Beyond the commercial dyad: Exploring value buying in different sectors

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Summary
Buying value is becoming increasingly important purchasing strategy in B2B markets, but current literature offers little insights on how it unfolds in different sectors. The purpose of this study is to unpack how value-buying approaches diverge in private, public, and third sectors, and describe the key dimensions that underlie major differences. Drawing from a qualitative multiple case studies that involve 15 buying organizations in three different sectors, this study develops findings that contribute to current priority areas in contemporary industrial marketing and purchasing research. For managers, this study offers insights on how to conduct value buying in different sectors.

Keywords: Value buying, social value, public procurement

Submission category: Working paper

Introduction
Buying “value” or “business outcomes” have become major purchasing trends that are slowly but inevitably challenging traditional price-focused purchasing strategies across many sectors (Macdonald, Kleinaltenkamp, & Wilson, 2016; Meehan, Menzies, & Michaelides, 2017). For example, many private organizations are now increasingly seeking business impacts instead of lowest prices (Hinterhuber & Snelgrove, 2017), public organizations seek innovative and effective solutions instead of price efficiencies (Edquist & Zabala-Iturriagagoitia, 2012), and third sector organizations focus on community outcomes instead of profitability (Pestoff, 2014). However, since value outcomes in different sectors are usually perceived, evaluated, and appropriated differently (Austin, 2010; Hahn, Preuss, Pinkse, & Figge, 2014; Painter-Morland & ten Bos, 2016), this renders traditional, price-focused buying models suboptimal or ineffective in many contemporary buying situations (Porter & Kramer, 2011). Yet, despite the increasing need to understand how organizations can integrate different value outcomes in their business practices (Painter, Hibbert, & Cooper, 2018) current literature offers little insights on how value buying approaches unfold and manifest in different sectors (c.f. Meehan et al., 2017).
While previous research in business ethics has explored how trade-offs between economic, environmental, and social value outcomes influence buying decisions (e.g. Luchs & Kumar, 2017; Olson, 2013; Papista & Krystallis, 2013) most of this literature is focused on consumers and individual-level decision making (Hiller & Woodall, 2018). In contrast, examinations of how trade-offs between different value outcomes influence organizational-level buying processes are scarce. Furthermore, while sustainability research has increasingly examined how organizations can adopt new business models and practices that take into account different value outcomes (Bocken, Short, Rana, & Evans, 2014; Patala et al., 2016; Tate & Bals, 2018), most of this literature is focused on suppliers, but leaves customer-driven practices relatively underexplored. Finally, while recent studies in B2B marketing and purchasing domains have provided insights for buying value (e.g., Pinnington et al., 2016; Terho et al., 2018), they are usually conducted in a private sector context (for an exception see Meehan et al., 2017), but do not consider implications for other contexts, such as public or third sectors. Given the rapid change towards mixed economies, understanding the potential differences in value-based approaches is important to ensure positive outcomes are delivered through the buying activities.

To address the gaps in the current literature, the purpose of this study is to explore how value-buying approaches unfold in different sectors. We do this by adopting an abductive research approach (Dubois & Gadde, 2002, 2014), and integrating contemporary customer value and buying literatures to develop theoretical insights into value buying approaches in different sectors. Concurrently, we draw empirical insights from a purposively-sampled multiple case study (Eisenhardt & Graebner, 2007), which involves 26 buying organizations in private, public, and third sectors.

The first exploratory stage of our empirical study reveals that value-buying approaches diverge significantly across different sectors. More specifically, the findings indicate that depending on the buying focus and value logic (commercial, policy, community outcomes), the buying process involves different focus, roles, stakeholders, and challenges in value creation, value assessment and value appropriation. Furthermore, the findings suggest that specific buying approaches are usually deeply rooted and institutionalized in sector identities and organizational histories, and thus difficult to change or re-orient, even in the cases where targeted value buying outcomes would change.

At this stage, this study contributes to contemporary marketing and purchasing research by illuminating how value-buying approaches unfold in different sectors, and describing the key dimensions that underlie major differences. In addition, the findings illustrate how customer organizations can take different value outcomes into account in their business practices, and demonstrate the potential implications of different outcomes to organizational level buying processes. Taken together, the findings from this study advance theorizing about value buying approaches that take into account broader social value outcomes. Social value has been both underexplored academically and overshadowed by buying approaches that emphasize economic value outcomes (c.f. Meehan et al., 2017). This addresses several research calls to increase understanding about organizational buying behavior in the contemporary market space (Grewal et al., 2015) which is increasingly emphasizing environmental, social, and ethical value outcomes too (Kotler, 2011; Porter & Kramer, 2011).

