# Business interactions in facility services: emerging paradoxes in the purchasing approach of Italian Municipalities[1]

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**Purpose.** The paper focalizes its attention on the analysis of buyer-seller interactions in facility services. These interactions are becoming strategic for companies in order to increase performance, to improve quality and flexibility, and to face the lack of specialization and of innovation. The aim is to investigate the interactions with sellers in the purchasing approaches of facility services implemented by Italian municipalities.
**Methodology.** The investigation is based on 15 case studies of small and medium-sized municipalities that are built on in-depth interviews with technical staff who, together with the mayors, perform the role of

[1] Silvia Ranfagni and Simone share the final responsibility of this paper. Simone Guercini wrote paragraphs 1; Silvia Ranfagni wrote paragraphs 2,3, 4 and 6; the authors wrote together paragraph 5.

facility managers. In the empirical analysis, Italian municipalities are studied in their interaction with suppliers of facility services.
**Findings.** The research reveals emerging paradoxes in the purchasing approaches of business services in the public organizations analyzed. These paradoxes show that the outsourcing of facility services in Italian municipalities is associated more with transactions than with interactions and that transactions in facility services do not necessary generate efficiency.
**Value.** Specific normative rules (public administration laws) together with contextual factors (management competences, attitudes in public administration, etc.) hinder and limit the application in the public sector of the interaction approaches to business service proposed by service and industrial marketing. The value of the paper lies in the analysis of the facility services' purchasing models in the Italian municipalities and, specially, in the identification of emerging paradoxes that impact on the approaches of buyer-seller interactions in business services proposed in the specialized literature.

**Key words:** interaction, facility services, purchasing, municipalities

**Paper type:** Research paper

## 1. Introduction

The scientific literature in industrial marketing and in service marketing offers contributions on business services and thus on "ICT services, consultancy, cleaning, marketing and legal support" (Van der Valk and Rosemeijer, 2009, p.3) that integrate firms' business processes. Business services are divided in maintenance, repair and operation services (MRO) and in production services (Jackson and Cooper, 1988). The first ones (i.e. legal services) accompany a firm's daily management and are a source of indirect costs, while the second ones (i.e. product tests prior to shipment) enter into the production process and generate direct costs (Jackson et al., 1995). Adapting Håkansson's classification of industrial goods (1982), more recent studies extend the analysis, distinguishing business services transformed by buyers (e.g. data information system interacting with customers) before having a utility for end-consumers, from business services directly destined to end-consumers without undergoing transformations (e.g. call centers for consumers). The former are "semi-manufactured services" and the latter are "component services" (Wynstra, Axelsson and Van de Valk, 2006). Business services can be also destined to buyers that purchase them for their uses; these services are labelled "instrumental business services" (e.g. cleaning services to support flight operations) and "consumption business services" (e.g. cleaning services for a bank agency); the former are distinguished from the latter on the basis of their impact on the way buyer's primary processes are carried out (Jackson, Neidell and Lunsford, 1995; Wynstra, Axelsson and Van der Valk, 2006).

Despite these differences, business services have all the distinctive characteristics of consumer services: they are intangible, not storable, heterogeneous, and produced and consumed simultaneously (Axelsson and Wynstra, 2002). They require the active involvement of the buyer and the seller in service production, delivery and consumption (Grönroos, 1979; Grönroos, 2000;

Gummesson, 1983; Gummesson, 1998). High interactivity (ongoing buyer-seller interactions) based on the awareness of buyer to be also producer (dual role of buyer) is seen as the main determinant of the success in exchanges for business services (Jackson, Neidell and Lunsford, 1995; Axelsson and Wynstra, 2000). Thus, business services find their essence in interactions: they foster a dialogical problem-solving process where buyers and sellers are involved to "co-create" value (Vargo and Lusch, 2004; Vargo, 2006; Grönross, 2008). Interactions can generate a "confrontation process…which changes and transforms aspects of resources and activities of the involved companies…" (Ford et al., 2008, p.3). The more knowledge intensive business services are (e.g. consultancy, advertising), the more interaction changes who and what is involved in it (Lapierre, 1997), thus becoming an irreplaceable source for the co-creation of value (Stock and Zinszer, 1987; Stenroos and Jaakkola, 2010; Vargo and Lusch, 2008). This high co-penetration between business services and interactions has led researchers of both industrial marketing and service marketing to increase their interest in the study of buyer-seller interaction approaches in business services. Now we focus on these approaches to concentrate then our attention on the analysis of the interactions between public organizations and their facility services' suppliers. The public organizations we have investigated are Italian municipalities that tend to outsource facility services because of a reduction in public funding and of correlated barriers to hiring new employees.

