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Lappeenranta University of Technology

School of Business

Supply Management

Bachelor's Thesis

PURCHASING OF BUSINESS SERVICES IN FINLAND - AN ESSENTIAL
FORM OF TODAY'S PROCUREMENT IN BUSINESS-TO-BUSINESS SECTOR

16.12.2011

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1. INTRODUCTION

The role of purchasing and supply management has greatly changed during the past few decades, by becoming lately an essential, as well a strategic function of firms' business. Nowadays, its role has been highlighted in the literature a lot. Its strategic meaning for firms has become noticed universally while the share of purchasing could be risen up to 80 % or even more from firms' turnover. Despite emphasizing the significance of purchasing as a strategic function in firms, supply management has not reached yet the very top level of firms' management, and neither management's clear comprehension on the subject. However, the required knowledge regarding the importance of effective purchasing and supply management is still insufficient in firms.

Services have been more and more in the centre of attention among academics and educational institutions. And no wonder, since service businesses have completely multiplied early in the 21st century. Little by little the industrial revolution and therefore arisen industrial society has had its time to change and move on towards the service society (Axelsson & Wynstra, 2002, 3). In year 2010 in Finland, the share of service sector in the GDP was rated up to 68,5 % (Statistics Finland, 2011). Arantola (2010, 9, 14) describes this boom of services by mentioning, in Finland already nine out of ten employees work within services, at the same time services are having great effect on the future's economic growth as well as alterations of employment rate.

This service-based thinking is gaining more visibility from the goods and materials. Consequently, for long time of most purchasing practices being tailored just for goods, it is now high time to diversify the vision into service purchasing practices as well. This rising service-based thinking is in line with service-dominant (S-D) logic which highly emphasizes service's role as the basis of economic activity and by arguing that nowadays economies are all service economies (Lusch, 2011).

In business-to-business context the purpose of services is not just to complete the goods or the production processes but also build its own multidimensional ensembles. Services can be seen as a source of various capabilities. Nowadays, companies are increasingly focusing none but on their core competencies and so companies are often allocating the needed complementary know-how to be obtained

from other companies instead of producing by its own. There are numerous reasons for purchasing services where driving forces, for instance, rapid technological change and increasing worldwide competition (Agndal et al., 2007) are driving companies to differentiate the final offerings to match end customers' or consumers' forever changing demands. As pointed out, Lindberg and Nordin (2008) argue that whatever the reasons are buyers are increasingly looking into buying entire solutions which may consist of elements of both, services and goods. Managing both of these, complexity and challenges of purchasing services, is a prerequisite for procurement's efficiency as well as value creation.

Now, this thesis is aiming to clarify the role of business service buying in Finland in this continuously changing environment. In addition to this introduction paragraph in which the whole thesis is being introduced, this thesis is composed of three sections. The following three paragraphs are; literature summary of theoretical context, research results, and conclusions. Thesis' purpose is to illustrate as well highlight the key elements and practices of purchasing services on which solid ground the portraying of present state of business service buying in Finland is being built. This thesis is aiming to serve, both the Supply Management department of Lappeenranta University of Technology, and its research project called *HAOSGA* as well as the academics' increasing interest in business services. At the very best situation, the thesis also produces useful knowledge in public for companies' demand.

1.1. Research subject and background

The subject of the research is the purchasing of business services in the context of business-to-business sector. The subject is a newish research area in the field of supply management. As being such a current topic it is even more fascinating subject to study. This thesis takes part in the discussion about supply management as a vital source of performance and competitiveness of modern-day firm by focusing the importance of managing the service procurement with proficiency.

In the background of this thesis is a nationally conducted survey of supply management capability; "*Supply Management Capability as the Source of Competitiveness in Global Value Nets*", which took place in Finland in year 2010. The objective of this research is to increase the understanding and the information of

supply management's recent role in firm's business. Total of 496 biggest Finnish companies were chosen for this survey, and eventually 165 responses were received. The questionnaire was channeled to employee who had the most expertise on the subject of supply management. Now, this thesis is planned to be a part of the same research project (HAOSGA) by means of using the research data of this survey.

1.2. Research problems

Lee and Lings (2008, 40-41) emphasize research problem's role as the starting point of the research. Research question defines the guide lines of the thesis as well as defines what is studied. In addition to the main research question thesis contains two sub-questions as a backup for defining the subject more accurate and closely as the research process develops.

The main research question is phrased as follows:

- ***What is the current state of business service buying in Finland in context of business-to-business sector?***

The underlying reason for this specific research problem is the very minor existing research base in the literature on this subject. The interest of business service buying among researchers and businesses has surely arisen but so far there are no descriptive studies made of this subject. After increasing academic interest the research question was a natural way to go deeply into matter of purchasing business services. Already collected research data gave the initial stage of interest in the business services.