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1 At this stage in the research project, results are preliminary and a work-in-progress
Conceptual background

Customer value in different sectors: Multiple perspectives and value outcomes

Customer value has been extensively discussed in the industrial marketing and purchasing literature (Eggert, Ulaga, Frow, & Payne, 2018; Lindgreen, Hingley, Grant, & Morgan, 2012). It is usually defined as the sum of customer perceived benefits and costs (Ulaga & Eggert, 2006), or increasingly more so as value-in-use that realizes customer specific goals that can be perceived at multiple levels and in broader (Macdonald et al., 2016; Reypens, Lievens, & Blazevic, 2016). While the customer value concept extends beyond transactional and monetary dimensions, and includes strategic, relational, and social benefits too (Corsaro & Snehota, 2010; Ritter & Walter, 2012), it usually emphasizes economic outcomes, especially in inter-organizational exchanges (Corsaro & Snehota, 2010; Ritter & Walter, 2012). However, many scholars have argued that the (over)emphasis of economic value limits commercial and societal value generation and appropriation potential (e.g. Keränen, 2017; Kotler, 2011) and underlined the need for organizations to understand and leverage value more broadly in their operations (Geiger, Harrison, Kjellberg, & Mallard, 2014; Painter et al., 2018). This is particularly important in contemporary economy, where value is increasingly created and shared between actors in multiple sectors (Porter & Kramer, 2011).

For example, from a private sector perspective, economic value has been traditionally the basis for business decisions, dominated by the profit motive (Corsaro & Snehota, 2010). Especially in B2B markets, both buyers and suppliers, as well as their broader supply chain partners are increasingly looking for quantified business impacts and improved competitiveness, which are usually materialized as concrete cost savings or improved productivity gains (Kähkönen & Lintukangas, 2012; Terho, Eggert, Ulaga, Haas, & Böhme, 2017). While companies in private sector are increasingly encouraged to adopt CSR policies to deliver environmental and social outcomes to wider societal beneficiaries (Porter & Kramer, 2011), they are often seen as extra costs that conflict with economic profits and commercial goals (Castellas, Stubbs, & Ambrosini, 2018).

From a public sector perspective, social and policy outcomes tend to take primacy over commercial outcomes (Leite & Bengtson, 2018). Organizations in the public sector are often driven to deliver services to the public as efficiently as possible, while ensuring regulatory compliance, and the prudent use of public purse (Russell & Meehan, 2014). These goals are often reinforced by legislative policies (such as the UK’s Public Service (Social Value Act), 2012) that direct public sector organizations to evaluate, emphasize, and demonstrate compliance to wider social and policy outcomes. Public sector organisations may therefore be considered to be responsible for generating value for both public sector consumers and the wider community. However, in practice, a value-for-money (VFM) objective often influences public sector exchanges, as public organizations seek to deliver services and social outcomes as efficiently as possible (Courtney, 2017). However, too much emphasis on low-cost mentality can impair long-term value generation to public consumers and the wider community (Meehan et al., 2017).

Finally, from a third-sector perspective, social or environmental motives tend to dominate exchange decisions, and economic value is only a means-to-an-end. Third sector organizations include diverse actors, such as charities, associations, and social enterprises, and they are predominantly focused on community outcomes instead of profitability (Pestoff, 2014). The diversity can impact their value perceptions and role, for example, while charities...
and associations aim to distribute value, social enterprises aim to commercially generate the funds through which social and environmental benefits are delivered.

**Customer value in the industrial buying and purchasing literature: Need for more insights**

While the importance of customer value is increasingly emphasized in many streams of literature, what remains less clear is how organizations can actually buy value. For example, recent reviews in organizational buying (Chavan, Chaudhuri, & Johnston, 2018) and purchasing and supply management (Johnsen, 2018), reveal that despite the well-recognized shift towards value and performance outcomes in industrial markets, no value-based buying models or frameworks are offered to inform researchers or guide practitioners. This lack of guidance is reflected in practice, where several recent studies demonstrate that even when companies are interested in buying value, they often struggle to articulate, measure, and appropriate expected and/or desired value outcomes (Meehan et al., 2017; Pinnington, Meehan, & Scanlon, 2016).

