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**PURCHASER-PROVIDER PARTNERSHIPS IN THE PUBLIC SERVICE:
OH NO, NOT A NEW 4PS FOR BUSINESS NETWORKS!**

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PURCHASER-PROVIDER PARTNERSHIPS IN THE PUBLIC SERVICE: OH NO, NOT A NEW 4PS FOR BUSINESS NETWORKS!

Abstract

This paper describes the initial establishment of a business-to-business network in a novel context – within and around a government department as it implements Purchaser-Provider relationships. A popular reform in public sector management over recent years has been the establishment of internal competition to increase efficiency and effectiveness under a “Purchaser-Provider” model. We applied the International and Industrial Marketing Purchasing (IMP) framework to capture some of the major transitions occurring within and around this organisation. We found the IMP approach useful for capturing the dynamic emerging structures. Just like relationships in private-sector business, Purchaser-Provider tends to operate as a network, with a mix of cooperation and competition, rather than competition alone. The public-sector context is unusual in that the network has been established by moving from an administrative control structure, cooperation alone, rather than from an open market, with competition alone. Implications for further research are raised.

Keywords: [Business Networks; Purchaser-Provider; Competition]

1 Introduction

The International and Industrial Marketing Purchasing (IMP) group has promoted the “network perspective” of markets to describe how businesses actually operate (Axelsson and Easton 1992; Hakansson 1982; Hakansson 1987; Hakansson and Johanson 1992; Hakansson and Snehota 1995; Moller and Wilson 1995). To date, the focus of this literature has been concentrated on the private sector. This paper extends the use of the IMP perspective by applying it to the formation of a business network in a novel context: a government research and service department and the industry in which it participates. Prior IMP case studies have illustrated companies moving towards increased cooperation in a competitive environment. This case study shows a government department introducing competitive practices into bureaucratic cooperative arrangements. By examining such an atypical case, we wish to make visible some of the implicit assumptions that may have been made in other contexts. As such, this case provides a useful site for developing and testing the ideas of business networks.

The case of study is the Queensland Department of Primary Industries (QDPI) during its initial implementation of “Purchaser-Provider”. Purchaser-Provider is a public sector reform designed to increase the efficiency and effectiveness of government departments. It essentially separates the “purchaser” part of the department from the “provider” of public services (or goods), thereby introducing

some internal competition (FitzGerald et al. 1996). The implementation of a Purchaser-Provider based structure in QDPI commenced in August 1997.

In this paper we briefly describe: the theoretical basis of the project, the context and site of the research, the broad methodology being used, some preliminary findings and emerging theoretical issues that warrant further investigation.

2 Context: The Purchaser Provider Initiative in Qdpi

QDPI commenced a progressive structural reorganisation, based on “Purchaser-Provider”, in mid 1997. This section provides the context for this study by discussing both Purchaser-Provider and its implementation within QDPI.

Commonwealth and State governments in Australia have been seeking to improve public-sector management systems in the last ten to fifteen years. An increasingly popular strategy has been to introduce elements of a market through a Purchaser-Provider structure (FitzGerald et al. 1996). Theoretically, the Purchaser-Provider model separates the purchaser function from the provider function in an attempt to achieve tighter targeting of clients and outcomes, improved accountability and transparency, and improved efficiency and effectiveness in the delivery of services.

QDPI is a rural economic development agency bringing together the Queensland government and industry in partnership to increase the viability and profitability of primary industries on a sustainable basis. The Department’s primary activities focus on research, development and extension (RD&E), information services and regulatory functions. These are essential to primary producers seeking to increase the competitiveness, efficiency and profitability of their enterprises. The Department’s responsibilities focus on agriculture, forestry and fisheries, with a budget of \$350 million and a workforce of 4000 staff, with 74% located outside central Brisbane. QDPI’s vision is to have a self-reliant primary industries sector confidently competing in a world market place.

The essence of QDPI’s new Purchaser-Provider structure is shown in Figure 1. The first step to Purchaser-Provider is the separation of purchasers and providers. A statewide network of industry-focused institutes was established to act as *providers* of RD&E services for QDPI. Simultaneously, Sub-Programs were established to act as *purchasers* of RD&E (and other) services.