## 2. Buyer-seller interaction in business services: an interpretative approach

Decisions about the purchasing of business services are becoming increasingly important for organizations (Fitzsimmons, Noh and Thies, 1998; Cavinato, 1999; Axelsson and Wynstra, 2002; Van Weele, 2005) which have to face the make-or-buy questions and decide whether to make required services in-house or buy them outside (Gadde and Håkansson, 2001). However, despite

the growing outsourcing of business services, contributions in the literature continue to focus on consumer services as compared to business services. Abstracting from the available academic research, we have identified two different approaches to the study of buyer-seller interactions in business services. One is the "extensive perspective": it investigates all the interactive moments that precede, accompany and follow the purchase of a business service (Day and Barksdale, 1994; Jackson et al., 1995; Van der Valk and Rozemeijer, 2009). The other is the "focalized perspective": it studies the ongoing interactive moments in the simultaneous stage of business service production and consumption. We analyze this perspective investigating business services as a combination of *existence conditions*, *interactive approach* and results in terms of *performance* (table 1). It is this combination that, as it synthetizes the complexity of business service interactions, will constitute the theoretical framework of our empirical research.

a) *Critical conditions*. Clear and well-defined objectives together with relational attitude are perceived as critical conditions for the success of business service interactions. Objectives include the purchasing goals, but also a projection of the role that buyers and sellers will assume in the interaction (Jackson et al., 1995). In fact the quality of a business service depends on the buyer's active participation in the interaction as well as on the supplier's search to "align its […] process with the customer's value generating process" (Grönroos, 2004, p. 102). Relational attitude (Callaghan et al. 1995; Ruyter and Wetzels, 2000) is seen as an indispensable propensity both in buyers and sellers to invest time and resources in the interaction (Callaghan, McPhail and Yau, 1995). It is based on trust, commitment, reciprocity and empathy. Trust and commitment reduce uncertainty in interactions and produce cooperation; reciprocity and empathy increase the mutual exchange of favors and the respect for reciprocal perspectives (Molin, Agndal and Axelsson, 2008). The importance of relational attitude is due to the correspondence in business services between interactions and solutions they produce for the buyer. The solution is in the

relationship itself; more specifically it is the result of the problem solving process at the base of interactions where buyers and sellers are involved. Thus, the relational attitude conditions the ability of sellers to align with the buyer's practices and to contribute to the achievement of the buyer's purchasing goals (Ravald, 2001; Grönross, 2004). Both objectives and relational attitudes constitute the interaction's interface (Araujo, Dubois and Gadde, 1999), which also includes buyers and sellers together with their interactive approaches (Mota and De Castro, 2011). Different interfaces imply a different relational intensity in buyer-seller interactions (Ford et al., 2008). "Interactive interfaces" and "translation interfaces" see buyers and sellers involved in the co-production of business services; in particular, in the "interactive interface", the business service is the result of an "open-ended dialogue" (Araujo, Dubois and Gadde, 1999, p.149) between buyers and sellers, while in the "translation interface" it is created by suppliers on the basis of buyer's functional needs. Reciprocal adaptation and commitment marking interactive and translation interfaces decrease in the transition from the "specified interface" to the "standardized interface" (Araujo, Dubois and Gadde, 1999). In the specified one, sellers develop a supply on the basis of market needs filtered by the buyer, whereas in the standardized one buyers and sellers exchange a basic supply where interactions assume the form of transactions that underline a search for efficiency.

*b) Interactive approach.* Business service interactions can be studied in their critical existence conditions, but also in their interactive approaches, seen as components and expressions of their interface. From specific scientific contributions, it emerges that interactive approaches can be distinguished according to the kind of business service (Eriksson and Mattson, 2002; Leek, Turnbull and Naude, 2004; Wyntra, Axelsson and Van der Valk, 2006). More specifically, different business services imply differences in terms of interactive approach and also of interface (table 1). *Semi-manufactured* and *instrumental services*, even if they have a different destination,

