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Strategic sourcing and corporate social responsibility: Aligning a healthcare organization's strategic objectives☆

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A B S T R A C T

Strategic sourcing has long been utilized by organizations to maximize budget efficiency. The process includes a spend analysis, which historically has been performed by identifying the commodities and services purchased that resulted in the greatest spend, and establishing contracts with suppliers for these items in an effort to decrease the overall price through quantity discounts. This process restricts the data used in the spend analysis process to basic transactional information, and has not considered corporate social responsibility objectives as part of the strategic sourcing process. This paper modifies an existing spend analysis process framework, and applies the framework in a case study that uses additional data points to identify opportunities that allow an organization to simultaneously achieve both strategic purchasing and social responsibility objectives. The case study uses healthcare purchasing data from eight Department of Veterans Affairs medical centers. The goal of the model generated using regression analysis in the case study is to determine the buy characteristics that are most likely to generate mandated savings within the medical centers, in conjunction with achieving sustainability goals. The extensions of the regression model were examined to determine how collaborative buyer/supplier relationships can achieve organizational strategic objectives.

1. Introduction

Purchasing practices are a crucial component of an organization's success, yet in the healthcare industry, practices are immature and often overlooked in a healthcare organization's strategic vision (Nachtmann and Pohl, 2009). In 2014, total healthcare expenditures in the United States exceeded $3.0 trillion (Centers for Medicare & Medicaid Services, 2015) and since 1940, the annual increase in healthcare expenditures has remained at roughly 4% per year with no indication that the rate will decrease in the future (Gibson, 1980; Newhouse, 1993; Sampson et al., 2015). Many healthcare facilities do not employ proven purchasing practices used in other industries to increase efficiency while decreasing total expenditures (Schneller and Smeltzer, 2006). One aspect of purchasing is strategic sourcing, where buyers form relationships with suppliers that result in cost savings through logistical and purchasing efficiencies. Due in part to the large number of hospitals that outsource some or all of the purchasing function (Burns and Lee, 2008; Carey and Dor, 2007; Makowski and Clauß, 2011), there is a lack of research focusing on the role of strategic sourcing of commodities in healthcare. Very few studies examine the role of acquisition in a healthcare facility's strategic vision or the use of strategic sourcing as a method to expand sustainable purchasing practices. Current healthcare literature explores sustainable practices as they relate to patient treatment, a healthcare facility's primary function (Brandão et al., 2012; Russo, 2014). Sustainability studies of efforts in industries outside of healthcare examine the effects of sustainable practices, but do not propose strategies to effectively target suppliers that allow the organization to meet sustainability initiatives, either environmental or social.

The strategic sourcing process begins by analyzing historical spend. The spend analysis is a critical tool used to identify items appropriate for strategic purchasing or leveraged purchasing, and has been used to generate cost savings for organizations of up to 25% (Pandit and Marmanis, 2008). The process begins with collecting historical spend data, sometimes from multiple sources. The data is scrubbed, classified, and analyzed to select items or services that are best suited to meet an organization's strategic purchasing goals (Limberakis, 2012). A spend analysis allows the organization to classify the types of spending and prioritize sourcing initiatives; however, even when an organization is using a framework, oftentimes organizations will ignore spend analysis data and begin strategically sourcing items based on preference (Cox, 2015).

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The spend analysis process was described in detail in an Aberdeen Group whitepaper in 2004 (Aberdeen Group, 2004). Early applications of strategic sourcing encouraged companies to use the spend analysis process to identify immediate opportunities, instances where a single supplier was utilized for multiple purchases, and the potential for purchase consolidation existed (Greenfield, 2005). Some spend analyses evolved to include a compliance metric to ensure purchases were made in accordance with existing organization purchasing edicts, such as using specified contracts or suppliers (Saha, 2007). Expanding on this concept, authors from IBM described how cluster analysis could be used to not only identify non-compliance within a purchasing department, but allow managers to identify which departments and purchasing categories would provide the greatest return on investment if total compliance was observed (Chowdhary et al., 2011). In 2012, Limberakis published a trade article that provided a slightly modified version of the process described by the Aberdeen Group (2004), adding a first and last step to define the scope of the analysis and a path forward using the results of the analysis. Providers of commercial spend analysis solutions have embraced the need to measure compliance, but generally have not changed the process of analyzing spend described by the Aberdeen Group in 2004 (Maurides, 2015; ProcurePort eSourcing OnDemand, 2014).

