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The impact of performance measurement on purchasing group dynamics: The Canadian experience

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ABSTRACT

Purchasing groups were first created in the healthcare sector, which has faced unprecedented challenges in terms of cost control for over two decades. Purchasing groups are indeed supposed to generate additional savings and more efficient purchasing processes. However, although various aspects of purchasing groups have been studied since the early 2000s, both their performance measurement and the influence that this measurement has on inter-organizational dynamics have been neglected. In purchasing groups, the dynamics between the group itself and its members often results in tensions between both parties. Performance measurement within purchasing groups could alleviate those tensions, since “objective” data could then be used to improve communication.

Based on a case study, this research sheds light on performance measurement in a purchasing group, on the dynamics between the group and its members, and on the interaction between performance measurement and inter-organizational dynamics. Results indicate that measuring performance impacts the dynamics between both parties, but that the relationship is also the other way around, and that the inter-organizational dynamics is quite complex. In addition, this paper proposes a framework summarizing the research findings.

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1. Introduction

Since around the early 1990s, numerous reports have indicated that in industrialized countries, healthcare managers must control cost increases much better, without sacrificing quality and service (Naylor, 1999; Ford and Scanlon, 2007; Roehrig, 2011; Hadad et al., 2013). According to many authors, supply chain management presents interesting opportunities to achieve significant savings (CSC Consulting, 1996; Ebel et al., 2013) without impacting service delivery, and, actually, even by improving it (Agwunobi and London, 2009; Narayana et al., 2014). When considering only the last provider in the supply chain –the healthcare center (HC)–, purchasing and inventory represent between 30% and 45% of expenses, while purchasing can correspond to half of that amount (Landry and Beaulieu, 2013).

In many industrialized countries, healthcare supply chains include purchasing groups, which act as intermediaries between HCs and suppliers (McKone-Sweet et al., 2005). Created over 100 years ago in healthcare and now known under different names, a purchasing group is a service provider to other organizations and is

mostly used for bids and contract negotiation (Nollet and Beaulieu, 2005). As suggested by Adobor and McMullen (2014), a purchasing group can be viewed as a third party facilitating the relationship between buyers and suppliers. Purchasing groups often promise, implicitly or explicitly, a lower price through the consolidation of purchases from many HCs, while reducing administrative costs normally resulting from the duplication of activities such as supplier search and supplier selection in individual HCs. However, Hu and Schwarz (2011, p. 1) mention that “... GPOs play a very significant –and very controversial– role in the supply chains for healthcare products”. Their idea is supported by the fact that over the last 30 years there has been criticism voiced by members of many purchasing groups (Housley, 1982; Johnson, 1999; Nollet and Beaulieu, 2003; GAO, 2010), or, inversely, by the groups who complain that their members do not abide the decisions made on their behalf by the group (Schneller, 2009).

At the core of the tensions between a purchasing group and its members lies purchasing group’s performance assessment, including for the computation of total savings. The concept of savings can be quite complex in the supply field (Nollet et al., 2008). However, a purchasing group’s performance often depends upon the members’ commitment to the group, as well as on the relationships between the group and its members.

The complaints expressed by both parties are partly due to the

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interaction between the provider (in this case, the purchasing group) and the customers/members (the HCs the group purchases for); this interaction is actually an “inter-organizational dynamics”. It appears that one key component of that dynamics is that purchasing groups are often faced with the challenge to demonstrate that the results they provide are better than if the HCs would purchase by themselves (GAO, 2010); Housley (1982) mentioned this same issue more than 30 years ago. While being a facilitator, a third party can also pursue its own interests, and this reality clearly creates additional tensions (Adobor and McMullen, 2014). However, the use of performance measures could alleviate this ambiguity by providing objective information (Kumar et al., 2005). Otherwise, there are likely to be conflicts when incentives are not compatible with system-wide objectives (Sabin and Robinson, 2002).

Surprisingly, little research has been performed on performance measurement in the context of purchasing groups (Schotanus and Telgen, 2007), and no article reports the impact of performance measurement on the relationship between a group and its members (“inter-organizational dynamics”). Our research actually deals with this important theme; the main research question is: “How does purchasing group performance measurement influence the dynamics between the group and its members?” To answer this question, we discussed the following themes with the interviewees: performance measurement (specific measures, their application, and existing barriers) in healthcare centers (members of the purchasing group) and purchasing groups; inter-organizational dynamics between both parties; interactions between performance measures and inter-organizational dynamics.