Sub-questions are supposed to be supporting the main question. In this case, those are also specifying the well extensive research question in a more focused and detailed parts as the sub-questions are bringing out different perspectives. The two sub-questions are following:

- *What kind of insights both service purchaser and service supplier have on business service buying at present and in future?*

- *Are there organizational differences between companies of high volume business service buying and companies of less frequent business service buying?*

The purpose of the first one is to support the main question by getting both service supplier and buyer sides' perspectives to enrich the whole portrayal of business service buying in Finland. This question also brings along a new aspect for the description of purchasing business service which is future aspect. For future research this aspect is interesting it also helps picturing the recent progression of business service trading. The second sub-question for its part profiles the organizational differences between the companies of high rate of business service purchasing and the companies as opposites mainly concentrating on purchasing of goods. This approach enables a practical angle of seeing the changes in the company structures as consequences of the rate of business service buying.

1.3. Goals and limitations

The main objective is to focus more closely on describing the procurement of business services among focal companies of the Finnish business life. This descriptive study is supposed to emphasize the present-day's focal role of business service buying in firms' procurement. As a whole, the aim is to depict the today's status of business service buying in Finland. By supporting and participating in the discussion about the significance of supply management this thesis is aiming to expand and increase that understanding by bringing up knowledge of business service buying and its emphasis.

This thesis is also aimed to find out and picture the possible organizational differences between the companies that buy more frequently business services and companies that only buy those less frequently. Theoretical part of the thesis and the interviews are supposed to complete the research data of survey by deepening and diversifying the thesis' eventual general view of the business service buying. Besides that, the thesis' goal is to highlight the main issues of buying business services in the light of both, theoretical and empirical part.

The thesis is limited to consider business service buying in business-to-business sector only. Geographical limitation outlines the thesis to concern just Finland as the

survey in the background was conducted in Finnish private sector among companies. The purpose of the outlining is to focus more closely on the specific subject and its research problems. By that the exact information concerning the specific matter will be made possible, as well achieved.

1.4. Literature review

Services have been under studying and researching from both perspectives, from the point views of marketing and supply management. Second mentioned, viewpoint of supply management is a newish and less used perspective from these two. Third focal perspective of studying business services and their buying has been operational and production management's point of view, since services are affecting operations and production processes. The illustration of service buying in the literature, for the most part, has limited on empirical studies of consumer's behavior on buying services while in context of business-to-business it has still remained less studied. It has been noticeable that academic attention has increased also on business service buying among companies since the booming trend of increasing service businesses has affected the field, and purchasing and supply management's value for companies have been brought out.

Nordin and Agndal (2008) conclude in their literature research that overall there can be found a great deal of empirical researches made in the context of service procurement, or in other words as service sourcing as they use it. Nevertheless, the majority of articles are fragmented into concerning narrow and specific issues some with only a minor connection to the subject of purchasing business services. These existing supply management researches on services mainly focus on purchasing of particular type of services (Van der Valk et al., 2009) in which not paying attention to business service buying as a whole and in general. Different methods have been used, though case studies have been the most common approach of researches. It is showed that process and strategy are the two most common areas of the research focus what comes to the studies of purchasing business services (Nordin & Agndal, 2008).

Despite the existing literature on business service buying, there still remains wide-range of researches to be made to extend this certain knowledge of business

services among academics as well as in practice among companies. This thesis discusses mostly in the field of supply management in which the service buyer's perspective is used. Also supplier's side with the marketing perspective on offering the service is taken into account because it has focal role on understanding the whole process of purchasing business services. Since there has not been any empirical research on the subject as extensive like this the thesis is positioned to fulfill the gap among empirical studies concerning business service buying in Finland.

1.5. Theoretical framework

Eriksson & Kovalainen (2008, 25) highlight the importance of simultaneous planning of research topic as well as research design, which means planning the whole research project, best way doing this is to picture the theoretical framework. In following picture (Figure 1) showed theoretical framework of this thesis pictures the research project as a whole. It demonstrates the reader an illustration of the research as a process and how the theoretical and empirical contexts are shaped around the thesis' subject.

