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Articles

Redefining supply management's contribution in services sourcing ☆

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ABSTRACT

The services economy is growing in magnitude and impact. As purchased services contribute as both a source of cost and as a source of performance improvement, services spend is gaining the attention of practitioners and academics interested in improving the purchase and management of services. In-depth case study research shows that purchasing services differ from purchasing goods in several important ways. When a company procures services, SM's involvement does not necessarily grow over time. SM's involvement is not a "given" so SM must often be "invited" based on the perception that it will contribute favorably to the outcome. Because meaningful involvement may require very different types of involvement, varying from primary control to a consultative role, this research offers a modified definition of SM meaningful involvement. Finally, a managerial framework is developed to help guide decision-making for more efficient and effective purchase of services.

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1. Introduction

The role of the supply management (SM) function has changed dramatically over the past 40 years. In the early 1980s Peter Kraljic declared that "Purchasing must become Supply Management" (1983). Since then, the role of SM has grown in prominence in many organizations, particularly manufacturing firms. The number of Chief Procurement Officers, the level at which they report and the nature of their responsibilities have all increased (Johnson et al., 2006; Johnson and Leenders, 2012; Bartoloni, 2012). Reflecting this change, more research is exploring purchasing integration, which focuses on the alignment of firm's strategic purchasing practices with firm's strategy (Narasimhan and Das, 2001). The idea of SM's increased involvement in strategic decisions is aimed at creating distinctive value for the organization and achieving competitive advantage. Research indicates that when SM is involved in purchasing, the performance increases across key metrics, and costs drop from 6% to 12% during the first contracting cycle (Bartoloni, 2012).

Independent of manufacturing trends, there is still extensive outsourcing and offshoring of business processes such as accounting, legal, and human resource functions (Hätönen and Eriksson, 2009). When outsourced, these functions become purchased services. In spite of the growing magnitude of purchased services, most research focuses on SM's strategic role in procuring goods, or its general role in an organization. The role of SM in the area of services remains relatively unexplored.

Recently, there has been a call for a greater understanding of services through the development of services science or a unified services theory, clearly distinguishing what services are, and are not, and providing managerial insight (Sampson, 2010). While some assume that the principles for effective purchasing of goods also apply to effective purchasing of services, the research is nascent. The research that has been conducted on purchasing services indicates that services are still often viewed as fundamentally different from goods in the way that they are evaluated and procured (Van der Valk and Rozemeijer, 2009). The limited research available supports that SM in the private sector often plays a different role, or possibly no role, in purchasing services versus its role in purchasing materials and components (West, 1997; Fitzsimmons et al., 1998; Bals et al., 2009; Holma, 2012). This leaves significant opportunities for cost and value improvement untapped (Bartoloni, 2012), like the $32 million saved by GlaxoSmithKline when they engaged the SM area in legal services purchasing (Salopek, 2012). The literature indicates that appropriately positioning SM involvement in the effective sourcing of services may improve both firm and supply chain performance (Ellram et al., 2007).

In theory, most of the same ideal processes that apply to effective purchasing of goods also apply to effective purchasing of services. Yet the research on applying known strategic sourcing

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processes to the procurement of services is relatively limited (Fitzsimmons et al., 1998). Given firms' increasing dependence on purchased services and SM's historical lack of involvement in purchasing these services (CAPS Research, 2006), this exploratory, theory-building paper examines the topic of supply management involvement in services, based on the insights gleaned from six in-depth case studies and the guidance of additional supply managers through interviews and focus groups.

Literature and practice have shown that SM is moving away from a focus on just price to focus on supporting strategy and adding value (Frankel et al., 2008). Increasing SM's meaningful involvement in services spend may represent an opportunity for even greater value enhancement. This paper is grounded in resource dependence theory and strategic choice theory, to answer the overarching question, "How does supply management become meaningfully involved in complex service purchases?" More specifically, the research explores:

1. What factors influence supply management's meaningful involvement in service purchases?
2. How do these factors affect the nature of supply management's meaningful involvement in service purchasing?
3. What is the benefit of supply management's meaningful involvement in service purchases?

This research builds on the concept of purchasing's meaningful involvement as defined by Stuart (1991, p. 30) and applied by Schiele (2005) and others:

> The timely and useful collaboration of purchasing's knowledge and expertise in all aspects of the acquisition process, including the decision-making process, leading to the best buy decision with the objective of satisfying the immediate needs of the specifier and the long-term needs and strategic objectives of the organization as a whole.