The role of the purchaser Sub-Programs is a policy role, to set priorities for industry development and ultimately to decide what RD&E services should be purchased. Given the role of QDPI to enhance the sustainable economic position of rural industries, the above priorities are decided in partnership with industry through industry development councils (IDCs). “A modus operandi for DPI’s investment in economic development is the purchaser/provider partnership”(Duffield 1997, p3).

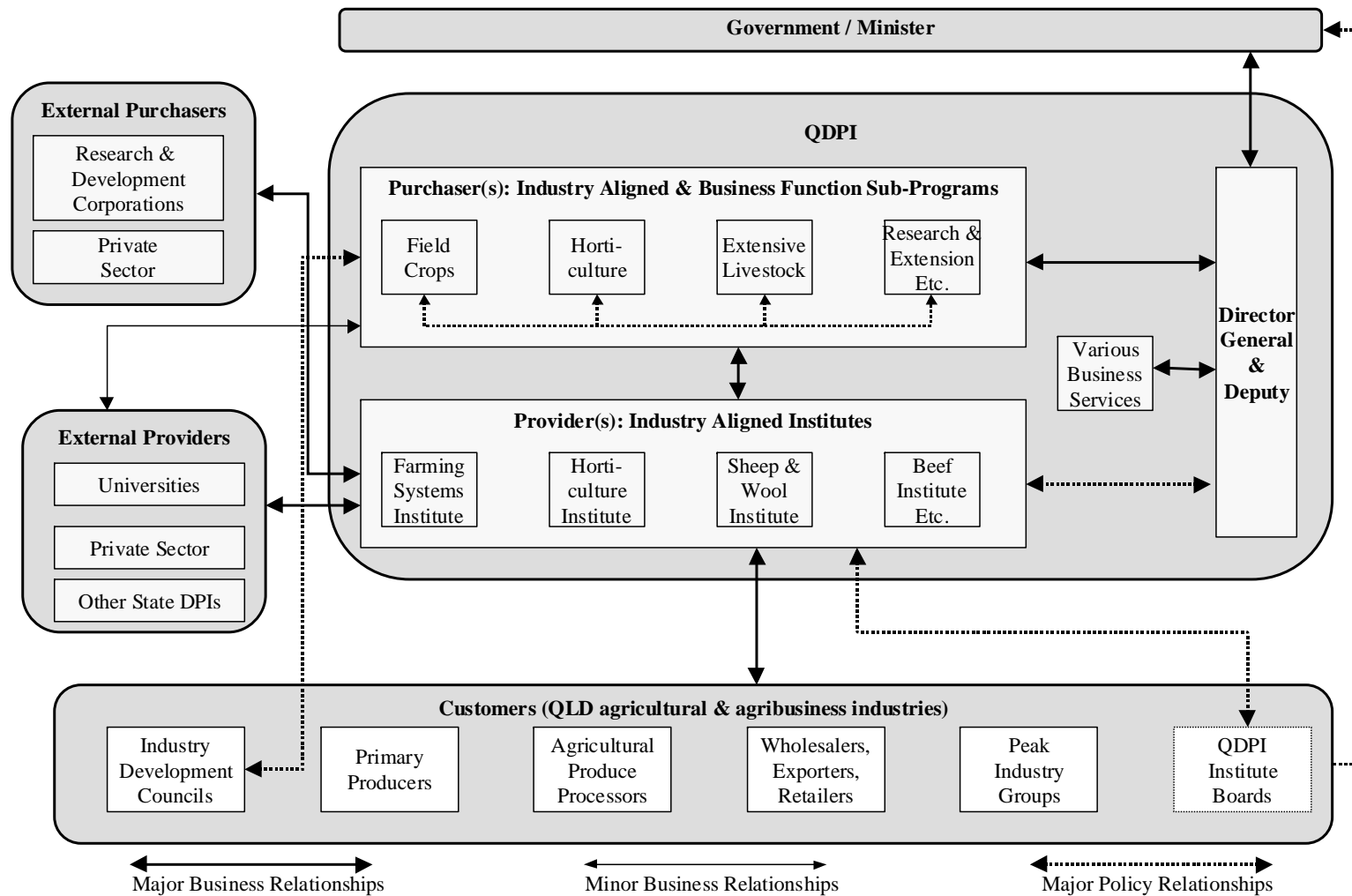


Figure 1: QDPI Purchaser-Provider Network

Each institute is controlled by a director and a board that is comprised mostly of industry representatives. These institutes perform services for the purchasers under a “memorandum of understanding”. Under this negotiated agreement, deliverable outcomes from the institute’s RD&E activities are specified against funding. Institutes are also free to seek funds from external bodies, most notably Commonwealth research and development corporations and directly from industry.

