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Organizational design in public procurement: A stakeholder approach

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Abstract

Organizing the purchasing function for public bodies and other non-profit and/or non-market bodies starts with the selection of an appropriate organizational strategy. In order to be able to select between generic strategies like low cost and differentiator or strategies described as operational excellence, customer intimacy and product leadership, a stakeholder based model was used. The selected strategy forms the basis to design the nature of three organizational elements: policies (*P*), organization (*O*) and processes (*P*). The aspect system of the purchasing function and the sub-system of the purchasing *department* reflect the nature of these three POP elements. It helps to translate the selected organizational strategy into a appropriate supplier strategy and clarifies the idealized mix of suppliers in terms of portfolio archetypes. Ten policy aspects of purchasing and four organizational aspects are described to redesign purchasing.
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Keywords: Purchasing; Stakeholder analysis; Customer intimacy

1. Introduction

Modern purchasing has gone beyond 'just buying' or 'fulfilling the buying needs of the organization'. These days, the purchasing activity is defined as 'selecting those suppliers and dealing in such a way with them, that it enables the organization to implement its market strategy best in the way it has decided to serve the end customers' needs' (Carter et al., 2000; Kamann, 1999). For companies in the market economy, where customer needs usually are known, we may—and actually, should—derive purchasing strategies from the overall company strategy. The theoretical model—the so-called *POP-model*—describing this process is grounded in contingency theory (Lawrence and Lörsch, 1967): given their task environment (Wheelen and Hunger, 1992), companies in the market economy adopt a certain strategy (Johnson and Scholes, 1989; Porter, 1980; Treacy and Wiersema, 1993) on a particular technology–product–market combination. This strategy may be in line with the Structure–Conduct–Performance paradigm (Bain, 1959; Sherer and Ross, 1990), which means the prevailing market structure determines company behaviour, or, it may be the opposite, by showing collusive or discretionary behaviour (Kamann, 1988, 2003). Whatever the choice is, companies act as part of an open system which means according to congruency theory (Nadler and Tushman, 1979) that the organization has to be shaped in accordance with the characteristics of their environment (Kamann, 1986; Nelson and Winter, 1977) where the selected strategy and technology is translated into three important elements: the policies—including goals—of the organization (*P*), reflected in the way everything is being organized (*O*) and the processes (*P*) used, including their corresponding activities. One could add that these three elements are embedded into the particular set of knowledge of that particular organization. Hence, to be an effective working system, the three interdependent elements *P*, *O* and *P* have to fit each other and, as a set, have to be congruent with their external context. The *purchasing* function—as an aspect system—and the purchasing department—as a sub-system—should reflect the nature of the three *POP* elements. For example, a centralized purchasing function with a central purchasing department does not match with a company with a decentralized organization philosophy; processes should be in line and goals should be congruent.

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Although the statement that purchasing goals should be congruent with company goals and strategies seems rather obvious, in-depth case studies (Kamann et al., 2001) indicate that this actually is rather an exception than the rule. When screening 55 master theses in purchasing at the University of Groningen, I found that at best seven companies had what could be seen as a 'proper fit' between purchasing policies and company strategies. Hence, if this 'translation' of customer needs into purchasing policies—apparently—is difficult for market oriented companies, one can imagine, it is even more difficult for public bodies and semi-state organizations. First of all, there may be a problem in identifying '*the*' customer at all, or '*the market*' and '*the*' technology applied. While in the market economy, the customer is the one who pays the bill, with public bodies this may be much more difficult to trace. Who pays and who is the customer in the case of unemployment benefits? Or, who is the customer in the case of prisons; the prisoner? He usually does not pay for his lodgings and food. Who is the customer in health care: the patient or the health insurance companies? And, when the 'customer' is not evident, even more obscure becomes the question 'what does he want' and what should be the effect of this on the composition of my supply base and the demands I put to my suppliers. Hence, even if a strategy exists, usually this is a rather political statement or phrased in container terms like 'best value' as in the case of British health care. Therefore, I looked for a substitute for the straightforward 'company strategies' and 'customer profile' and 'customer demands'. I found this by incorporating the literature on stakeholders and stakeholder mapping and combining this with the concept 'customer intimacy'. After the discussion of stakeholders, I will discuss the mechanism that translates these stakeholder demands into goals and strategies of the organization, introducing the 'web' and 'club' concepts. Then, the POP-model will be expanded to incorporate modern market strategies like operational excellence, product leadership and customer intimacy. This will result in a number of archetypes for public bodies. These archetypes are used in the successive sections to differentiate between the formulation of purchasing policies and between various ways to design the organization, given a particular organizational strategy adopted to meet certain stakeholder demands.

2. Stakeholders

According to the stakeholder literature (Rhenman, 1968; Freeman, 1984; Mitchell et al., 1997; Wheeler and Sillpanää, 1998; Elias et al., 2002), the most used definition of a stakeholder is the broad definition of "any group or individual who can affect or is affected by the achievement of the organization's objective" (Freeman, 1984, p. 46). Mitchell et al. (1997, p. 854) identified three attributes the stakeholders may possess: (1) the power to influence the organization; either coercive, utilitarian or normative; (2) the legitimacy of the relation with the organization; either individual, organizational or societal based; (3) the urgency of the stakeholders claim on the organization; calling for immediate action; either time sensitive or critical to the stakeholder. These authors developed a typology, used to describe a theory of stakeholder *salience*. This is described as "the degree to which managers give priority to competing stakeholder claims" (p. 854). Salience will rise when stakeholders accumulate any combination of these three attributes (Neville et al., 2004).

In communicating with stakeholders, various *levels* of communication are distinguished in modern marketing communication literature (Podnar and Zlatko, 2006): inevitable, necessary and desirous levels. The author is aware that these terms lack operational accuracy; however, it depends on whether an organization opts to try to 'neutralize' stakeholders in order to keep them quiet, or actually wants to include them in a strategic discussion in the context of a Corporate Social Responsibility (Harrison and Freeman, 1999; Miles et al., 2006). Donaldson and Preston (1995) also go into the descriptive accuracy of stakeholder concepts. When using stakeholder analysis, we should bear in mind that stakeholder attributes are (1) variable, not steady state; (2) socially constructed, not objective, reality; (3) consciousness and willful exercise may or may not be present. This implies that stakeholder analysis or mapping is a dynamic exercise full of iterations.

Making the right decision and actions on this issue may be the difference between success and closure, transfer of the organization's activities into another service or privatization after too many questions in parliament, complaints or poor evaluations. To rephrase this—the apparent lack of dealing properly with this issue results in organizational mortality (Caroll and Hannan, 1989).

The purpose of stakeholder analysis also is to make clear who decides on this issue. In the case of public bodies, usually some kind of single political actor represents the interests of a large group of other stakeholders, lacking power. It is the difference between a definition of stakeholder as "benefit from or are harmed by, and whose rights are violated or respected by (…)" (Evan and Freeman, 1988, p. 79) representing well the actual users, and "…without whose support the organization would cease to exist" (Bowie, 1988, p. 112, note 2), referring to those actors, who represent 'the public interest'. Here, we have representative stakeholdership. Here, we could make the difference between a single individual—"a face" (McVea and Freeman, 2005)—and a "community" (Dunham et al., 2006).

Hence, the relevance of the various definitions in literature (Kaler, 2003) may differ between market oriented firms and non-market operating organizations. However, whether the definitions have a narrow focus on the organization's core economic interests—either required for the organization to survive (Bowie, 1988), on the stakeholders in exchange relationships (Cornell and Shapiro, 1987) or whether they are relevant because of moral claims (Freeman, 1994) will be left out of the

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