are united by an interactive approach based on a "translation interface": sellers adapt the services interacting with buyers and following specifications defined by the buyers themselves. Since *semi-manufactured* services require transformations by buyers before preparing them to be used by end-consumers, the adaptation is aimed at optimizing the buyer's business service processing by impacting on the efficiency and efficacy of the buyer's service production (Axelsson and Wynstra, 2007). A data information system designed to interact with customers has to be created which takes into consideration the functional changes buyers will impose on it before its use by customers in an effort to improve the process of service production. *Instrumental services* impact on the buyer's primary process; sellers have to adapt specifications provided by buyers in a business service destined to be used for producing final services for customers. In other words, sellers have to supply a business service considering the context in which it is used. Cleaning services to support flight operations, for example, have to be created on the basis of the final services buyer proposes to offer to customers. The semi-manufactured services, compared to instrumental service, can be the result of a reciprocal participation between buyer and seller based on an exchange of knowledge and of competences (Håkansson and Ford, 2002; Håkansson and Johanson, 2001; Dahlquist, 1998). In this case the interactive approach presupposes an "interactive interface". The relational intensity joining semi-manufactured and component services progressively decreases in the other business services, which are the *component* and in the *consumption services.* While in the former the interactive approach is based on "specified interface," in the latter it also assumes the "standardized interface". Component services, differently from semi-manufactured services, are destined to end-consumers without being transformed by buyers; here sellers adapt the service on the basis of customer requirements mediated by the buying firm (specified interface). Consumption services, like instrumental services, enter the buyer's primary business but they do not impact on it. In this case the buyer

purchases standard services from the supplier looking for efficiency (standardized interface). Thus, suppliers are called on to run an efficient service production and delivery process optimizing resource allocation and utilization (Svahn and Westerlund, 2009). Sellers and buyers are linked by transactional exchanges seen as "short term nature or by one-time exchange, with no commitment beyond the limited interaction [between actors]" (Sheth and Shah, 2003, p.628). In these services, compared to the others, relational attitude does not constitute a critical condition as well as objectives define goals and not reciprocal roles of the buyer and the seller.

*c) Performance.* The effects produced by buyer-seller interactions in business services can be measured by performance. In order to explain how, we report some contributions of industrial and service marketing. According to industrial marketing, performance depends mainly on how activities and resources relate to each other within an interaction. In particular, on the one hand coordinated activities enable actors involved in interactions to exploit external specialization generating reciprocal dependence. Dependence favors relational stability with positive effects on performance in terms of greater efficiency (Dubois, 1998). On the other hand, the adaptation and combination of resources in interactions can trigger innovation (Håkansson and Waluszewski, 2002; Håkansson and Waluszewski, 2007) impacting on performance in terms of effectiveness. While efficiency is associated with cost-reduction, effectiveness is linked with improvement and value creation across company boundaries (Axelsson and Wynstra, 2002; Svahn and Westerlund, 2009). The combination of heterogeneous resources represents a means for value creation across company boundaries. Contributions in service marketing (Grönross, 1983; Ravald and Grönross, 1996) identify in the relation between the "value-in-use" and the "value-in-exchange" of a specific service the source of its performance. While the "value-in-use" is the ability a consumer has to increase the potential value of a service by using it, the "value-in-exchange" is the value for a customer embedded in goods and services as outputs of a company's production (Grönroos,

2004). Value-in-exchange, as source of performance, is functional of value-in-use; so value-in-exchange exists if value-in-use can be created. In other words, it depends on the active role of customers in the use of a service and on its integration in their value-generation process (Holbrook, 1994; Collins, 1999; Vargo and Lush, 2008). Unifying industrial marketing and service marketing perspectives, it follows that in buyer-seller interactions for business services, performance depends on the ability to coordinate activities and combine resources by producing a high value-in-exchange as a consequence of a high value-in-use. Thus the buyer creates value-in-use through the exchanges of business services by adapting and harmonizing them in its business processes (table 1). In semi-manufactured services the value-in-use depends on the ability to adapt service to the buyer's business service processing (value-in-use for buyer); in instrumental services the value-in-use is associated with the integration of the service in the buyer's primary process (value-in-use of buyer); in component services the value-in-use is correlated to the realization of a service compatible with market needs (value-in-use for consumer). In the case of consumption business services, the interaction between seller and buyer is limited to transactional exchanges; since they develop in the short term on the basis of opportunistic aims based on economic efficiency, the value-in-exchange is independent of the value-in-use.