3 Theoretical Perspectives: Administrative, Market or Network Control

Purchaser-Provider seems loosely based on neo-classical economics, with an ideology of the supremacy of open markets, and less explicitly on transaction cost economics. Transaction cost economics suggests that the two competing methods of organising business activities are market (competitive) control and administrative (cooperative) control (Williamson 1975). QDPI formerly operated under administrative control, whereas Purchaser-Provider represents a move toward market control by introducing an internal market. Against the prevailing approach from economics and public policy, we look to the emerging area of business network theory. It recognises that these relationships are characterised by market (competitive) control *and* administrative (cooperative) control mechanisms, rather than one or the other as suggested by conventional approaches (Thorelli 1986).

Business network theory also introduces a number of concepts to capture the complex and dynamic nature of the relationships between the multiple purchasers, providers and other stakeholders that characterise the reality of QDPI’s evolving business environment. A potential contribution of business network theory in this context is to provide an analytical set of lenses for describing how businesses *actually operate*, as opposed to the normative or prescriptive approach of neo-classical economics, which is more often concerned with how businesses and markets *should operate*. We outline these three theoretical positions below.

3.1 Administrative control: The way things were

The former management arrangements within QDPI can be considered from the perspective of transaction cost economics (Williamson 1975). Transaction costs are the costs of negotiating, monitoring and controlling a transaction between a service provider and a purchaser. The former management arrangements may be characterised as *administrative* control, where managers, including the Minister, decide on action, without the formal definition or separation of purchaser and provider. Under administrative control transaction costs may be minimised by using rules, procedures and a single, hierarchical authority system, as should exist in any “professional” or “machine bureaucracy” structure (Mintzberg 1979).

3.2 Purchaser-provider: An ideology of market control

The contrasting approach is to use *market* control to minimise transaction costs. The organisation needing a service negotiates and then contracts with another organisation to provide the service. Market control relies on prices and

competition to minimise transaction costs. The Purchaser-Provider model represents a form of market control using either or both *internal* and *external* markets. With an external market, the purchaser contracts with external providers in an open competitive market. In an internal market the functions of purchaser and provider are separated within the one organisation, with the purchaser then contracting with the provider for the provision of services (Duffield 1997, FitzGerald et al. 1996).

A number of potential benefits of the Purchaser-Provider model have been identified (Resource Management Improvement Branch 1995, FitzGerald et al. 1996). These benefits include better working relationships between purchasers and providers through the clarification of requirements and responsibilities, and fewer conflicts of interest. Enhanced contestability and competition result, especially when using an external market and accountability. Increased transparency is also achieved through the formal and open specification and reporting of activities. The contracting process has also been found to assist both purchaser and provider in prioritising their activities. Increased managerial autonomy of the purchaser through specification of the desired outcomes of contracts, and improved client responsiveness through client participation in framing of contracts and monitoring of performance, have also been noted.

However, the Purchaser-Provider model is not without its problems and critics (Resource Management Improvement Branch 1995), although ignored by some promoters of the Purchaser-Provider model, such as FitzGerald et al. (1996). Contracts may be too general or too flexible, and transaction and compliance costs may be significant, in terms of additional management and administrative requirements. This is particularly true in the context of R&D, where the paths for achieving outcomes, or the outcomes themselves, are difficult to specify in advance. Also, the formal contracting process may reduce communication and coordination by reducing the level of integration and feedback between purchaser(s) and provider(s). Other concerns are that the purchasers may lose in-house expertise to generate and monitor contracts, as much of the expertise resides in providers. Also, the introduction of yet more management and structural changes may further disrupt and demoralise staff already battle-weary from a decade of so-called public-sector reforms.