Academic literature has not extensively examined how to optimize spend analysis, or determined if existing spend analysis processes could be changed to better accomplish organizational goals. This paper will propose a modified strategic sourcing spend analysis framework that allows an organization to align its strategic purchasing and sustainability goals. A case study utilizing the framework will be presented that uses spend data from an eight-hospital system. The purchasing data used was restricted to healthcare commodities available from multiple suppliers. The authors believe that establishing collaborative relationships with suppliers to realize strategic sourcing and sustainability goals could decrease overall spend within the logistics department while decreasing supplier risk. The research questions that this paper seeks to answer are:

1. *Can historical healthcare purchasing data be used to optimize strategic sourcing efforts and allow a facility to determine the best avenues to achieve its sustainability goals?*
2. *Can the methods utilized above be used in industries other than health care?*

This paper is organized as follows: A literature review will provide an overview of strategic sourcing, supplier/buyer relationships, and sustainability. The literature reviewed describes processes used outside of healthcare due to the gap that exists with respect to healthcare purchasing, strategic purchasing, or sustainable purchasing initiatives. An alternate spend analysis framework will be proposed that incorporates these two concepts, and the framework will be applied to a case study using healthcare purchasing data obtained from a group of eight medical centers.

2. Literature review

2.1. Strategic purchasing defined

Strategic purchasing was introduced as a practice used to secure items crucial to an organization's daily operations where, due to the abundance of the items and the likelihood of a continued requirement, would benefit from the establishment of a centralized contract to purchase the item for an organization (Kraljic, 1983). Strategic purchasing differs from leveraged buying because price considerations may not be the primary focus of negotiators, even when large quantities of products are required by the purchaser. An organization's strategic purchasing strategy will consider the total transactional costs as well as the total life-cycle costs of the product, to include efficiencies outside of the purchasing process that may be provided by the supplier (Farmer, 1981). Strong relationships with fewer suppliers may decrease overall costs associated with supply chain management, beyond the transactional cost of the product (Spekman et al., 1999). Best strategic purchasing practices move beyond requesting discounted pricing for the supplies or services being acquired, since this practice can damage the burgeoning buyer-supplier relationship, eliminating all benefits of forging strategic relationships with suppliers (Anderson and Katz, 1998; Rossetti and Choi, 2005). The critical examination of the desired relationship and potential benefits stemming from this relationship will determine how a supplier can enhance its supply chain processes and its competitive position (Eltantawy et al., 2014; Knoppen and Sáenz, 2015).

2.2. The buyer-supplier relationship

A buyer might first consider a strategic purchasing relationship when trying to streamline operations when considering outsourcing services. Gottfredson et al. (2005) examined companies that had established strategic purchasing relationships with suppliers and found that these relationships allowed the buyers to enhance core operations, while strengthening their market share, since strategic suppliers had the capability to manage non-critical portions of the business. Supplier relationships can streamline purchasing and logistical operations by reducing transactional purchasing costs, costs associated with the ordering process, and delivery costs, showing that more sophisticated relationships between the buyer and supplier can result in efficiencies within the buyer's organization (Andersen et al., 2016; Jap, 1999; Lee et al., 2011). Conversely, a supplier can also improve its operations based on feedback provided by buyers, allowing the supplier to provide higher quality supplies and services (Flint et al., 2008). A relationship between the buyer and supplier may develop from repeated interactions during previous trade (Gulati, 1995) or it may result from the supplier's inclusion on strategic teams within the buyer's organization (Andersen et al., 2016; Lacoste and Johnsen, 2015). It is unlikely that the relationship will develop solely as a result of negotiations being held for a discrete, or transactional type of purchase (Dwyer et al., 1987).

A critical requirement of any collaborative relationship is establishing the relationship early in the requirement definition process, as this is key to finding efficiencies that lie outside of the procurement process (Saunders et al., 2015). It is also important to ensure that prospective suppliers have the capability to become a strategic partner (Ellram and Carr, 1994; Spekman et al., 1999) and that the prospective supplier views the contemplated relationship as strategic (Schiele, 2012). Each partner must express their goals and objectives during the initial stages of a collaborative relationship, and if these change, be willing to discuss the new priorities with the other party (Barratt and Oliveira, 2001; Dwyer et al., 1987). Successful relationships also require the buyer to define the supplier's role clearly prior to the commencement of the relationship, and not expand the supplier's role without discussions during the relationship (Ueltschy Murfield et al., 2016). The incentive to establish a collaborative relationship is not limited to the buyer's desire to transform purchasing processes; suppliers who enter into these relationships have realized that there is limited growth in sales driven by tenders, and to increase market share and perceived value, a supplier will foster and encourage collaborative relationships (Dyer and Singh, 1998). Both the buyer and supplier must trust the other party (Morgan and Hunt, 1994). Attributes such as honesty, communication, and a desire to achieve mutual goals decrease the probability that one party will act in an opportunistic manner, and allows for an equitable balance of power between the collaborators (Gundlach et al., 1995; Jap, 1999; Jap and Ganesan, 2000). True collaboration results in a team mentality, and success is measured in terms of the end product, not by successes that enhance the business operations of one party that do not support the final objective (Ireland and Bruce, 2000).