| Tab.1 - *Buyer-seller interactions in business service: an interpretative approach* | | | | | |
|---|---|---|---|---|---|
| Business Services | | **Critical conditions** | **Interactive Approach** | | **Performance** |
| Semi-manufactured services | BS* transformed by buyer before being used by end-consumer | Objective and relational attitude | Sellers adapt business service to optimize the buyer's business service processing by impacting on the efficiency and efficacy of the buyer's services production (translation interface).<br>Business services are the result of a reciprocal participation between buyer and seller based on an exchange of knowledge and competences (interactive interface) | Interaction | Value-in-use (for buyer) |
| Component services | BS destined to the use of end-consumer without being transformed by buyer | Objective and relational attitude | Sellers adapt the service on the basis of the customer requirements mediated by the buying firm (specified interface). | Interaction | Value-in-use (for end-consumer) |
| Instrumental services | BS that impact on buyer's primary processes | Objective and relational attitude | Sellers adapt specifications provided by buyers in a business service destined to be used in the production of final services for customers (translation interface) | Interaction | Value-in-use (for buyer) |
| Consumption services | BS that do not impact on buyer's primary processes | Objective | Buyer purchases standard services from the supplier looking for efficiency (standardized interface) | Transaction | Value-in-exchange |
| *BS = business services | | | | | |

## 3. Research objectives and methodology

In our research we investigate buyer-seller interactions in facility services as non-core business activities that firms can externalize in order to improve their performance, thereby exploiting the competences and flexibility of specialized suppliers (Pitt and Trucker, 2009). Facility services are business services that include: a) *building services,* which aim at maintaining or increasing the property value (e.g. maintenance services, building and renovation); b) *space services,* which develop or preserve spaces shared by the personnel (e.g space design, space project, surveillance and gardening); and c) *people services*, which contribute to improving personnel productivity and guaranteeing a comfortable environment (e.g. cleaning service, utility and catering) (Cott, 1999). The buyer-seller interactions in facility services are analyzed through the experience of Italian municipalities, which are public organizations and urban administrative divisions having corporate status and powers of self-government over a territorial area of competence. Our study was financed with the help of a grant from the National Association of the Italian Municipalities (ANCI) to the Department of Economics and Management of the University of Florence. It is joins the studies (Jones, 2000; Kanning et al. 2008) on facility service management and on the effects it produces in public organizations. The objective of our research is to examine a) the purchasing models of facility services adopted by the Italian municipalities and b) the emerging interactions between municipalities (as buyer) and facility service sellers. The aim is to compare our findings with the "focalized prospective" to investigate how facility service interactions in municipalities relate with scientific contributions on business service interactions. In contrast with existing studies on facility services in public organizations, we do not concentrate on the effects in terms of management, but of buyer-seller interactions.

The methodology employs the multiple case study method (Yin, 2009). We have analyzed 15 cases of Italian municipalities located in Tuscany and characterized by a variety of number of internal employees and residents and a range of surfaces (table 2). The cases are model examples of the topic under investigation: all of them have faced the make or buy decision, by developing interactions with business service suppliers. The cases are based on interviews with the purchasing manager(s) of each municipality, carried out over a period of eight months (September 2011-April 2012). The interviews lasted at least two hours and investigated: a) structural data (organization, management, activities, facility services used, etc.); b) purchasing decisions for facility services (insourcing, outsourcing, mix, impacts in terms of performance); c) purchasing processes for facility services (selection of sellers, goals, relational approach, etc.); and d) trends in the facility service management (factors of change, orientation, etc.). The interviews were recorded, transcribed and elaborated in the form of cases-study. Each case was further developed through contacts with management (Guercini, 2004), useful not only to deepen the analysis, but also to verify its interpretation. We will present the main results emerging from the cases of municipalities whose analysis is combined and grouped on the basis of the purchasing model adopted.

TABLE 2 - *The cases of Italian Municipalities*

| **Municipality** | **E** | **R** | **S**(km²) | **Municipality** | **E** | **R** | **S** (km²) |
|---|---|---|---|---|---|---|---|
| Sesto Fiorentino | 315 | 47.623 | 49.04 | Calenzano | 125 | 16.462 | 76.87 |
| Piombino | 246 | 35.075 | 129 | San Vincenzo | 104 | 7.000 | 33 |
| Cascina | 212 | 44.201 | 79.24 | Sinalunga | 100 | 12.926 | 78.60 |
| Poggibonsi | 205 | 29.478 | 70.73 | San Gimignano | 98 | 7.700 | 138 |
| Campi Bisenzio | 200 | 43.901 | 28.62 | Campiglia Marittima | 95 | 13.339 | 83 |
| San Giuliano Terme | 180 | 31.775 | 91.71 | Torrita | 40 | 7.522 | 58.36 |
| Colle Val d'Elsa | 140 | 21.629 | 92 | Suvereto | 21 | 3.171 | 92 |
| | | | | Sassetta | 7 | 567 | 26 |