The difficulties and challenges of buying value are likely going to be exacerbated when moving from dyadic-exchanges and economic-value driven private sector purchasing towards public and third sector procurement, where broader value outcomes are created, measured, and appropriated by a wider set of stakeholders and beneficiaries (Reypens et al., 2016). In the absence of theoretical insights or managerial recommendations into buying value, many buying organizations in these sectors tend to often revert towards price or cost-driven buying approaches (Meehan et al., 2017).

While recent literature has examined how organizations in different sectors can adopt and balance business practices that take into account economic, environmental, and social value outcomes to wider stakeholders, it has been mostly focused on selling approaches from a supplier-perspective (Bocken et al., 2014; Patala et al., 2016). In contrast, examinations into value buying approaches in different sectors from a customer-perspective are scarce, if not non-existent. Hence, there is a need to unpack how value buying unfolds in different sectors, and what are the key factors that drive the success or failure of buying value in particular contexts.

**Methodology**

Given that value buying in different sectors is an important but relatively unexplored phenomenon (Meehan et al., 2017), a qualitative and abductive research strategy was adopted. Abductive approach allows theoretical insights to be combined with empirical observations in order to develop and extend emerging theories in an under-researched area (Dubois & Gadde, 2002, 2014). A qualitative research approach (Yin, 2016) was used to gain a deep understanding of how complex and multi-stakeholder organizational buying processes unfold in different sectors, and how the involved actors construct, evaluate, and appropriate different value outcomes in different social contexts (Pinnington et al., 2016). A multiple case study design enabled cross-case analysis and the comparison of emerging insights across different sectors, which strengthen theory building and generalizability of the findings (Eisenhardt & Graebner, 2007).

**Case selection and data collection**

Purposive sampling logic (Patton, 2015) was used to identify and select buying organizations in different sectors which conducted value buying. This helped us to focus on particularly revelatory and information-rich cases to elicit novel empirical insights and field observations, facilitating theory building (Yin, 2016). To increase variation and improve generalizability,
we selected several organizations from each sector. Overall, our empirical data involves 58 interviews with senior decisions makers in six private, six public, and 14 third sector organizations (see Table 1). This is in line with the sample sizes recommended for exploratory and theory building case research (Eisenhardt & Graebner, 2007; McCracken, 1988).

**Table 1. Overview of the data**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Private</th>
<th>Public</th>
<th>Third</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizations</td>
<td>6</td>
<td>6</td>
<td>14</td>
<td>26</td>
</tr>
<tr>
<td>Industries</td>
<td>Mining, Paper &amp; Pulp, and Welding technology</td>
<td>Healthcare</td>
<td>Social Housing</td>
<td>5</td>
</tr>
<tr>
<td>Interviews</td>
<td>29</td>
<td>15</td>
<td>14</td>
<td>58</td>
</tr>
<tr>
<td>Examples of informant titles</td>
<td>Head of Purchasing, Director of Procurement, Global Sourcing Manager, Operations Manager, Project Manager, Head of Supply, General Manager</td>
<td>Procurement manager, Procurement Director, Manager (non-clinical), Clinician</td>
<td>Chief executive, Head of Operations, Procurement manager, Contracts manager</td>
<td></td>
</tr>
</tbody>
</table>

We used thematic and semi-structured interviews to explore buyers’ experiences and perceptions of value-buying in different sectors. Broad and open-ended questions gave us the flexibility to exploit naturally occurring data and probe issues that emerged during the interviews (Silverman, 2015). Overall, the goal of the interviews was to elicit empirical insights on the goals, outcomes, roles, activities, and challenges related to value buying in different sectors. The interviews lasted between 50 and 180 minutes and were recorded and subsequently transcribed in verbatim.

To analyze the data, we used a combination of thematic and focused coding techniques (Saldaña, 2015). In the first stage of analysis, we used thematic coding to identify relevant incidents and data passages that related to value buying approaches in specific sectors. In the second stage of analysis, we used focused coding to identify and develop emerging categories that described the key dimensions related to value buying in different sectors. As the categories emerged, we jointly discussed, compared, revised, merged, and (re)labeled specific categories. At this stage, this study summarizes the eight key categories (see Table 2) that emerged from the data and seem to account for the majority of differences in value buying across private, public, and third sectors.