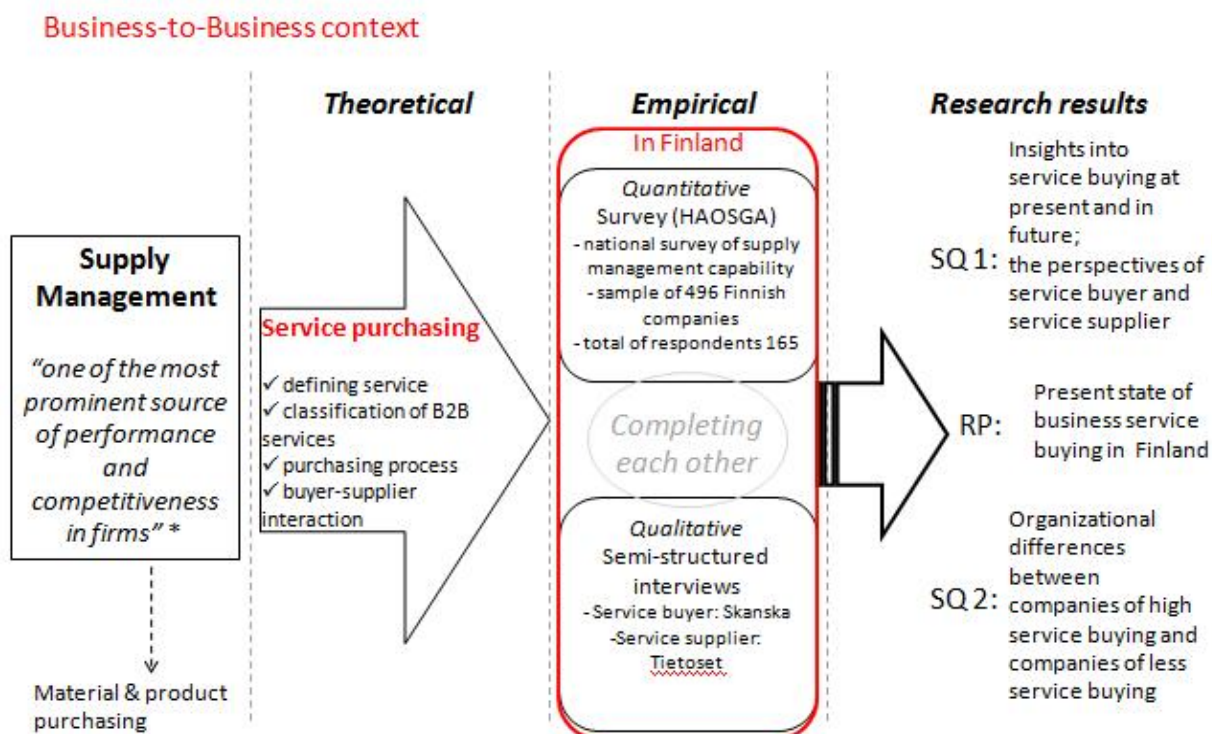


Figure 1 Theoretical framework of the thesis

The introduced framework, for one describes also the structure of the thesis with its different phases. It describes what will to be done, in what way and in what order (Eriksson & Kovalainen, 2008, 25). Besides that, in Figure 1 the red outlining and typing expresses the limitations concerning this thesis. These limitations, as a part of theoretical framework, give the reader easier way to understand composition of the entireness of this thesis.

1.6. Research methods

Methodology is a common approach in a scientific research in which it is describing in the research process used methods of, for example, seeking, collecting, and analyzing the research material. This thesis is a descriptive research which consists of methods of, both qualitative and quantitative. By means of quantitative approach, here it facilitates examining the wide subject; *supply capabilities*, with its highly extensive research material. For describing the nature and status of business service buying in Finland, starting point is in general viewing the average values of business service buying with tables, figures and summary numbers. The analysis of quantitative data becomes deeper with analyzing associations between variables; correlations as well as with comparisons between two classified clusters. The analysis in question is also mentioned as a descriptive analysis (Lee & Lings, 2008, 329), for its quantitative methods to analyze the research material SPSS -software was used.

The qualitative method used, interviewing produces more detailed information to support portraying the big picture of the buying business service phenomenon. In this case, by interviewing, it is supposed to be supporting and completing collected quantitative research data as characterized interview is a proper technique to get descriptive examples or to closely interpret specific issues (Metsämuuronen, 2006, 233). The Interviews are semi-structured, one designed for service buyer and another for service supplier. Semi-structured interview enables to vary the form and order of questions during the interview in which the topics, themes, or issues have been formed as preparations for interview (Eriksson & Kovalainen, 2008, 82).

1.7. Research process

As earlier mentioned, in the background of this thesis is the research project HAOSGA with its survey. The survey was conducted in spring 2011. Participants, the companies were picked from the list of 600 biggest Finnish companies published by Talouselämä magazine with certain criteria; turnover of 2009 at least 30 million Euros and number of employees in 2009 at least 100. There were total of 496 qualified companies containing total of 10 industries. 125 companies were left aside, because those either refused to receive the questionnaire or during the first approach over phone were perceived to be not a relevant respondent for this survey. Eventually, questionnaire was sent to 372 companies. As a result of this survey, 165 responses were received in which case the response rate is 44 %.

As an addition to the research data of above-mentioned survey, interviews were connected to the empirical phase of thesis to bring out real life examples of practices and insights as well as to enliven and support the research data. Now, by interviewing the purpose is to create common knowledge to support theoretical views and the statistical approach. Two interviews were made, both semi-structured interviews, one with service buyer another with service provider; service supplier. The used questions were a mixture of open and closed questions (see Appendix 6).

Collecting the research material

The survey was conducted either with online questionnaire or with old-fashion paper questionnaire depending on the request of the contacted employee. Only just, after finding the suitable person in company to answer the survey the questionnaire was delivered. Via e-mail sent questionnaires were responded online using the service of Webropol. In addition to that, the database of Amadeus was also used for gathering basic information such as in public represented companies' financial figures for years 2007-2010. Since receiving the responses all the research data from Webropol and Amadeus was converted into Microsoft's Excel document for one entirety of this extensive research data.