Legenda. E= Employees; R=Residents; S=Surface

## 4. Findings from the empirical research

### *4.1 Italian municipalities and facility services*

The facility services in the Italian municipalities investigated are either purchased or produced internally. More specifically, the relative purchasing models can range between two extreme approaches: the first relies almost entirely on outsourcing services (Piombino, Cascina, Poggibonsi, Campi Bisenzio, San Giuliano Terme, Calenzano, San Gimignano, Suvereto), while the second is mostly based on insourcing (Sesto Fiorentino, Colle Val d'Elsa, Sinalunga, Torrita, Sassetta). Between these two extremes, it is possible to identify a third approach that is a "mixed model" where outsourcing and insourcing are combined (Sassetta and Sinalunga). The municipalities' facility services correspond to component (maintenance, utilities, security, etc…), instrumental (vehicles, information technology) and consumption (cleaning, catering, etc.) services. As can be seen in table 3, semi-manufactured services do not characterize the municipalities interviewed.

TABLE 3 – *Facility services provided by selected Italian municipalities*

| **Business Service** | **Municipalities business services** |
|---|---|
| *Component service* | Maintenance (buildings, schools, roads, gyms) |
| | Utilities (gas, electricity, water) |
| | Environment services (gardening, green spaces, environment health, waste management) |
| | Security (vigilance, fire safety, guarding security, health safety) |
| | Public transport |
| | Other services (cemetery services, cultural services, front office, etc.) |
| *Instrumental service* | Tools and vehicles |
| | Information technology (automation system, hardware, software, printers) |
| *Consumption services* | Office services (furniture, cleaning, catering) |

On the basis of these facility services, we now analyze buyer-seller interactions in the purchasing models adopted by the selected municipalities; we then compare them with the "focalized

perspective" , that is the interpretative approach of the business services interactions that emerges from the academic literature.

*4.2. Facilities services interactions in the outsourcing purchasing model*

Most of the municipalities interviewed adopt this model. This because "*[They]… are facing a reduction of public funding and so…[they] can't replace retired workers…so facility services have to be outsourced…" (Poggibonsi).* The outsourcing becomes an inevitable choice: it is the consequence of financial constraints generated by a reduction in the available public funding, which limits the recruitment of new employees. As a result, facility services production is almost entirely outsourced; an exception is routine maintenance services (such as street lighting, road and building maintenance), which can be managed internally. The relation with sellers of facility services is usually formalized by multi-year contracts. "*Services are outsourced through call for bids where the selection process of suppliers is based on the optimal relation between quality and price" (San Giuliano Terme).* However "*if we have to purchase services such as gas and water, if we have to take care of a little job, like repairing a broken door, or if we need cleaning, catering services…and something like that, we cannot look for a company in Bolzano or Palermo, because we need people to step in quickly and continuously (Calenzano).* For these services "*the suppliers are chosen on the basis of proximity to the municipal territory; among the different estimates we receive, we look at their quality/price ratio and the cheapest one is generally preferred" (Poggibonsi).* The purchase of utility services (gas, water, etc…), low cost and temporary services is based on short-terms contracts with local suppliers. The reduction in public funding drives municipalities to respect economical constraints in the choice of suppliers, regardless the kind of facility service they need. According to municipality managers, the performance of outsourced services is objectively rigid. "*When our workers cut the grass, they also looked*

*around. If the pine needles needed to be swept up, they did it… All those little things, all these little tricks, together make the difference"*(*Suvereto*). *"The external suppliers do not do these tasks, because they stick to public contracts defined on the basis of rigid normative rules…." (Piombino). " We interact with sellers to define the contract that because of formal rigidity established by law, does not leave space for specifying and articulating the content…. "* (*Campi Bisenzio*). In the outsourced services, formalized normative rules prevail over service adaptation. One municipality interviewed recounts: "*we have entrusted the waste management service to a local firm. Every 15 days we must clean up televisions, batteries and everything that is scattered around the bins and has fallen from the mechanical arm of our supplier's trucks that pass for the collection of waste. We are left with this job, because the firm doesn't do it, and not because it's in default, but because it has to respect what is established in the contractual terms*" (*Torrita di Siena*). Thus, the relations between municipalities and suppliers assume the form of transactions whose contents (interventions, delivery and payment time) are predefined by contractual models. Suppliers provide services rigorously and respect rigid contracts, which do not allow them to perform additional interventions as completion of their supply. The emerging transactions instead of generating flexibility produce rigidity and a low level of personalization in the management of facility services. Thus, outsourcing does not favor adaptation and produces transactions formalized by contracts, which limit the freedom of suppliers in service production and the generation of a service value, thereby impacting on collective well-being.