**Preliminary Findings (work-in-progress)**

In this section, we report the findings of the study. Based on the empirical fieldwork and abductive analysis, we describe how value buying approaches unfold in the private, public, and third sector, and identify the key differences between different sectors. Given the space limitations and the work-in-progress state of this study, we provide a summary of our findings in the Table 2, and subsequently discuss the preliminary implications to theory and practice.
Table 2. Overview of the value buying approaches in different sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Private</th>
<th>Public</th>
<th>Third</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buying focus</strong></td>
<td>Economic value</td>
<td>Public service, social outcome,</td>
<td>Social and environmental outcomes</td>
</tr>
<tr>
<td><strong>Value-creation logic based on</strong></td>
<td>Commercial outcomes</td>
<td>Efficiency, Policy outcomes,</td>
<td>Community outcomes</td>
</tr>
<tr>
<td><strong>Usually measured as</strong></td>
<td>Cost savings, productivity gains, asset optimization</td>
<td>Reduced cost, Value-for-money, Policy outcomes</td>
<td>Community outcomes, jobs created, increased skills, improved health outcomes, reduced crime rates, increased regional economies</td>
</tr>
<tr>
<td><strong>Primary value creators</strong></td>
<td>Seller &amp; Buyer</td>
<td>Seller &amp; Buyer Consumer (Public)</td>
<td>Suppliers, Procurement - Hubs, Focal Client (social enterprise)</td>
</tr>
<tr>
<td><strong>Seller role</strong></td>
<td>Delivering offerings and/application expertise</td>
<td>Delivering offerings and/application expertise</td>
<td>Delivering offerings and/application expertise Social value delivered direct to socially disadvantaged consumers, other SEs or indirectly through ‘profit’ distribution</td>
</tr>
<tr>
<td><strong>Buyer role</strong></td>
<td>Need specification, usage, offering application Flexible role in terms of how and from who to source (i.e. what is the best alternative)</td>
<td>Need specification, route-to-market (procurement method), usage, offering application Constrained or regulated role in terms of how and from who to source (i.e., whether to aggregate nationally or do your own) Purposefully directing sourcing strategy, supplier social value generation and related measures.</td>
<td></td>
</tr>
<tr>
<td><strong>Community &amp; society</strong></td>
<td>Limited</td>
<td>Changing behaviors (high)</td>
<td>Changing behaviors (low)</td>
</tr>
<tr>
<td><strong>Latitude and potential for (value-based) innovation</strong></td>
<td>High latitude (innovation for commercialization), incremental potential (usually product/service innovation)</td>
<td>Moderate latitude (can drive seller innovation or inhibit through bureaucracy), Low potential (collaboration inhibited by regulated processes)</td>
<td>High latitude (outcome innovation), radical potential for social value innovation – more freedom from commercial constraint</td>
</tr>
<tr>
<td><strong>Key beneficiaries (Value appropriated/ between)</strong></td>
<td>Buying &amp; selling firms, Private stakeholders</td>
<td>Public sector consumers and the wider community</td>
<td>Community</td>
</tr>
<tr>
<td><strong>Seller appropriates</strong></td>
<td>Profit, Improved margins</td>
<td>Profit, Improved margins</td>
<td>Profit, Improved margins</td>
</tr>
<tr>
<td><strong>Buyers appropriates</strong></td>
<td>Reduced prices, cost savings, improved competitiveness</td>
<td>Reduced cost</td>
<td>Business continuity</td>
</tr>
<tr>
<td><strong>Community &amp; society appropriates</strong></td>
<td>Improved/optimized resource usage</td>
<td>Policy outcomes</td>
<td>Community outcomes, jobs created, reduced crime rates, increased regional economies</td>
</tr>
<tr>
<td><strong>Value drivers</strong></td>
<td>Consumer behavior, competitive pressure, market demand,</td>
<td>Governmental policy, (EU) regulation, Political pressure, society opinion</td>
<td>Societal need</td>
</tr>
<tr>
<td><strong>Key challenges</strong></td>
<td>Price vs. cost emphasis, fair value appropriation between the dyad</td>
<td>(Low) cost vs. value tensions</td>
<td>Evidencing value</td>
</tr>
</tbody>
</table>

Discussion
This study has explored and described how value-buying approaches diverge in different sectors. The emerging findings highlight key factors and potential challenges associated with value buying approaches in specific sectors. For example, while the scope of value-buying is relatively narrow in the private sector, as it is centered on the buyer-seller dyad and economic
outcomes, it becomes increasingly complex in public and third sectors, as more stakeholders and diverse value outcomes need to be considered.