In addition to respondent's basic information, including respondent information, and infrastructure and resources of supply management, the survey consisted of six thematic entities of important areas on describing the entire supply management

capabilities and competence. These thematic entities were following; supply management strategy, supply management capability, risk management, supplier relationships, supply management performance, and operations and routines of supply management. In total, the questionnaire was nine pages long with total of 46 questions. For the most part questionnaire's questions were 7-point Likert-scaled, where 1 meaning "Not at all" or "Fully disagree" and 7 meaning "Extremely much" or "Fully agree" depending on how the question has been formulated.

The interviews were carried out in Helsinki on November 23, 2011. Both interviews were made after the closing of project executives' meeting held at the head office of Skanska. Both of the interviewees are members of the "executive group" of this ongoing research project, besides that they are representing their companies as well. The interviews were both semi-structured, both formulated in one's needs, one for service buyer's side; *Kristiina Nieminen* (CPO of Skanska) where the other was created just for service supplier's side; *Antti Siiskonen* (CEO of Tietoset). Information was gleaned by using recorder and by writing down the main points during the discussion. Both interviews were held in Finnish.

Analyzing the collected material

The significance of services on supply management came up in early stage of describing the extensive research material that was comprised of questionnaire responses. The analysis of quantitative data started with cleaning the data and dealing with missing data. Since it was done the process moved on describing the data as well as assessing characteristics of the data. During this analyzing process information concerning business services were highlighted and more closely concentrated on, as well as possible relations between variables was preliminary planned and pictured before statistical inferences. The descriptive analysis is based on analyzing the results of T Tests and correlations.

The analysis of interview material started with the listening of interviews once more, before moving on to the lettering phase. In this case, lettering was done only for the main points of the interview. During the lettering phase answers were translated into English. Eventually, the main points of interviews concerning the context of this thesis were closely concentrated on, as well illustrated.

2. BUYING BUSINESS SERVICES

In today's business life the need for study business services and their purchasing has been growing rapidly. Because today companies are spending increasing amount of resources on business services it is more than obvious that business services have been receiving notably fresh attention among researchers as well as in practice. (Van der Valk, 2008; Wynstra et. al, 2006) Earlier studies have been focused mainly on the procurement of goods and material while the exploring of business services has been limited and remained in the background.

“Unfortunately, the tried and true rules of buying goods do not work when applied to the buying professional services.”

- Wittreich, 1966 (Axelsson & Wynstra, 2002, 19; Van der Valk et al., 2005; Wynstra et al., 2006)

Already decades ago researchers have become aware that the purchase of services really differs from the purchase of goods and materials (Van der Valk et al., 2005), like Wittreich described it in year of 1966; unfortunately the rules are really not the same. In this paragraph is described literature summary of the theoretical context of business service buying. Portraying begins by focal definitions of services and business services as well as classification of business services followed by depicting the purchasing process of services, and eventually buyer-supplier interactions as a noteworthy part of the purchasing process are delineated. The aim of this thesis' section is to create a general picture of buying business services as a whole. This chapter also constitutes the so called ground roots for the empirical part and for the conclusions part of the thesis.

2.1. Defining service

In the background of defining services is the need to understand the basis of services' characteristics, nature, and composition. It needs to be noticed that services for the most part differ much from the goods. So far in the discussion of defining service have been various means and just a bit of consistency. In this chapter there are four main perspectives described more closely.

Elementary way of defining service is to describe what is not included in the service. In other words services are compared with goods, and in which those are treated as aberrant deviations from the normalcy of goods (Spring & Araujo, 2009). This quite rarely used notion, called *residual* categorizes characteristics of services only by what those are not (Ambrose & Brandon-Jones, 2010). Far more useful as well the most common definition for characteristics of services; *intangibility*, *heterogeneity*, *inseparability* are universally accepted (Grönroos, 2000, 47-48; Axelsson & Wynstra, 2002; Van der Valk et al., 2005; Ambrose & Brandon-Jones, 2010; Holschbach & Hofmann, 2010; Fitzsimmons & Fitzsimmons, 2011). Added to this, *perishability* is brought up to complete the *IHIP* basis for defining services which consists of all the four aforesaid characteristics (Lovelock & Gummesson, 2004; Spring & Araujo, 2009; Ambrose & Brandon-Jones, 2010). These represented characteristics of service distinguish services and goods from each other alike residual perspective *IHIP* seems to describe the features that do not exist in goods.

By connecting the *IHIP* characteristics together service can be described as a complex process with intangible activities (Van der Valk et al., 2005) being always custom-made for the buyer with specifications, the production and consumption both are taking place simultaneously and therefore service cannot be stored. The buyer also participates in this service process as a co-producer. By co-producing and buyer-supplier interaction the purchased service's aim is to fulfill the customer's needs the most efficient way of creating solutions for customer's problems (Axelsson & Wynstra, 2002, 10). This is in line with service definition in service-dominant logic established by Vargo and Lusch (2008) in which service is defined as application of competences, both knowledge and skills, for the benefit of another party. This portraying service as a beneficial process is a commonly used starting point when defined services. It creates a solid ground for more specific determinations.