*4.3.Facility service interactions in the insourcing purchasing model*

The municipalities that can count on a proportionally large number of employees compared to their dimensions tend to continue managing facility services internally *"…Our workers perform*

*different tasks. This is one of our great strengths, because we always try to reinvent and use our workers for any job. For example, the person who is employed to drive the school bus from September to June, can whitewash the walls of our schools in the summer…. The who supervises the cemetery can help gardeners to cut the grass…"* (*Sinalunga*). They exploit the multifunctionality of the internal workers team, which contributes to guarantee flexibility in facility service production. Moreover, "*our employees…are familiar with the municipalities' property and make adequate and ready interventions, they have gained experience… they perform their task with great care and more control…."* (*Torrita di Siena*). Ultimately "*outsourced services are not managed with the same attention and care as services provided by internal workers*" (*Colle Val d'Elsa*). Thus, internal employees can offer a higher quality service than external suppliers because of their timeliness, real estate knowledge and experience. However "*the new legislation provides that for five retiring workers the municipalities can replace only one… so our internal employees will disappear in the next 5 years*" (*Sesto Fiorentino*). In other words, the insourcing model is destined to disappear: the reduction in public funding makes it impossible for municipalities to replace their internal employees. Besides "*some services are worth keeping inside. I can give an example, school buses involve huge costs, such as replacements for drivers on sick leave or on vacation, the purchase and maintenance of vehicles, replacement of vehicles… circumstances make it impracticable to manage internally* (*Sassetta*). Further "*some services such as extraordinary building maintenance, require high levels of specialization… and for these we bring in external suppliers*". The reduction in public funding and diseconomies together with specialization drive municipalities towards outsourcing. Insourcing can contribute to organizational flexibility, but not specialization; given the limited number of employees, specialization (characteristic especially of building services) has to be pursued through external suppliers. However, internal workers, even in municipalities that adopt

an outsourcing model, assume an essential role for the achievement of specialization. In fact "*…Outsourcing produces a loss of knowledge and control of property…we can receive a report from a school (for example, about a broken sink)… when we had our internal employees, who knew the grounds, understood the problem and solved it immediately. Now what happens? We call the seller, who is not familiar with the municipal buildings… To solve the problem we are often forced to turn to our employees, even retired, to obtain all the technical information (for example the location of a pipe to repair) get the job done properly*" (*Cascina*). In short, since sellers cannot have sufficient knowledge of municipal properties, the involvement of internal employees is useful so as not to compromise quality and specialization in service production.

*4.4. The mixed model and facility service interactions*

Some municipalities adopt a mixed model where facility services are managed partly in insourcing and partly in outsourcing. In these municipalities "*internal workers perform different roles at the same time that can be useful to complete the work of sellers who remain bound to formal contracts….the result is a service adaptation" (San Vincenzo).* Besides, "*internal workers integrate activities of external sellers… they can provide real estate knowledge that can be necessary for some services…this leads to greater quality in services production"(San Gimignano).* Thus this approach helps reduce disadvantages generated by outsourcing and insourcing as the sole approaches. The internal employees supply their multifunctionality, thus favoring adaptation of services provided by seller, and bridge suppliers' knowledge gap concerning municipalities' real estate by helping to implement specialization pursued through outsourcing. Thus the effects produced are flexibility and a higher specialization in facility services. "*For maintenance, we have a group of workers, who deal with tasks, and integrate sellers in the work we have outsourced… these jobs are marked by larger and specialized*

*interventions such as service of waste management or in pest control services* (*San Vincenzo*). "*If we had kept internal employees to support external workers with their multifunctionality and knowledge, we would have twice the costs….everything can become too expensive to manage…*" (*Campiglia Marittima*). Thus the coexistence of specialization and flexibility can, however, generate an overlapping of competence (both internal and external) in the production of the same service; the consequence is an increase in the costs of facility service production.

