



The impact of sustainable public procurement on supplier management – The case of French public hospitals

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ABSTRACT

In the public sector, procurement managers are now required to comply with new sustainable regulations and to look for suppliers able to provide a sustainable offering. Stating that contracts can only frame part of the interaction and that parties often turn to more negotiated agreements, we investigate whether sustainable expectations within public hospitals could impact supplier management and imply rearrangements between public buyers and private providers. Data were collected from fifteen French hospitals through semi-structured interviews. Findings first highlight the sustainable expectations of public buyers from global key providers, and, second, that sustainable procurement does impact the relationship by creating new rules. Building on these results, managerial implications are suggested.

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1. Introduction

Sustainability defined as business simultaneously achieving three inter-linked goals – economic prosperity, environmental protection and social equity (Elkington, 2002) – has become a major topic within the field of industrial marketing. The topic of sustainable procurement is often linked to the wide terminology of “green supply chain management” (Bai & Sarkis, 2010, p. 1201). As Sarkis, Quinghua, and Kee-hung (2011) recall, the original goal of sustainable procurement in the early 20th century supply management literature was to avoid waste and that was not for environmental reasons but for economic ones. Later on, the concept evolved towards “green purchasing” including environmental awareness (Björklund, 2011; Chen, 2005; Min & Galle, 1997, 2001; Robey, 2009). From this perspective, a significant number of publications debate about how and why firms are launching “greener” procurement processes (Bai & Sarkis, 2010; Carter & Rogers, 2008; Handfield, Walton, Sroufe, & Melnyk, 2002; Koplin, Seuring, & Mesterharm, 2007; Sarkis, 2003; Sarkis et al., 2011). However, little is known about public procurement practices where few empirical studies have been conducted (Walker, Di Sisto, & McBain, 2008). The pressure exerted by external constituencies on organizations to conform with a set of expectations in order to gain legitimacy and thus secure access to vital resources has nevertheless long been accepted within the public sector (Beckert, 1999;

Crossan, Lane, & White, 1999). The legal framework on Sustainable Public Procurement (SPP) is applied in France through laws, decrees and government guidelines. In particular, the purpose of the ordinance (No. 2005-649), passed in 2006, was to set up the Public Procurement Contracts Code (PPCC). This legal instrument provides, on the one hand, legitimacy to public purchasers to include sustainable development rules in their demands, and, on the other hand, the opportunity for providers to become aware of markets through public Web sites, allowing them to prepare their response. At their level, French public hospitals implement the European Union Directive on public procurement (2004/18/EC) whose purpose is to encourage open and transparent competition delivered through competitive tendering throughout the European Union. This new regulation requires rearranging the interactions between public purchasers and private providers. Moreover, it has been demonstrated that business actors do not simply comply with sustainable orientation, but rather with elaborate responses impacting the creation of new rules (Heide & John, 1992; Veal & Mouzas, 2011).

In our study, we investigate the new sustainable procurement expectations, from the buyers' point of view, within the French public healthcare sector, which is facing additional environmental requirements. Our research objective is to examine the impact of sustainable public procurement on supplier management. The specific research question we want to address is “What are the implications of sustainable regulation on public buyers' expectations, and consequently what kind of new agreements does it imply?” Our analysis is supported by two streams of literature: the first one concerning sustainable procurement (Sharma, Gopalkrishnan, Mehrotra, & Krishnan,

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2010; Sinding, 2001; Walker & Brammer, 2009), and the second one dealing with implicit and explicit relationships in a “norms-based” legal framework (Macneil, 2000; Mouzas & Ford, 2012; Nee, 1998). The aim of this paper is to report on our interpretation of the data collected among fifteen French public hospitals. We have structured the paper so that we first briefly review the current state-of-the-art on sustainable public procurement and on contracting. We learn from these crossed viewpoints that new rules, such as umbrella agreements and relational norms, are developed by parties in order to address the new environmental regulations. This serves as the foundation for our design of qualitative investigation conducted with public procurement actors, as described in Section 2. We then present our findings around five themes, and demonstrate that new expectations generate rearrangements within the interactions between public buyers and private suppliers. We finally conclude by discussing the results with regard to possible managerial implications of the elements of renegotiation.

2. Sustainable procurement coping with public contracting

Previous academic work demonstrates that new regulations do impact business interactions (Ford & Mouzas, 2010; Veal & Mouzas, 2011; Walker et al., 2008) and that all kind of agreements between companies – formal contracts as implicit arrangements – might be affected by new rules. As a strategic approach to acquiring the organization's current and future needs through effective management of the supply base (Monczka, Handfield, Giunipero, & Patterson, 2008), the procurement process is duly impacted by the new sustainable requirements. First, we report on the links between sustainability and purchasing decisions. We identify that the concern for sustainable topic raises further issues regarding agreements between public buyers and private providers. Second, we refer to the literature on agreements and contracts as a framework to new business orientations.