According to Ambrose and Brandon-Jones (2010) the two more recent time concepts of defining service are *Institutional* and *Unified Service Theory*. The two are further developed definitions while residual and *IHIP* have received a lot criticism. Lovelock and Gummesson (2004) argues that the root sources of *IHIP* characteristics established in the 70's were neither based on empirical research nor built up on past foundation in the literature. Subsequently, Spring and Araujo (2009) point out that

widespread IHIP definition can be misleading whereas Ambrose and Brandon-Jones (2010) for one see it to be limited. Especially as they observe services from the perspective of marketing, they see IHIP characteristics giving a specious basis for defining service which consequently leads to a wrong way, in case of specifying operations or marketing strategies. Even though discussing services in the context of procurement it is essential to understand the way of thinking the service supplier has on the matter of service defining. Service supplier's definition of service typically consists of the marketing, operations management or operations strategy point of views. Especially, purchasing of business services requires interaction between buyer and supplier, usually consisting of many actors from both sides like procurement and marketing departments as working together. In this interface understanding of both parties naturally brings more benefits (Van der Valk et al., 2009).

Since getting further with the definition of service, the institutional approach is based on seeing services as operations (Spring & Araujo, 2009) with trading the part-time "ownership" of resources and the access to a capability (Ambrose & Brandon-Jones, 2010). In the background of the definition is the *rental/access paradigm* brought out by Lovelock and Gummesson (2004) in which they clarify the services to be an access to a temporary possession that offers benefits with payments of rentals or access fees. In this following picture (Figure 2) so called *service triangle* shows the true nature of service in practice as institutional definition describes it.

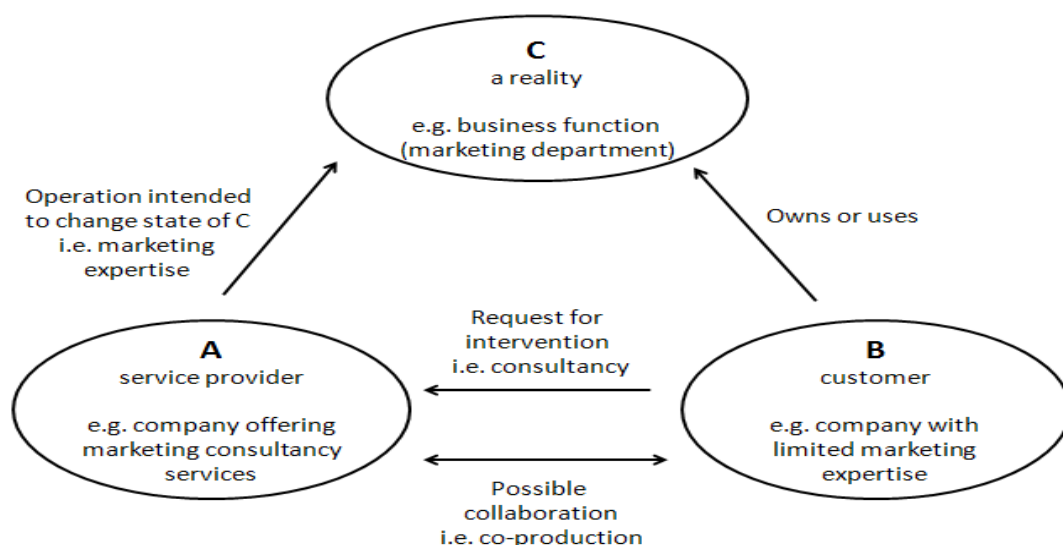


Figure 2 Service triangle (Modified: Spring & Araujo, 2009)

In the Figure 2 service is showed in practice in which it consists of three different actors; service provider, customer and “a reality” the one which is worked on. The picture of service triangle, first represented by Spring and Araujo (2009), is here modified by adding an example of possible real life situation, where consumer is using an outside source to bring needed marketing expertise into company’s business functions.

According to Sampson and Froehle (2006) above-mentioned definitions of service are not flawless. They argue that services might include those characteristics in question too, but those definitions are not giving out the ultimate comprehensive definition, which is needed. Sampson and Froehle (2006) delineate a significant development beyond the IHIP and the rest perspectives; *Unified Services Theory (UST)* that clearly defines and distinguishes service processes from non-services processes by the nature of input. In service process, it is a necessary and sufficient condition to have the presence of customer inputs. By customer inputs they mean the customer itself; his belongings or other tangible objects, as well as information. As they speak of production process they signify service process’ purpose to be modifying the inputs in a way that is valued by customers. Based on above defining, also Ambrose and Brandon-Jones (2010) come around by concluding their own service approaching on defining the whole service procurement as transactions where the service buyer provides inputs, one or more, into the supplier’s transformation; value making, process. These inputs in question may consist of, for example, physical goods, information or people.

