer-seller relationships in the EU public sector develop *episodically* (see Halinen & Tähtinen 2002). That is, the end of cooperation is predetermined. EU public sector relationships are formal in nature for the above reasons. In practice, the selection of a partner in the EU public sector is conducted through the authoritative tenders that stress factors other than social aspects (Wang & Bunn 2004).

As public procurement has a societal impact, the adoption of a relational approach for the EU public sector is essential. Having a conception of loose buyer-seller relationship development is hence seen as a prerequisite of gaining a thorough understanding of the EU public sector. Therefore, this study helps both public and private sector actors seeking to understand public sector cooperation and how it differs from the private sector, and thus looking to adopt a relational approach to public procurement rather than just focusing on competitive tenders. The conception of the discontinuous and episodic nature of relationships in the EU public sector is important as it directs attention toward the critical state of inactivity. That state should be understood as a part of relationship, not as a closure, as interaction in this phase can benefit the parties to the relationship. Interaction can facilitate other procurement processes and produce other benefits too (Wang & Bunn 2004).

EVALUATION OF THE STUDY AND FUTURE RESEARCH

The reliability of the study is increased by the careful description of research methods as it describes the chain of thought in the study. This is relevant as it will enable others to understand and assess the decisions of the researchers. Nonetheless, the chief limitation of the study is the abstract level of its process description. That is, in its present form it includes four states that should be elaborated to foster understanding of loose buyer-seller relationships and how they develop in the EU public sector. Studies that analyze the activities and roles that these four states encompass would therefore be welcome. Another limitation is that this study concentrates particularly on the open procurement procedure, while in the EU public procurement can be

conducted through several procedures. Therefore, the effect of other procedures on relationship structures should be explored. Generally, any studies that adopt a relational approach to public sector research would be relevant.

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