



Contents lists available at ScienceDirect

Journal of Purchasing and Supply Management

journal homepage: www.elsevier.com/locate/pursup

The long shadow of public policy; Barriers to a value-based approach in healthcare procurement

Joanne Meehan, Dr^{*}, Laura Menzies, Dr, Roula Michaelides, Dr

University of Liverpool, Management School, Chatham Street, Liverpool, UK, L69 7ZH

ARTICLE INFO

Keywords:

Public procurement
Healthcare procurement
NHS
Value based procurement
Hermeneutics
RBV
Resource Based View
Aggregation

ABSTRACT

Procurement in the UK's National Health Service (NHS) is facing its most significant financial challenge. Despite the sheer scale and complexities of the public healthcare sector, the Government's solutions are all too often packaged as "collaborate more", "standardise products" and "leverage spend". Unfortunately, these over simplistic solutions take a myopic view of market drivers, conflate spend with potential savings and fail to deliver value. Many contracts have already been commercially optimised yet the funding crisis continues to deepen. New value-based procurement approaches are needed to drive longer-term innovation and cost reduction and to move debates from efficiencies to embrace effectiveness in integrated supply chains. In this research, we adopt the resource-based view (RBV) as a lens to explore the extent to which NHS resources support the strategic adoption of value-based approaches. An empirical case study on a regional cluster of six NHS Trusts in England, confirms the dominance of narrow price-based approaches that create barriers to moving towards longer-term, valuebased procurement. The antecedent roots of price-based approaches are unpicked through a hermeneutic analysis of recent Government commissioned reports to show how these have set the tone, culture and priorities for healthcare procurement in the UK. The analysis provides explanatory power to the case study by illustrating how Government reports have led to, and legitimised the dominance of price-based approaches and caused relational and resource-based barriers to adopting value-based procurement, despite stakeholder enthusiasm. The findings provide unique insights into why public procurement has struggled to reach beyond its traditional cost orientated scope. We contribute to an extended consideration of the RBV in public organisations through identifying the role of the policy environment in determining and legitimatising an organisation's strategic direction.

1. Introduction

Spend on global healthcare is estimated to rise from \$7 trillion in 2015 to a staggering \$8.7 trillion by 2020 as the world's major regions are predicting spend increases ranging from 2.4% to 7.5% (Deloitte, 2017). Despite its significance, professional procurement in the health industry is often immature and not strategically integrated (Nachtmann and Pohl, 2009). There is a recognition in the wider procurement literature of a conceptual shift from a narrow focus on prices paid to a wider value-based perspective encompassing innovation achieved through collaborative relationships (Corsten and Felde, 2005). Relationships and interactions stimulate the creation of value and improve organisational performance (Jaakkola and Hakanen, 2013), beyond price savings achieved only through iterative reductions in suppliers' profit margins. Accounting for value beyond suppliers' prices is essential (Anderson et al., 2000), as the single-faceted relentless pursuit of annual price-oriented savings in healthcare is not sustainable

(Pritchard, 2012). For procurement, the longer-term value perspective is closely aligned to the concept of total cost of ownership (Wouters et al., 2005). Effective procurement practices are critical to an organisation's success, yet in the healthcare industry, procurement often overlooks contemporary views of value creation (Walker et al., 2008).

In this paper we investigate the antecedents of the dominant adoption of price-based aggregation over value-based procurement approaches in the United Kingdom's (UK) National Health Service (NHS). The NHS is facing its most significant financial challenge in its 69-year history. The estimated aggregate deficit of NHS providers and commissioners for 2015/16 stood at £1.85 billion, a threefold increase on the previous year (Dunn et al., 2016). Public procurement's role is to ensure regulatory compliance, prudent use of the public purse, and third-party delivery of contracted goods and services (Russell and Meehan, 2014). The financial challenge demands NHS procurement extends these responsibilities to contribute to closing the deficit gap.

^{*} Corresponding author.

E-mail addresses: jomeehan@liverpool.ac.uk (J. Meehan), l.a.menzies@liverpool.ac.uk (L. Menzies), Roula.Michaelides@liverpool.ac.uk (R. Michaelides).

<http://dx.doi.org/10.1016/j.pursup.2017.05.003>

Received 10 June 2016; Received in revised form 4 May 2017; Accepted 11 May 2017
1478-4092/ © 2017 Elsevier Ltd. All rights reserved.

Mature and emergent procurement practices have the potential to offer value-adding responses to advance healthcare policy challenges, yet academic research is still limited in scope (Van Raaij et al., 2013). Value in healthcare is defined as the patient health outcomes achieved per pound spent (Porter and Teisberg, 2006). Notwithstanding the sheer size of the financial deficit, the organisational complexities and scale of the NHS provide major challenges for the effectiveness of public procurement (Grudinski et al., 2014).

To meet the challenging financial shortfall, the dominant procurement approach endorsed by successive UK government policies pushes for national and regional procurement aggregation. Solutions are packaged as “collaborate more”, “standardise products”, and “leverage spend”, where iterative price reductions are assumed to stem from collaborative scale economies of product prices. Unfortunately, these overly simplistic solutions take a myopic view of market drivers and conflate spend with potential savings. The predominance of aggregated approaches to leverage spending power can stifle a move towards longer-term perspectives of value.