Like it is seen, in defining services, the literature tends to emphasize particular differences between services and goods (Axelsson & Wynstra, 2002, 10). So after all, it seems that defining service is not that far away from the common comparison of goods and services between each other. In most of them it seems to be always about differences of goods and services. At least the discussion always ends up on comparing them. In business, companies need to find their own way of defining the service that fills their needs. Business-wise, for companies most important is to picture the service closely enough by means of seeing and understanding each service’s individual nature and characteristics inside out. Following Table 1 lists in the

literature most commonly used differences between goods and services, those need to be understood and paid attention to before even thinking of defining service.

Table 1 Differences between the characteristics of goods and services (Grönroos, 2000, 47; Rantala & Virolainen, 2001; Ellram et al., 2004; Van der Val et al., 2005; Ellram et al., 2007; Vargo & Lusch, 2008)

Characteristics of services	Characteristics of goods
<ul style="list-style-type: none"> - Intangible - Heterogeneous - Simultaneous process including; production, distribution and consumption - Further to above; cannot be stored - More difficult to demonstrate before the purchase - Expectations; vague service level agreement - Quality; subjective, user dependent - Cannot be transported - An activity or a process - Core value produced in the buyer-supplier interaction; value as co-created - Cost; dependent on changing scope and requirements, situation specific, often is renegotiate or changes with scope 	<ul style="list-style-type: none"> - Tangible - Homogeneous - Production and distribution are separate from consumption - Further to above; storable - Can be clearly demonstrated before the purchase - Expectations; specifications are precise - Quality: measurable, pre-specified - Can be transported - An item - Core value produced in facility; value as produced - Cost; pre-negotiated, per unit, easy to determine also in advance

2.2. Classification of business services

In general, business services or business-to-business (B2B) services are defined to be services that are delivered by company or organization and purchased by other company or organization (Axelsson & Wynstra, 2002, 19; Van der Valk & Rozemeijer, 2009; Holschbach & Hofmann, 2010). Business services are considered to be consisting of a wide-ranging of services in the context of B2B that are only directed for companies, diversity is broad with cleaning services up to professional services such like consulting services. Business services differ from the normal services due to the context which only determines business-to-business sector leaving the consumer out of the picture. Business services are seen taking place in business-to-government (B2G) context too which is a derivative of business-to-business definition. In this thesis that business-to-government definition and its context is brushed aside. In this particular field of business, both in B2B and in B2G, the business related services have been the key drivers for the quick ongoing

upswing in the whole service sector (Wynstra et al., 2006). According to Van der Valk and Rozemeijer (2006) classifying business services seems necessary always when analyzing or discussing about the buying of business services.

For buying business services there can be numerous reasons. Despite that, Axelsson and Wynstra (2002, 20) delimit all reasons to come down to only three key factors of scarcity, in which the company has; not enough capabilities to perform effectively the service with needed level of quality, or, not the scale or ability to perform the service cost efficiently, or, not the capacity to perform the service completely or at all. No matter what the reasons are in the background of the purchasing decision, companies need to pay attention to, how to apply the service with respect to company's own business processes (Wynstra et al., 2006). It is noticed that by classifying and portraying the needed business services, the application of new services will be more effective and better fitted to company's processes. The classification of business services has also a significant purpose on understanding the effective variations in buyer-supplier interaction during the purchase of services (Wynstra et al., 2006).

There have been many ways of classifying consumer services while business service classifications have been receiving far less attention. At the same time, authors have been developing new classifications of business services which are only serving the specific purpose at a time the authors are interested in (Van der Valk & Axelsson, 2010). Nevertheless, by far the most substantial classification considered purchasing the business service would be approaching the matter from the user's (buyer) point of view. According to Wynstra et al. (2006) this application-based classification to understand buyer-supplier interaction in business services offers a practical usage-based approach to support the purchasing process of services. The classification is built on existing classifications of services (Van der Valk & Axelsson, 2010) therefore enabling it to be used in many kinds of circumstances. It identifies services based on how those are being used by the buying company. This, also widely quoted classification consists of four types of business services; *consumption services*, *instrumental services*, *semi-manufactured services*, and *component services*.

Consumption service does not directly affect the buying company's primary processes, for example, office cleaning and other janitorial services are considered

as consumption services. These services are more likely to be routine-like services and less expensive ones often compared with MRO services which consist of three types of services; maintenance, repair, and operation services. (Wynstra et al., 2006) Consumption services are only directed to support the buying company's processes (Van der Valk & Axelsson, 2010) by covering company's basic needs. An example of consumption service is temporary labour. Instrumental services, for one affect directly the buying company's primary processes, but is not delivered to buying company's customer (Wynstra et al., 2006). Even so those may have an indirect impact on end customer too (Van der Valk & Axelsson, 2010). For example, information and communication technology services supporting the teaching in universities are instrumental services.