## 5. Main results. Emerging paradoxes in buyer-seller interactions of facility services

The empirical research demonstrates that, regardless of the purchasing model adopted, municipalities tend (and indeed are obliged) to outsource facility services. While in the insourcing model, services are still produced internally (except extraordinary maintenance services), in the outsourcing model services (except the routine maintenance ones) are provided by external suppliers that can be also local. However, in all the outsourced services the search for efficiency, due to a reduction in public funding, favors the development of transactions with sellers that are chosen on the basis of a quality/price ratio. The rigidity in normative rules regulating contracts between municipalities and sellers also limits interactions and fosters transactions. Thus, the interactive approach in all municipalities' facility services is based on a "standardized interface": buyers look for standard services optimizing resource allocation and utilization. In contrast with the adopted business service interpretative approach (table 1), municipalities do not adapt component services and instrumental services, respectively, on the basis of citizens' needs ("specified interface") or of their functional specifications ("translation interface"). These facility services are also marked by a "standardized interface" (table 4). The resulting transactions, while justified by efficiency objectives, can cause inefficiency; this why rigid contracts and limited seller's also the involvement of internal employees to complete the

fulfillment of services provided by sellers. What follows is an increase in the costs of facility services production. Building upon these remarks and drawing a comparison between the theoretical approach and the empirical results (Tables 1 and 4), attention can been concentrated on some specific paradoxes that characterize buyer-seller interactions in facility service management. A paradox can be defined as a statement or group of statements that leads to a contradiction or a situation, which (if true) defies logic or reason (Sainsbury, 1998). It is our intention to analyze how starting from a theoretical foundation on business services, the presence of certain conditions can produce at least two contradictory results we have identified as (1) paradox of adaptation and (2) paradox of efficiency (Guercini, Ranfagni and Petrella, 2012).

*(1) The adaptation/transaction paradox*

Facility services, such as business services, require reciprocal adaptation (except for consumption services), but the reduction in public funding and the rigid normative rule that characterizes public contracts lead municipalities to develop transactions instead of interactions. All the facility services provided (not only those belonging to consumption services) are not the result of interactions, but of transactions (table 4). In the context under study, the essence of facility services as business services is not to be found in interaction. The reason for this paradox can be found in: a) the reduction in public funding for municipalities, which leads to a reduction in internal employees and an evaluation of services based on economic conditions; b) the rigid rules regulating public negotiating contracts that reduce the degree of freedom in the definition of interactive contents and in the management of interactions with suppliers. The consequence of this paradox is that the "value-in-exchange" of facility services does not depend on their "value-in-use": buyers seem not to be interested in looking for adaptation, integration and harmonizing facility services in their business process. At the same time suppliers do not fulfill the role of

"service value facilitator" (Grönross, 2009); this is because they deal with buyers which, being public organizations subjected to specific normative rules, do not strive to develop a managerial culture and an active propensity for contributing to the generation of service value. Consequently, relational conditions are defined in terms of economic objectives in contracts, but not in terms of roles that buyers and sellers have to assume in interactions. Thus relational attitude seems not to characterize facility service interactions in Municipalities.

*(2) The transaction/inefficiency paradox*

Municipalities look for greater efficiency through transactions, but the rigid normative rules and the sellers' limited knowledge on municipal properties can generate also in transactions conditions of inefficiency. Thus transactions do not necessarily produce efficiency and economic advantages in terms of cost reduction. Since suppliers of facility services keep to contractual terms without going beyond their duties, internal employees can exploit their flexibility to complete a facility services produced by supplier. Moreover, since suppliers do not always have knowledge of the municipality's real estate, internal employees can be engaged to transfer knowledge contributing to achieve specialization in service production. Ultimately, the involvement of internal personnel can favor flexibility and specialization, but it lengthens the time of intervention and increases the cost of service production because of an overlapping of internal and external competences in the supply of the same service. The consequence of this paradox is that a combination between insourcing and outsourcing can favor specialization and flexibility in facility services while generating conditions of inefficiency. From this paradox it emerges that municipalities look for efficiency through transaction. Acting in this way they do not realize that transactions can produce conditions of inefficiency; on the contrary, they

externalize facility services convinced of achieving increasing efficiency. This interpretative mistake of the effects of transactions can generate a vicious circle where outsourcing, even if activated in good faith, may cause inefficiency producing a negative impact on performance which, given the reduction in public funding, pushes even more towards an increase in outsourcing. So the circle outsourcing – inefficiency – performance starts again. The final results can be a progressive decrease in the municipality's performance.