Such problems represent transaction costs and are not unexpected for those familiar with business (as opposed to public administration), as they represent many of the issues in the classic “make or buy” decision. Just as business network theory represents another view for the operation of real-world markets and the relationships between businesses, it may provide a useful perspective on relationships in a public sector setting.

3.3 Purchaser-provider partnerships: The reality of network control

Business network theory provides a third perspective and offers concepts that may be used to overcome some of the potential problems both in design and implementation of Purchaser-Provider arrangements. Networks explicitly

recognise the coexistence of both competition (market control) and cooperation (administrative control) (Thorelli 1986). Network theory portrays organisations as actors within a complex array of long-term, though dynamic, relationships or partnerships. These relationships may be vertical, such as between purchaser, provider and end-user; or horizontal, such as between different providers.

The work of the IMP group (Hakansson 1982, 1987, 1989, Axelsson and Easton 1992, Hakansson and Snehota 1995; Moller and Wilson 1995) has refined and extended the network approach through a focus on business networks and exchange relationships (Figure 2). Exchange relationships are business relationships between autonomous business units built from a history of exchange episodes. Four key elements of exchange are product or service, information, financial exchange and social exchange.

Business relationships can be seen as having different substance as well as different functions (Hakansson and Snehota 1995, p.26). The substance of relationships is viewed as having three different layers – actor bonds, resource ties and activity links – which characterise the relationship between the companies. The activity layer refers to the technical, administrative, commercial and other activities that connect internal activities of the two actors. The resource layer describes ties that connect the various resource elements (technical, material, knowledge resources and other intangibles) of two companies. In the actor layer, the actors become connected and bonds are developed that affect how the actors perceive, evaluate and treat each other.

Relationships may be further characterised by varying levels of cooperation, commitment and trust, which affect the nature of negotiation and importantly, the flexibility of working transactional arrangements (Wilson and Moller 1995; Morgan and Hunt 1994; Steffens, Wilson and O’Keeffe 1997). Unlike administrative or market control, network theory suggests that control systems are emergent: they take time to evolve, are path dependent and are non-deterministic (Hakansson and Henders 1995).

In the context of economic and technological development, the core business of QDPI, networks and external relationships are central to improved outcomes (Hakansson 1989; Huang, Steffens and Schroder 1997). Further, active networks are a key to leveraging intellect, a core resource in technology development. The network perspective and the focus on business relationships use the notion of companies or organisations as actors, not just individuals, in the sense that companies act purposefully. This perspective offers new understandings for the QDPI Purchaser-Provider implementation, where each unit of the department can be viewed as an actor.