Semi-manufactured and component services have been referred in earlier studies often to as production services (Fitzsimmons et al., 1998; Wynstra et al., 2006). The difference between semi-manufactured and component service is whether service is transformed or not, before the delivery to buying company's end customer. Semi-manufactured service is delivered to end customer after being transformed by the buying company. This service is an input for the buying company's offering to end customer. Service without intervention or transformation is considered component services, these services as such, are being delivered straight to buying company's end customers. (Wynstra et al., 2006; Van der Valk & Axelsson, 2010) When purchasing component services, the aim should be ensuring to fit the service being purchased into the buying company's existing offerings (Van der Valk et al., 2009). Real life examples of these two types of services can be described the following way; printing service tailored for students in university, where the service is used as an input by the university for its students; semi-manufactured service. College hostels and student apartments are a component service which is without modifications delivered straight to end customers, students.

Recent studies suggest that in the literature is only paid attention to focus on up-front service definitions and specifications where the post-contract views have been ignored (Selviaridis et al., 2011). Selviaridis et al. (2011) demonstrate in their article how the service definitions and specifications alter during the interactions in the purchasing process. They argue that service definition as well the characteristics is

only temporarily stabilized whilst it is more likely to be destabilized through the buyer-supplier interactions. By this discussion of defining and classifying services it is clear for noticing that buying business services is far more complex than buying goods which has its more systematic way of operating and managing, starting from substantially simple definitions. Bare defining service divides academics even not to mention classifying business service. It is noticeable that services are fast-paced mutating as well as increasing. By classifying services the solid ground for the understanding of the whole purchasing process of services can be built up.

2.3. Purchasing process of services

Smeltzer and Ogden (2002) demonstrates the differences between purchasing process of services and goods by reminding that these two purchase processes need to be separated from each other so not treated as the same process. This conclusion is built on purchase professionals' insights on the changes happened in the field of procurement and its needed expertise. With the evolution towards service based economy, specialized skills and knowledge (Smeltzer & Ogden, 2002) as well as improved sourcing practices (Agndal et al., 2007) will be increasingly required to improve the performance of supply management. Hallikas et al. (2011, 38) conclude their study by specifying the factors in the background of the overall performance of supply management. It is showed that procurement capability is one main factor alongside with ecological supply and customer value which is highly correlating with the supply management's performance.

Purchase of services as well as the whole purchasing process needs to be carried out by purchase professionals. Despite that, the purchasing department is in a need of co-operation with the other department who they are performing the procurement for (Van der Valk & Rozemeijer, 2009). Normally, this internal expert, also called internal customer, has much more knowledge of the service being purchased than the buyer (Van Weele, 2010, 102). By joining in the internal customer extends the group of parties involved in the purchasing process. Driedonks et al. (2010) highlight the importance of purchase managers' assignments in the sourcing team making the boundary-spanning teams with people from different business units to work effectively together as planned in each stage of purchasing process. In this purchase process the external factors, such as collaboration and interaction, in the interface of

supplier-buyer are highly important. Buying business services is like a chain of interactions, it is a structured interacting between three actors; internal customer, purchasing department, and service provider, possibly all these operating in pursuance of taking note of buying company's end customer and its demands.

Figure 3 shows the purchasing process for services with its stages. Main difference in this process compared to purchasing goods is in the initial stages after the step of specifying it is essential to gather more information for a much more detailed specification in case of purchasing services. These two steps, marked with red outlines, are the key factors of achieving good and expected results of the purchase process.

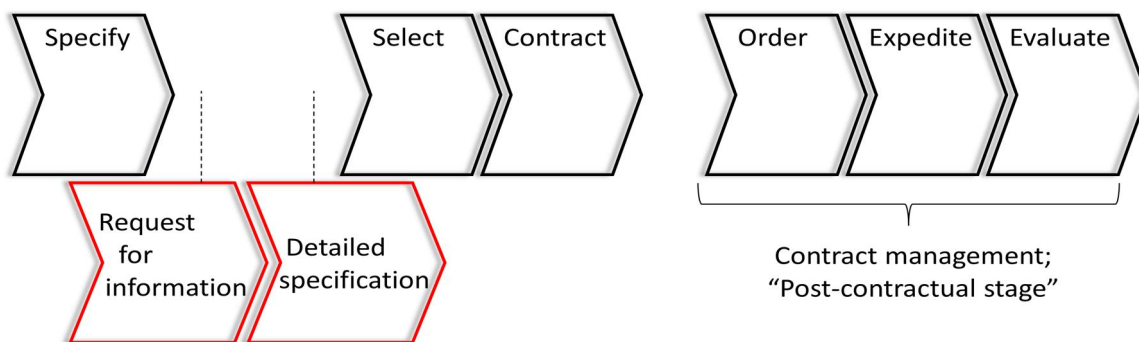


Figure 3 Purchasing process of services (Modified: Van der Valk & Rozemeijer, 2009; Van Weele, 2010, 96-101)

The expected quality of the service which normally is associated with difficulties, depends on these two steps where the upfront SLA thinking (Van der Valk & Rozemeijer, 2009) takes place. Service level agreement is one way of specifying business services (Axelsson & Wynstra, 2002, 142). This, in advance made service level agreement based thinking is determined by the service purchaser and internal customer. By upfront SLA thinking it is easier to move on performance based contracts, which are very natural for services. During specifying the service in interaction of buyer and supplier, the key performance indicators (KPIs) will also be formed (Van der Valk & Rozemeijer, 2009) as those are the key components of SLAs (Van Weele, 2010, 99).