Tab. 4 - *Buyer-seller interactions in facility services: results from the empirical research*

| Facility services | **Conditions** | **Interactive approach** | | **Performance** |
|---|---|---|---|---|
| Component service<br>• Maintenance<br>• Utilities<br>• Environmental services<br>• Security<br>• Transport | Objective (economic)<br>Relational attitude (absent) | • Municipalities externalize component services (except routine maintenance services) to suppliers that can be also local<br>• The interactive approach is based on **standardized interface**<br>-The search for efficiency due to a reduction of public funding favors the development of transactions with sellers chosen on the base of *quality/price ratio*<br>-Besides, the rigidity in normative rules regulating contracts between Municipalities and sellers limits interactions and favors transactions<br>• Transactions do not necessary produce efficiency because of rigid contracts and limited seller's knowledge that require the involvement of internal employees to complete service's performance. It can result an increase in cost production | Transactions | Value-in-exchange |
| Instrumental service<br>• Tools and vehicles<br>• Information technology services | Objective (economic)<br>Relational attitude (absent) | | Transactions | |
| Consumption service<br>• Office services | Objective (economic)<br>Relational attitude (absent) | | Transactions | |

## 6. Conclusions

In the municipalities analyzed, we have identified three different purchasing models: one based on outsourcing, another on insourcing and a third mixed model, which combines outsourcing and insourcing. The results reveal specific paradoxes in facility services interactions underlying some divergences from the theoretical approach to business service interactions. It emerges that a) facility services are not the result of interactions, but of transactions and that b) transactions, developed to achieve efficiency, generate indeed conditions of inefficiency. Thus, the externalization of facility services seems destined to produce inefficiency. It is therefore legitimate to ask how it is possible to make transactions a source of efficiency in a context, that of Italian municipalities, where the reduction in public funding pushes towards the development of the outsourcing model.

A possible path to follow is that of favoring adaptation and coordination between buyers and sellers in facility services production. Buyers should be aware of the active role they can assume in the service value generation while suppliers should strive to create facility services in respect of buyers' specifications and details. One result might be a value-in-use no longer independent of the value-in-exchange. This would mean that buyers would increase the monetary value of services by using services and, consequently, by adapting and harmonizing them in their business processes.

In municipalities the relational attitude, as assumption for value-in-use generation, presupposes a mentality based on a managerial vision of buyer-seller interactions. This mentality has still to be developed. This development is not so easy in public organizations where the entrepreneurial spirit is practically absent because of the lack of market comparison. It requires first of all public intervention to limit rigid contractual rules by favoring greater flexibility in the interaction's contents and in the negotiation, and by promoting reciprocal adaptation. Rigidity in

contracts, in fact, constrains interactive participation even in the presence of a relational attitude of buyers and sellers. However reciprocal adaptation fostering value-in-use *marks the change of transactions into interaction*s. It is just this transformation that can make the outsourcing a source not of inefficiency, but of efficiency. Facility service value-in-use based on buyer-seller interactions can contribute, in fact, to resizing the involvement of internal workers in the fulfillment of facility services and the lack of real estate knowledge in external suppliers. As a consequence, the overlapping of internal and external competences in the creation of the same service is diminished thanks to the generation of a positive impact on the facility services' production costs. Besides, facility service value-in-use can develop a more objective recognition of service's value-in-exchange: the more this latter increases thanks to the experimentation of the facility service adaptability in buyer's activities, the more it can positively impact not only on buyer's, but also on seller's performance. Thus, it follows that a strategic approach in facility services interactions based on the search for value-in-use can ultimately overturn paradoxes, creating a convergence of buyer and seller perspectives.

## 7. Limitation and further steps of research

Our research is limited to an explorative analysis that has investigated 15 cases of Italian municipalities considered emblematic for the study. Our objective is to enlarge the analysis to other municipalities not only in Italy, but also in other European countries in order to compare possible and alternative buyer-seller interactive approaches in facility services. This analysis could be useful to normalize theory on the business service interaction in public organizations. We think that the municipalities remain an interesting object of study to investigate the contribution that industrial and service marketing can give for a more strategic management of business services interactions in public organizations. In these further steps of research, we

propose to identify modern organizational forms favoring the increase of the facility service's value-of-use. One of these could be the collaboration agreement among municipalities territoriality closed. Finally we would like also to integrate a qualitative analysis with a quantitative one combining the performance indicators of municipalities with the alternative interactive approaches. In this way we could suggest possible solutions to Italian policy makers for the development of a strategic perspective in the management of facility services interactions.

**Acknowledgement**

Both co-authors, Silvia Ranfagni and Simone Guercini, would like to warmly thank all public managers who have agreed to dedicate time and energy playing an essential role for the realization of the applied research. Authors thank also Antonio Riccardo Petrella, research Fellow of the PIN Consortium (Prato) for his collaboration in the realization of the interviews.

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