2.1. The sustainable procurement concern

Sustainable procurement can be defined as the pursuit of sustainable development objectives through the purchasing and supply process (Walker, Spencer, Miemczyk, & Johnsen, 2010). It then can be understood as the efforts of an organization to achieve or simply improve performance of buying activities in three ways: environmentally, socially and economically.

Firstly, it has long been argued that the purchasing function is a key actor, which is socially responsible, with an environmental concern in its supply processes and strategies (Drumwright, 1994). In an extensive literature review on the integration of sustainable criteria in procurement, Seuring and Müller (2008) demonstrate that environmental concerns are much more prevalent than social ones, representing 75% of articles. Drivers of environmental concerns are to be found in the pressure of governments and other stakeholders in influencing sustainable decisions of organizations. Internal and external drivers of environmental supply management have even been identified, including organizational factors, regulation, customers, competitors and society (Walker et al., 2008). Surprisingly, suppliers are not listed as a driver of sustainable orientation. Regarding internal drivers, Sharma et al. (2010) identify three major strategies in the achievement of environmental sustainability objectives: reduction of surplus supply of products, reduction of reverse supply and internal marketing in order to convince other departments. Nevertheless, the authors state constraints to environmental supply projects: internal barriers such as cost and lack of legitimacy, and external ones like poor supplier commitment and industrial specificities. Their findings suggest that interfaces able to search for and promote environmentally friendly products and services are playing a key role in the supply chain for achieving sustainability objectives.

Secondly, the social dimension of sustainability has been explored through the identification of non-economic criteria contributing to socially responsible buying or SRB (Maignan, Hillebrand, & MacAlister, 2002). The authors show that, related to the corporate responsibility, the trend toward socially sustainable purchasing aims to incorporate in the buying process criteria such as controlling the supplier ethical business practices or developing safe working equipment for employees. For example, the procurement process might be impacted through incentives to purchase recyclable or reusable materials (Sarkis, 2003).

From a third perspective, many researchers have worked on the economic dimension addressing the question of the value expected from sustainable procurement. Authors have convincingly argued that environmentally responsible strategies can contribute to competitive advantage and superior financial performance (Engardio, 2007; Esty & Winston, 2006; Savitz & Weber, 2006; Sharma et al., 2010). From this overview of sustainable development objectives linked to purchasing decisions, we notice that few publications argue that business can simultaneously achieve the three inter-linked goals of economic prosperity, environmental protection and social equity (Elkington, 2002).

All academic work listed above is supported empirically in the private sector. To our knowledge, there is no study in the public sector. Yet, in terms of regulations, the Agenda 21 sustainable development rules have been adopted for twenty years now and in the public sector, their implementation is entrusted to the “Comité 21”. Its mission is to create conditions for exchange and partnerships between actors on a territorial scale. Within the French public hospitals, the procurement function¹ has then been asked to manage relationships with suppliers able to provide sustainable solutions. The complexity of an organization like a hospital, embedded in a network of stakeholders – government, local authorities, patients, medical staff, consultants, etc. – requires a dynamic relational view. From this perspective, the type of interface used in the relationship – actors and resources – has direct consequences on the way interaction is activated (Araujo, Dubois, & Gadde, 1999; Ford & Mouzas, 2010). Public procurement processes are becoming standardized and institutionalized. The public buyers' mission can be divided into three main tasks, namely, the expression of needs, the procurement stage itself (implementation of the formal rules of competition set by the sustainable public procurement code (SPP) and by the public procurement contracts code (PPCC)) and the monitoring of markets throughout the duration of the relationship. This raises the issue of the interpretation and integration of legal procedures within previous agreements and contracts between public purchasers and private providers.

2.2. Public procurement contracting

The split toward more sustainable purchasing operations can be described as the efforts made by hospitals to include environmental, economic and social dimensions in their arrangements with providers. Foerstl, Reuter, Hartmann, and Blome (2010) identify supplier sustainability risks and suggest integrating sustainability risk management in supplier management processes. This can be done through contracts. As an insight, Sarkis (2003) argues that the selection of ISO 14000-certified suppliers is preferred in order to lower the environmental risk. In the same idea, Chen (2005) posits that more and more firms have begun to voluntarily adopt ISO 14001 as a tool for continuous improvements to meet the goals of sustainability. Hence, it appears that a major focus for hospitals would be to define the form of contracts to suit the efficiency of the sustainable orientation. They will have to decide the length of the commitment, and the type of norms regulating the interaction with suppliers – relational norms (Macneil, 1980, 2000), formal contracts (Mellewigt, Madhok, & Weibel, 2007; Poppo & Zenger,

¹ The procurement function in hospitals is associated with different denominations. We use the terms of public purchaser, public buyer, and procurement administrator interchangeably.

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