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Procurement in the real estate and construction sector (RECS) - Preliminary context-specific attributes

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Abstract

In this paper, the key aspects associated with procurement in the context of the real estate and construction sector (RECS) are discussed, in order to address the research gaps in purchasing and supply management. The research question is “What kind of context-specific attributes can be identified in the RECS with respect to procurement”, arguing that a better understanding of complex performance procurement is required. The underlying assumption is that although procurement may have generic qualities that are valid despite the industrial context, the construction sector offers unique attributes in respect to procurement. We classify these aspects under four categories: relationship management, supply risk, coordination, and learning/knowledge sharing. The key context-specific attributes include a varying relationship lifecycle, the unique and complex nature of products and services, customisation and the non-repetitive and temporary nature of projects. The key managerial issues involve the acquisition of a wide range of procurement competencies and the overall status of procurement in the organisation. Hence, managing procurement efficiently and competently requires the understanding of all these aspects.

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1. Introduction

To form an understanding of procurement in different contexts, more purchasing and supply management (PSM) research is needed in different industrial settings (Meixell and Gargeya, 2005). Despite understanding the strategic importance of PSM that came out of the 1960s (Leenders, 1965), or even earlier in the 1920s (Hysell, 1922),

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traditional industrial sectors still seem to be missing the full potential this function has to offer. The real estate and construction sector (RECS) can be seen as one representative – or even a well-known example – of these traditional industrial sectors. As the business environment keeps changing, the cultural attitudes, operations, and traditional ways of organizing procurement may need to be updated so that minimal resources are wasted and optimal value is delivered for final customers.

This demand for change was addressed in 2000, when the research results published in the *European Journal of Purchasing & Supply Management Special Issue* pointed to a need for changes in attitudes and behaviours as the most important factors affecting the adoption of supply chain management practices in construction (Ellegaard et al., 2010). To further facilitate cross-fertilization between the supply management and the construction management literature, the *Journal of Purchasing & Supply Management* (formerly *European Journal of Purchasing & Supply Management*) published a special issue again in 2010. These special issues are the starting point for this study. The synthesis of this literature review is an attempt to conclude what the context specific attributes are in relation to procurement in the RECS. Based on the previous discussion, the research question is defined as follows: *What kinds of context-specific attributes can be identified in the RECS with respect to procurement?* The term *procurement* is here defined as stated by van Weele and Rozemeijer (1996):

All activities required in order to obtain the product (service) from the supplier and get it to the place where it is actually used. It encompasses the purchasing function, store, traffic and transportation, incoming inspection, and quality control and assurance. Some firms also include salvage and management of environmental issues (as they are related to materials [services]) in procurement.

As procurement in the RECS is principally involved in buying services and subcontracting, adaptation of this definition to also include services, as written in previous paragraph, is justified.

Within the RECS, the work is typically carried out in the form of projects that have limited temporal duration. The project-based nature of operations has direct implications for the way procurement is executed in project-based organizations, such as construction companies. In essence, the procurement activities can be divided into activities related to single projects, i.e., project procurement and long-term procurement perspectives beyond single projects, for example, project business-level procurement. Project procurement management can be defined to include “the processes to purchase or acquire products, services, or results needed from outside the project team to perform the work” (PMI, 2013). Project procurement activities are more operative and include the planning of purchases and acquisitions, planning contracting, supplier selection process, contract administration, and contract closure (Winch, 2009), whereas procurement activities on a project business level are more strategic and include, e.g., the creation of the pool of potential suppliers, supplier-base management, developing relationships and business processes with suppliers, supplier capability development, and purchasing strategy development.

2. Conceptual background as factors influencing procurement in the RECS

In the following, the four chosen themes, relationship management, supply risk, coordination and learning/knowledge sharing, related to purchasing and supply management (PSM) are discussed in detail. The general themes were considered of particular interest in this procurement in the RECS respect (Ellegaard et al., 2010) and are used here to facilitate the conceptual discussion. The chosen themes have somewhat evolved since 2000, when the special issue of the *European Journal of Purchasing & Supply Management* was published. In general, the research concepts were more involved with cost effectiveness, waste, and problems together with applying supply chain management in construction (Love, 2000). A summary of the factors influencing procurement in the RECS is presented in Table 1.

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