In addition, a framework is developed to help guide business leaders to effectively engage the expertise of SM in this growing area of spending.

2. Literature

An overview of the cogent literature and perspectives related to service purchasing is presented. This research began as an exploratory study seeking to understand supply management's role in service purchasing. However, as the analysis of the data progressed, resource dependence theory (RDT) and strategic choice theory (SCT) were found to be relevant perspectives to view this phenomenon. Thus, these two perspectives are introduced below, and explicated further in Section 4.5.

2.1. The gap associated with service purchasing research and practice

Prior research indicates that purchasing services in the private sector is viewed differently from purchasing goods, even by SM (Van der Valk and Rozemeijer, 2009). There are multiple stakeholders, some with a great deal of power, with a variety of objectives that are different than those for materials purchases. Stakeholders have been broadly defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46). Here, they are more narrowly defined as those internal to the organization, including budget owners for a purchased service, service users, service beneficiaries, top management and others affected by the service, including those with decision making impact in the selection of the service provider. Throughout the paper, stakeholders may be referred to in general as stakeholders, or more specifically in the above groups.

There are some valid reasons stakeholders in the purchase of services have more diverse objectives than those in the purchase of goods. First, the value created in a service purchase is co-created between the user and the provider, unlike goods, where value can be delivered intact (Vargo et al., 2010). Second, the service user may develop a very close relationship and feeling of loyalty to a service supplier (Tate et al., 2010; Van Weele, 2005; Holma, 2012). This is in part due to the joint value creation process.

The third reason for the different perspective on services is that value is always defined by the service beneficiary/receiver (Lusch, 2011), rather than as adherence to a specification, as with goods and materials. Thus, the interaction between the service provider and beneficiary may be idiosyncratic in nature and laden with meaning. It may evolve and adapt during the service delivery process (Sampson and Spring, 2012). As a result, there is a perception that inserting an additional party, such as SM, into the process, may hamper value creation. This is particularly true since SM's most visible goal to the organization is usually cost savings or cost reduction, while the service beneficiary is concerned about receiving the service it needs. As a result, service purchase needs are perceived as intangible and unquantifiable. Thus, the clarification and specification of needs, also referred to as a statement of work, are often neglected or performed poorly (Ellram et al., 2007; Selviaridis et al., 2011). Research indicates that purchasing without a clear statement of work is more difficult and that materials' specifications are often much more precise than services' specifications (Smeltzer and Ogden, 2002).

These issues have resulted in service purchasing being treated differently than purchasing of goods within organizations. As a result, organizations do not achieve the level of performance that they could from their service suppliers, and they may pay too much (Tate et al., 2010; Ellram et al., 2007). For example, the public press includes reports of GlaxoSmithKline, IBM, Pfizer and others who save 15–30% or more while improving service levels when legal services are professionally managed with the support of SM (Winmill and Parsons, 2012; Hodges, 2012; Press, 2011). However, the opportunity for improved services management is still frequently overlooked.

While the public sector is often viewed as being behind the private sector in procurement practices (Rendon and Snider, 2010), the public sector has arguably been more enlightened in the manner in which it procures services. As privatization grew in the 1980s and 1990s, many public sector organizations developed strong, centralized strategies for how services should be procured. These mandates recognized the need for reform in the way that services were being purchased, and the need to address a multiplicity of stakeholders (Bryntse, 1996; Bovaird, 2006; Ontario Ministry of Government Services, 2014; PER.GOV.IE, 2014), versus the private sector, where internal users are often seen as owners of the service. Procurement of services in the public sector often represents privatization of services that the government formerly provided directly, and in sharp contrast to the private sector is characterized by clear directives, policies, and processes, including professional tendering (Ontario Ministry of Government Services, 2014; PER.GOV.IE, 2014).

In the public sector, SM involvement in services is mandated, and the stakeholders are largely external, often service beneficiaries that have diverse perspectives on success, but do not have the power to dictate the level of SM involvement. In the private sector, due to the strong budget ownership and the tradition of budget owners purchasing their own services within their units, the budget owners generally dictate the nature and level of SM involvement in their services, if any (Tate et al., 2008). As a result,

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