Public sector organisations, including the NHS, are facing unprecedented demands to become more efficient and effective against a backdrop of austerity, financial cutbacks and the rising demand for services (Piening, 2013). The Resource Based View (RBV) of the firm highlights the importance of resources and capabilities for an organisation's survival, growth, and overall effectiveness (Wernerfelt, 1984). The tangible and intangible resources comprise a mix of physical, human and finance capital (Barney, 1991). RBV has its empirical roots in the private sector but is increasingly being applied as a lens to study how public organisations use resources and capabilities to deliver public value to its stakeholders (Piening, 2013) and deliver efficiency in increasingly dynamic environments (Szymaniec-Mlicka, 2014).

RBV predominantly considers an organisation's competitive advantage in terms of its financial performance, or market share, relative to its competitors (Burton and Rycroft-Malone, 2014). Through an RBV lens, competition in public contexts can be seen through other aspects of organisational performance including efficiency and value-for-money (Porter and Teisberg, 2006). Focusing only on narrow price considerations limits procurement's ability to deliver strategic value. In contrast, aggregated procurement strategies, where spend is centralised across business units, are driven by economies of scale. Aggregation assumes the primacy of fixed unit production costs, and tends not to account for other aspects of value, nor the temporal complexity of value through the full procurement cycle (Pinnington et al., 2016). Aggregated procurement continues to play an important role in balancing power dynamics and brokering knowledge across networks (Meehan and Bryde, 2015), but broader value-based approaches are important if organisations are to maximise procurement's strategic value contribution within turbulent environments.

In this paper we answer the call for rich research on understanding the influence of external stakeholders on public organisations' dynamic capability to adapt and deploy resources to deliver value (Pee and Kankanhalli, 2016). We adopt RBV as a lens to explore the extent to which NHS resources support the strategic adoption of value-based procurement in light of the competing priorities that stem from the public policy environment (Harvey and Kitson, 2015). The empirical case study across six NHS organisations explores stakeholders' ideological assumptions (Alvesson and Sandberg, 2011) and the extent to which price and value-based procurement approaches are adopted. From the case we draw out stakeholders' perceived barriers that prevent the mobilisation of resources to adopt value-based procurement. Hermeneutic analysis, an innovative method in purchasing and supply management research (Russell and Meehan, 2014), adds a rich, critical analysis of the political antecedents of the barriers emerging from the case.

A core contribution of the research is the use of a novel hermeneutic method alongside a case study to unpick the often-invisible antecedents of conflicting procurement approaches and unproductive relationships

that stem from government policy. These long chains of causation impact perceptions, relationships, preferences and opinions (Postrel, 2009), suppress innovation, and create barriers to development. Through combining these methods, we extend the explanatory reach of RBV by considering the policy drivers that lead to resource constraints and stifle dynamic capabilities in public organisations, often over long timeframes. The results illuminate the significant role of public policy on procurement's ability to drive value, an area rarely explored. Exposing these hidden barriers, and how they are formed, is critical in understanding the potential of value-based procurement and the reasons for its low uptake.

2. Literature review

This research uses RBV to understand the adoption of value-based procurement. The concepts of value and RBV are presented, against which we position a critical review of the theoretical assumptions of aggregation delivered through cooperative procurement, as currently promoted by UK government policy for NHS procurement.

2.1. Value-based procurement

Supply management's role in enhancing an organisation's competitiveness through value creation is acknowledged (Kähkönen and Lintukangas, 2012), yet the concept of value in procurement is complex and multi-faceted. There are significant and contested debates not just on the definition of value, but also in the differences between value creation and value capture (c.f. Bowman and Ambrosini, 2000). Added to the complexity in the debates is the under-representation of public procurement in the value literature, which tends towards value as perceived by paying customers, thus providing an uneven representation of the potential conflicts between the commercial, regulatory and socio-economic goals in the public sector (Erridge, 2007). The value concept in public sector procurement is inherently contested (Williams and Shearer, 2011) as diverse stakeholders including political leaders, staff, taxpayers, regulatory bodies and suppliers often have conflicting goals and requirements (Hazlett et al., 2013). Heterogeneity of stakeholders' wants and needs are compounded by changing political agendas (Propper and Wilson, 2003), creating a volatile environment for defining and delivering value.

Valuable resources form the central pillar of RBV and contribute to an organisation's competitive advantage (Barney, 1991). In a procurement context, organisations rely on the products and services they buy from their suppliers to improve their own market offering and to increase the overall profitability of their firm (Ulaga, 2003). Value represents the utility received from the products or services purchased in exchange for the price paid for this market offering (Anderson and Narus, 1998). Value and price represent the two essential elements of a market offering. The relationship between prices and value is complex; price changes do not necessarily affect the value, but can change the incentive to purchase one market offering over another comparative offer (Anderson and Narus, 1998).

Value can be generated by capability in three areas: competing and responding to industry level challenges, exploiting relational capabilities, and understanding and responding to customers' needs (Kähkönen and Lintukangas, 2012). Creating value through procurement is evolutionary and requires longitudinal collaboration (Walker et al., 2008). The supply chain dimension extends the consideration of value across organisations, and also extends the timeframe within which value is considered. In a review of the value literature across the last two decades, Terpend et al. (2008) identify four core parameters of the value concept: operational performance, integration orientation, capability factors and financial performance. Within each of these four areas, there is an assumption that costs and benefits are evaluated over time. The temporal element is reflected in a shift in the extant literature towards the need for longer-term perspectives of value trade-offs

Download English Version:

<https://daneshyari.com/en/article/7426758>

Download Persian Version:

<https://daneshyari.com/article/7426758>

[Daneshyari.com](https://daneshyari.com)