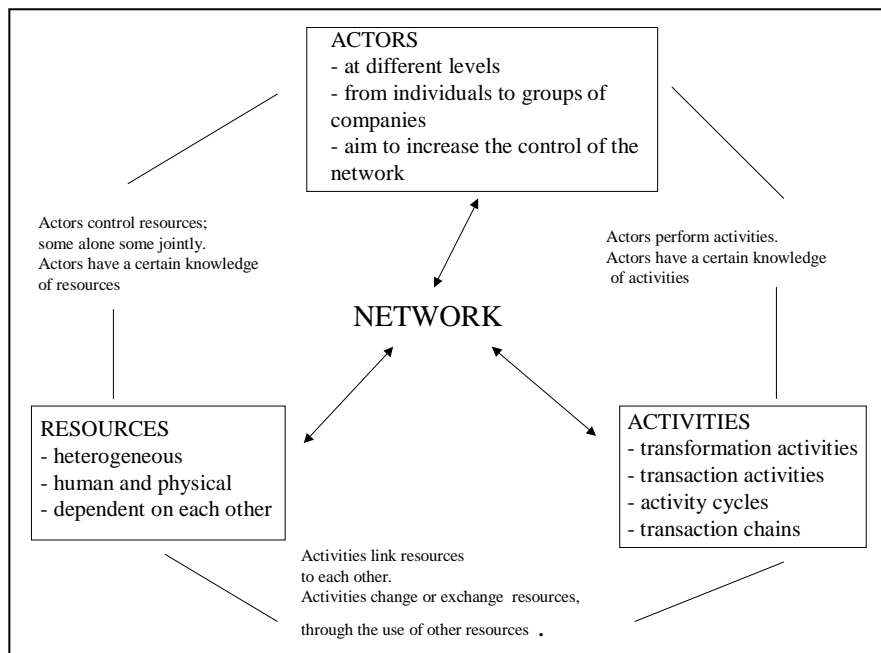


Figure 2: IMP Network Model

4 Methodology

We used the above concepts of activity links, resource ties and actor bonds as lenses to organise data we collected studying the implementation of Purchaser-Provider arrangements in QDPI (Shulman et al. 1998). The data come from multiple sources, including:

- the commissioning of key informants to develop a retrospective, longitudinal case study, semi-structured interviews and document analysis. These are providing a consensus-based rich picture of the evolution of management systems in QDPI and its relations with external parties over the last two decades that reflects the path dependency and inertia that both constrain and enable changes in management systems and relationships.
- a real-time longitudinal study of two Purchaser-Provider partnerships, the Farming Systems Institute and the Field crops Sub-Program, together with the Queensland Horticultural Institute and the Horticulture sub-program. The tools used include participant observation, semi-structured interviews and document analysis. Verification of the conclusions drawn from these data are facilitated through feedback sessions with constituents. For each case, existing theory is sequentially compared with the case data and modified or replaced with theory generated from the case analysis. Emerging theory is compared and modified, if needed, with earlier cases. The process is repeated on additional theory-rich cases until there is substantial agreement between all cases and the emerging theory.

5 The Story So Far

The study to date has documented the initial implementation of Purchase-Provider at QDPI, and has observed some of the dynamics of the changing relationships.

5.1 Making it work: A network of relationships

While some competitive forces are at work within the new QDPI structure, it is clear from our research to date that cooperation and partnerships are a stronger driving force. From the outset, QDPI recognised the importance of cooperative relationships within their new structure: “The Purchaser-provider relationship must be viewed as a partnership operating under “win-win” principles” (Duffield 1997, p. 4), and is reflected within our interviews.

“The trend these days is strategic alliances, vertically and horizontally, and that's what I see this as being. And if everybody takes it that way, it works well. If you take it, on the other hand, that it's a pure contractor relationships, where they are setting the rules, then you say, why have an institute board, it's a waste of money, because they're organising all of that and all we do is deliver what they ask us to do.”

“The new structure of delivery may lead to breaking down the silos within the department. An example might be working with the export group... we should all be operating in rural business industry services... Really we should have 10 targets which are all working together and so you really need to coordinate bringing us all together to do that. So we're starting to do that a little better than we have.”

5.2 Actor bonds

The research revealed many dimensions of actor bonds within the overall network.

Interviews consistently suggested that the Purchaser-Provider relationships between sub-programs and institutes are close in nature.

“It (providing services) is all done jointly, and they come up with their targets in consultation with us and we have a lot of input. I see it as a partnership; it's not a contractor type relationship.”

The importance of personal relationships (social bonds) between actors was another clear theme that emerged from interviews.

“My relationship with the directors is that I try to work hard on the personal relationships.”

“...and those sorts of relationships, you often exchange an awful lot of information very quickly about what's happening, and I really value that.”

“I want to find out what really makes these sorts of relationships work and not work; and when they're not working, we're not learning.”

The relationship of the institutes to QDPI and the issue of future independence from QDPI and its potential for new relationships is interpreted in different ways.

“Where I think independence will come from will be in their ability to manage their complex relationships inside and outside the organisation, and in what they can gain from those relationships.”

“It's more about the informal relationships and the way dollars flow and the way priorities flow.”

The importance of relationships is not limited to the purchaser provider interface.

“We try to have relationships with all of these people, vertically and horizontally and all the rest of it... So there are inter-relationships at all levels, and you've got to have them to make it work.” “And particularly if we're chasing business outside, there will be all sorts of groups that we might decide to have an alliance with.”

Interlocking directorates with staff in multiple roles encouraged discussion of ideas at all levels.

“Our (Institute Board) chairman is on the Industry Development Council .”

