



“Do frogs jump as a result of privatisation?” Impact of privatisation on buyer–supplier relationships

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Abstract

As the cornerstone of the Conservative Government between 1979 and 1996, privatisation has undoubtedly had an enormous impact on the UK economy. On the whole, privatised companies have improved their performance in an ever increasing competitive environment by focusing on, among other things, a drive to reduce costs through bought-out goods and services. Research into Japanese companies, meanwhile, has highlighted the key role that supplier relationships play in their success. It has stressed the advantages of co-operative over adversarial relationships with suppliers, and evidence shows that an increasing number of Western companies are adopting this practice. This has raised the profile of purchasing in these companies with a change towards ‘better practice’ and improved management of the supplier base. From this new research a model of Feature and Construct Evaluation and Aggregation (FCEA) has been developed, in the search for a link to support the proposition that privatisation has an influence on purchasing strategies concerning supplier relationships. The research has shown that only a very limited link exists. Whilst Purchasing as an activity has increased in its importance and control, it has not become strategic. Purchasing strategies have not evolved or supported the business strategy as a result of privatisation, nor does privatisation encourage the development of purchasing strategies towards closer relationships with suppliers. This is compounded by the EC Directives that reflect an ‘open tender’ model of procurement, particularly evident in the emphasis on formal competitive tendering procedures and maintaining an ‘arms-length’ relationship with suppliers. © 2000 Published by Elsevier Science Ltd.

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1. What have frogs got to do with privatisation?

The purpose of this research was to ascertain whether privatisation has had any direct, or indirect impact on the development of purchasing strategies towards ‘better practice’ business relationships between newly privatised companies and their suppliers in the UK. In view of the large amounts of public expenditure on supply of goods and services, this might be expected to appear within the supply chain as the purchasing unit of each privatised utility moving towards exploring innovative techniques promoted in the literature. The majority of public corporations privatised were previously in a monopoly position and therefore their desire and drive to increase effectiveness were doubtful. If the aims of privatisation

have been met then evidence should exist within purchasing of a change towards ‘better practice’, achieving greater efficiency, lower cost and better quality of service. Little debate occurred at the time of privatisation about the way in which the shift from the public sector to the private sector would influence buyer and supplier relationships and clearly major gaps in our knowledge of this area exist. Using Charles Handy’s analogy of a frog that needed to jump from the boiling water or suffer death, one would expect to see significant change in purchasing units as the the environment around them changed through the impact of privatisation.

“If you put a frog in cold water and slowly heat it, the frog will eventually let itself be boiled to death. We, too will not survive if we don’t respond to the radical way in which the world is changing.”

Charles Handy 1989

So, did the purchasing units of each privatised utility respond to the new pressures and change, or did they

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allow themselves to be boiled alive? Some privatised companies in the UK have improved their operating efficiency, but not all of them (see Parker, 1992, 1995a,b). The reasons for this improved performance are not clear from the literature. Furthermore, increases in performance were probably influenced by internal reorganisation changes before, during and after privatisation. Competition is now forcing privatised companies to lower costs in order to reduce prices for consumers. Some privatised companies have dramatically changed the proportion of their income spent on bought-in supplies (Parker and Martin, 1995) and are now turning their attention to the costs associated with bought-in goods and services. Research into Japanese companies, meanwhile has highlighted the key role that supplier relationships play in their success (Nishiguchi, 1994; Lamming, 1993; Womack and Jones 1990). The trend towards outsourcing and focusing on competencies is raising the profile of those that deal with managing the external resources of the company, particularly those linked to the purchasing role (Lamming, 1995). Conclusions from research have stressed the potential advantages of co-operative over adversarial relationships with suppliers, and evidence shows that an increasing number of Western companies are adopting this practice (Spekman, 1988; Landeros and Monezka, 1989; Ellram, 1991; Carlisle, 1991; Lamming and Cousins, 1994). There has been little research into the supply strategies of privatised companies, however, with the literature on privatisation tending to emphasise improvements in the use of labour and capital inputs following privatisation.

2. Impact of privatisation on suppliers

Dell (1985) identifies the technical and commercial opportunities of privatisation in the water industry. He cites targets to introduce private contractors with more work being put out to tender and increased efficiency and production benefits arising from greater freedom of choice based on 'free enterprises and sound business relationships'. The report by the Secretary of State for Energy into Privatisation of the Electricity Industry (1988) details the benefits of privatisation as being the promotion of competition within the electricity market. There should be greater freedom for management to manage the commercial affairs without interference, and the customers can enjoy a greater say in decisions, with new rights, and security and safety of supply, as well as regulation.

Whilst the report discusses the benefits of purchasing coal from competitive sources, little consideration is given to the impact on buyer–supplier relationships. However monopoly suppliers to public corporations, such as GEC, were clearly aware of the threat of potential competing suppliers to liberated telecommunications and electricity industries (Steel and Heald, 1984). Canes

(1966), in a study of the potential privatisation of the Post Office, cites the benefits of the break up of the 'telephone ring' supply cartel and argues the need to reverse 'buyer inertia' to encourage the lack of competitive prices being passed on to the consumer.

3. The gas has been turned up? — an era of promise

"A Microeconomic experiment which will fundamentally change market and regulatory structures in a number of important sectors in the UK."

Vickers and Yarrow, 1988

Referring to the concept of privatisation, the impact of privatisation was viewed as significant. It is clear from the literature that the aims of privatisation were to:

- Introduce increased economic efficiency through the change in ownership and market influence
- Reduce the power and influence of the trade unions
- Reduce the Public Sector Borrowing rate (PSBR)
- Enhance motivational freedom of employees
- Increase share ownership

Sources: Dick (1987: p. 14); Dell (1985: p. 58).

Little consideration is given to the impact privatisation may have on buyer–supplier relationships with only fleeting references to the impact on monopoly suppliers to public corporations (Steel and Heald, 1984; Canes, 1966; Parker, 1986). This article seeks to add substance to the debate by focusing on one internal factor — the purchasing process and relationships with suppliers — within the context of overall organisational change as a result of privatisation. Table 1 details the extent of privatisation by 1995. The idea was not new:

"In every great monarchy in Europe the sale of the crown lands would produce a very large sum of money, which if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown ... When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated."

Adam Smith, 1776

The methods for release from public ownership include management buy-out, flotation on the stock-exchange and direct sale to an interested party (Parker, 1986). Parker defines privatisation as 'load shedding' by transferring public assets, with the retention of a minor interest, to the private sector, or 'Contracting-Out' by the replacement of direct labour with private contractors. His conclusion is that the UK Conservative Government actively encouraged the approach that, by putting out

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