In the private sector, the value generated by business relationships is typically considered in economic terms, with dyadic negotiations determining how much each partner appropriates. A firm gains additional value either by enlarging the ‘pie’ or by increasing its share (Figure 1). By extending this perspective to include social value, where society rather than shareholders are the beneficiaries (Figure 1), we are able to recognize sector specific variations in value strategies. Where social value is an objective of either or both parties in a relationship, each party may either regard social value purely as a cost that decreases the size of the distributable pie, or as a source of indirect economic value such as brand enhancement, or improved market access (Walter & Ritter, 2003). The first perspective follows trade-off logic (Castellas et al., 2018) whereas the second follows complementarity logic increasing the pie size.

![Figure 1 - Value beyond the dyad](image)

In the public sector, an over-riding focus on cost-reduction may conflict with social policy outcomes. Rigid procurement processes may inhibit process innovation through which the economic/social tension may be better managed. Budget cycles also promote a short-term cost focus that compromises longer-term value, including social value outcomes. Procurement managers are reliant on private or third-sector partners creating social value without a net-cost increase.

In the third-sector, a more complex picture was apparent with a supply chain in which the private sector delivered products and services to two tiers of downstream social enterprise clients. Social value is created in two different, and potentially competing ways. Firstly, it is directly achieved through the relationship between the buying organization and its private sector suppliers, achieved through embedding social value in contracts in the form of imposed apprenticeships, ways of working etc. Secondly, it was achieved in other areas by an overly commercial approach to negotiation; with any savings accruing by the social enterprise being subsequently distributed to create additional social value. Social enterprises therefore need to consider carefully which routes to social value achieve the greatest outcomes: social value realized through relational collaboration, or through profit distributed through charitable arms. An additional complication, encountered in this research, was a tension that exists between two social enterprise partners in a supply chain. In this scenario,
value-pie negotiation exists despite its apparent irrelevance to the social value outcomes, as this negotiation affects how much social value creation each organization is able to ‘claim’ in its reports. This can be a key consideration for future funding and revenue, suggesting a political agenda in social businesses.

Key contributions, implications, and limitations
At a work-in-progress stage, this study makes three preliminary contributions. First, it illuminates how value-buying approaches unfold in different sectors. While prior studies have considered value-buying mostly in the private sector context (e.g. Pinnington et al., 2016; Terho et al., 2017), this study expands empirical examinations into public and third sectors, and reveals key differences in value-buying in different sectors. Second, this study provides a customer-centric perspective to value-based exchange in B2B markets. Whereas previous studies have predominantly focused on how supplier firms can sell, leverage, or utilize different value outcomes in their business practices (Bocken et al., 2014; Patala et al., 2016), this study adopts a customer perspective, and demonstrates how buying organizations can buy, leverage, or take into account different value outcomes in their buying processes. Third, this study sheds light and increased clarity on the role of social and public value outcomes in inter-organizational exchange, which has this far been dominated by considerations of economic value outcomes (Corsaro & Snehota, 2010; Meehan et al., 2017).

For managers and practitioners, this study offers important insights on how to facilitate value buying in different sectors. Buyers can use these insights to define, evaluate, and measure strategic and long-term value outcomes and buying practices in different sectors. Sellers can use these insights to identify key barriers and drivers for successful value selling in different sectors. Policy makers can use these insights to design flexible regulations and commercial policies that enable rather than encumber value-buying in, and between, different sectors.

While our study offers important insights, it also has also limitations. First, it is at a work-in-progress stage, it requires further theoretical and empirical elaboration. Second, it is focused on value buying in different sectors from customers’ perspectives. Future studies could complement this by adopting a supplier perspective, and exploring whether, and how, valueselling approaches diverge in different sectors. In addition, a fruitful avenue for future research would be to explore whether, how, and why buyers and sellers value-driven approaches (mis)match in different sectors. Finally, given the increasing role of cross-sectoral interactions in contemporary economy, future studies could explore the differences in value buying and selling in different relationships configurations between private, public, and third sector actors.

References