Although our study specifically targets purchasing groups, there are studies dealing with performance measures in inter-organizational contexts such as customer-supplier partnerships (for instance, Cousins et al., 2008), collaborative relationships between organizations (for instance, Busi and Bititci, 2006), or more globally in supply chain (for instance, Akyuz and Erkan, 2010). In the specific field of purchasing management, Tadepalli (2011) has shown that one of the major challenges in performance measurement was the inter-organizational dimension; however, the author did not discuss the influence of measurement on inter-organizational dynamics. Our research thus intends to fill that gap as well. Considering the complexity of those two dimensions and their exploratory nature in the context of purchasing groups, we have used an in-depth case study (Yin, 2009). The case selected has allowed us to obtain information both from the members and the purchasing group as to their perception of the other party's contribution, as well as about the performance measures they use. This methodology is the best data collection strategy to identify the interests of both sides of a dyad, as illustrated in the articles by Finne et al. (2015) and by Schreiner (2015), and to position the answers within a specific context, which actually helps to shed more light on the interactions between both groups.

Since purchasing groups originated in the healthcare sector, which is under great pressure to generate savings, the case selected is one of the four public healthcare purchasing groups located in the province of Quebec (Canada). The methodology for the case study includes interviews not only with the purchasing group's contract managers, but with its members (CFOs and CPOs of healthcare organizations) as well. In addition, we have interviewed the CEOs of the other three Quebec healthcare purchasing groups and some members of a major purchasing group in another Canadian province.

There are four sections in this article. First, we discuss the literature related to the inter-organizational dynamics between a group and its members, as well as to the potential tensions and conflicts that might result; in addition, we address performance measurement within purchasing groups, and discuss the role that

such a system could play in improving the dialogue between both parties. The second section outlines the methodology for the case study, mentioning the number and variety of interviewees and how their answers made it possible to understand the situation with its tones and undertones. The third section presents the specific context of the case selected, the analysis of the inter-organizational dynamics within the group, the performance measures used, the interaction between the dynamics and the measures, and the major issues in performance measurement in the other Quebec purchasing groups. Finally, the fourth section discusses the results of this research, summarizes the findings, more complex than expected, in a framework that can be used for research and management purposes, and mentions some avenues for future research.

2. Literature review

Purchasing groups are increasingly popular, as well for practitioners (Sandberg and Mena, 2015) as for researchers (Schotanus and Telgen, 2007). In addition, since both the type of structure and the objectives can vary from one purchasing group to another, there are various names used for purchasing groups, including: “cooperative purchasing”, “collaborative purchasing”, “joint purchasing”, “purchasing consortium”, “joint purchasing”, and “shared purchasing” (Johnson, 1999; Bakker et al., 2006; Schotanus and Telgen, 2007). Whatever the name, the members' intent is to benefit from the group's purchasing power, and also from its lower transaction costs, since supplier search and negotiations are performed by only one organization rather than by many. It also allows members to benefit from the group's expertise and to allocate their resources to other priorities (Nollet and Beaulieu, 2005; Schotanus and Telgen, 2007). Benefits include the role of intermediary played by a purchasing group, albeit purchasing groups can also pursue their own interests (Adobor and McMullen, 2014). The triad used in healthcare –with purchasing groups in the middle between HCs and suppliers– is only one of the structures resulting in inter-organizational dynamics (Iacobucci and Hopkins, 1992; Miemczyk et al., 2012).

As is the case for various collaboration initiatives (Seppanen et al., 2007), Schotanus et al. (2010) mention that inter-organizational trust is one of the most frequently-discussed success criteria within purchasing groups; in fact, it is expected that members will present a cohesive front for collective decisions. A member should not pursue its own interests at the expense of the group's, for instance by using the price negotiated by the group as the basis for discussing better deals with suppliers (Schneller, 2009). Such opportunistic behaviors damage a group's credibility and, ultimately, it might become more difficult for a group to negotiate with suppliers, since sales forecasts will then be perceived as too optimistic (Nollet and Beaulieu, 2005). However, the analysis of a purchasing group made by Sandberg and Mena (2015) in the retail sector shows that a member might nevertheless use a supplier other than the one retained by the purchasing group, but for reasons such as quality and product branding.

Inter-organizational dynamics is not unidirectional: the member also has obligations toward the group (Adobor and McMullen, 2014), for instance by providing requirements and specifications (Schneller, 2009). Therefore, inter-organizational dynamics is influenced by the level of implication that members have in their purchasing group. Based on the literature (for instance, Schotanus and Telgen, 2007; Schneller, 2009) and on our own observations of the healthcare sector, there are three types of purchasing group structures. The first one, which characterizes American healthcare, can be labelled “supplier-client”. In that context, the purchasing group has already negotiated contracts with suppliers; each HC

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