5.3 Activity links

Activity links are particularly important for technological development, which includes “adaptation of development direction and target specifications, and division of labour in R&D through joint development projects.” (Laage-Hellman 1997, p.21). These activity links are some of the institutes’ staff and Board members’ suggestions regarding new directions for delivery of RDE.

Improving activity links within the QDPI. One of the emerging changes is the better relationships between the Institute and other sections of QDPI.

“I think, if anything, they're bringing them closer together, because there's always been a divide between research and some of these other things. In fact one of the good things that's happened is that some of the marketers out of rural industry business services have now been aligned to institutes.”

Activity links have been established with other institutes that are threatened by the onset of a new pest or plant disease.

Renegotiation of relationships with other providers includes moving from contractual provision to collaborative processes to identify common goals and purposes.

“So, again, it's a joint venture type arrangement (with other Providers) that we should be looking at, not a contractual arrangement. If they paid the full cost of a project, then I'm quite happy for them to put whatever conditions upon it they wish. But while they're only contributing 20% or 30%, which is the norm, then it should be a joint venture arrangement.”

5.4 Resource ties

Strong resource ties exist within the QDPI network. The most obvious is the common “corporate support” across the entire department. This includes common information systems, accounting systems, legal services, HR services, RD&E policy advice, export development, and rural industry business services. These resources are shared by all internal QDPI actors. This has a variety of consequences, including Staff movements and implementing software to facilitate activity links. Strong physical resource ties also exist horizontally between institutes. It is not uncommon for institutes to share sites and equipment. This facilitates the potential for horizontal activity links between institutes. However, shared resources can inhibit the independence of institutes. With regard to the independence/interdependence of ties, one of the most important issues that has emerged from the new structural arrangements is corporate identity – in particular, the degree to which institutes establish a separate legal and/or market-based identity. Several important resource elements of corporate identity are the use of the QDPI name and its logo, and ownership of intellectual property. This resource tie has been an important factor shaping the relationship between institutes and sub-programs. More importantly, corporate identity influences the relationship between institutes and industry groups, since it is crucial in shaping the external perceptions of institutes. This provides an example of resource tie between two actors (institute and sub-program), influencing the relationship between third parties (industry groups).

5.5 A different path to a business network: Introducing competition to a cooperative, administrative structure

One of the observations that makes this case interesting from a network perspective is that the network (a mix of cooperation and competition between actors within the market) has emerged from a cooperative administrative structure, rather than from a competitive market structure.

From the previous discussion, it is clear that the new QDPI structure is driven more by cooperation and partnership than by competition. This is not surprising. In traditional business networks, cooperation, adaptations, trust and commitment between actors develops slowly over time (Wilson and Moller 1995; Ford et al. 1998, 25-30). In the current application, it is not unexpected that competition is slow to develop. The former cooperative relationships will clearly inhibit the shift to competition. It will be interesting to see how far the structure ultimately shifts towards competition.

In QDPI’s case, the pre-existing administrative structure was characterised by strong actor bonds (with high levels of goal compatibility, social exchange and bonding and trust), activity links and resource ties. In some ways, institutes are trying to weaken the previous actor bonds (both vertically with sub-programs, and horizontally with institutes) as they seek to establish a new level of independence from QDPI and to be open to developing new activity links and resource ties. As discussed above, many existing resource ties and activity links are acting to inhibit this process.

To trace the evolution of these organisations, we will continue to follow the development of the network structure at QDPI using the analytic framework of business relationships by examining actor bonds, activity links and resource ties. During our next phase of research, we will be developing indices of accountability, transparency and effectiveness of services with which these emerging innovations in Actor Bonds, Activity Links and Resource Ties can be evaluated.

6 Conclusions

Purchaser-Provider structures have been introduced via RD&E institutes in QDPI as a means of introducing competition and increasing accountability and transparency in the delivery of services. Our analysis suggests that a network approach with its focus on relationships, in contrast to a sole focus on administration or competitive control, provides a useful set of constructs and dimensions for describing and analysing the ongoing restructuring under the Purchaser-Provider model.

The formation of the ensuing network structure and the changing relationships of actors to each other evolve from introducing competition to a cooperative administrative structure. This is in stark contrast to normal business networks that evolve from introducing cooperation to a competitive market structure.

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