Both of these really matters, because eventually, customer evaluates the quality of the service on comparing the SLAs, so the expected service quality, and the experienced service together (Axelsson & Wynstra, 2002, 143), while KPIs are used

for measuring and evaluating the final outcome. In cases of service triads the purchased service is straight delivered by the subcontractor (service supplier) to the end customer which makes controlling the quality and delivery of the service even harder (Van Iwaarden et al., 2010; Van der Valk & Van Iwaarden, 2011). This situation evidently proves both SLAs and KPIs to be in a valuable role in controlling the quality and so the whole final outcome of the purchasing process.

SLAs and KPIs are there for the needed precise specification of the purchased service. Axelsson and Wynstra (2002, 143-144) illustrate four methods to help completing this SLA, by defining the content of the service. First two methods specify the supplier's side more accurate. *Input specification* focuses on supplier's capabilities and resources. By that, the purpose is to set the required resources and capabilities that the service provider will be using to carry out the expected service's functions. In turn, *throughput specification* is for picturing the usage of processes and methods that are producing as fulfilling the final service. Last two specifications are more focusing on the results of the process. By specifying the *output* method, it is focused on the expected functions and performance of the completed service. *Outcome specification's* role is to form a financial perspective on the service by focusing on the value of the service. (Axelsson & Wynstra, 2002, 143-144; Van Weele, 2010, 96) As an addition to specifying service, Van der Valk and Rozemeijer (2006) conclude that the upcoming interactions between buyer and supplier should be taken note of very closely already in the initial stages of purchasing process. This will clarify also the steps of initial stage especially the specification and selection stages.

By the means of aforesaid specifications, buying company is ready for selecting and contracting the suitable supplier with desired service. More time will have to be spent by the buyer on prequalifying and pre-selecting the supplier when it is concerning service purchasing even more time will be spent in case of more intangible and complex business service (Van Weele, 2010, 98). Because of the complexity of services the simple comparison between suppliers' services is challenging, consequently other factors than comparing the supply of service providers are more crucial. Matters like reputation of service provider and references count too, in the background of the final purchasing decision. Of course, also pursuing for cost

savings is always present, but Sonmez and Moorhouse (2010) conclude their research by pointing out that in case of professional services, e.g. consulting services the criterion “lowest price” does not appear, so buyers are willing to pay a higher price for a better service.

At the contractual stage, it is important to try covering with clauses all the possible misunderstandings and problem situations in service quality or so at the time final service is eventually ready. In the contract have to be mentioned what will follow in case of dissatisfaction arises with the eventual service quality. Contract needs to provide all the relevant information concerning this transaction as well as interaction process, including special arrangements when service provider’s employees need the access to buying company’s internal information and administrative systems. (Van Veele, 2010, 98-99) The time, contracts are being made, also legal advisers need to be consulted.

Van Weele (2010, 99) highlights the post-contractual stage as the most important phase of purchasing process. During this contract management the importance of interacting with supplier really kicks in, from now on it is more continuous. That is why at this point of executing the service main focus should be in effective interaction. Now, when the true value for the service is being created by the active interaction also the expected value and quality of the service will be assured. Selviaridis et al. (2011) represent in their simplified service sourcing process the service implementation as a one step of the process. It is a true vital part of the process, which has not been separately brought out by other academics. In other studies implementation is seen as taking place under the circumstances of buyer-supplier interaction, while the service is being executed. Selviaridis et al. (2011) also comment that post-contract task regarding supplier performance management has been undervalued in the existing literature as it has been so rarely brought out.

At its best, contract management, in other words the interaction between buyer and seller can be seen, according to Van der Valk and Rozemeijer (2009), as a key success factor of successful purchasing process for service. In order for evaluating effectively at the end of purchasing process Van der Valk and Rozemeijer (2009) suggest that the evaluation should not be limited just to measure the eventual service but also to evaluate suppliers satisfaction with a survey. By that, buying company

sees the both sides of the process within the supplier's feedback and this may end up making improvements for future procurement.

2.4. Buyer-supplier interaction in buying business services

By understanding the value of buyer-supplier interaction as an essential element of purchasing services will take the purchasing process closer to the better outcomes and benefits of services. At the end, the interaction defines a whole lot of the service purchasing success. In the background of portraying this interacting between buyer and supplier, is the classifications of business services as those affect the interaction (Wynstra et al., 2006). Van der Valk et al. (2009) clarify that buying companies consistently, with a purpose, differentiate their interactions for different type of business services. They continue by saying, the interaction can be described regarding the key objectives, buyer and supplier capabilities, buyer representatives involved, and communication. Main reason for buyer-supplier interactions is in communication about coordination and adaptation of activities and resources companies are using and/or allocating to in their relationship (Wynstra et al., 2006). In addition to that, making certain competencies available in order to handle problems of various kinds (Axelsson & Wynstra, 2000) while fulfilling the requested functions at any stage of purchasing process is seen as an important reason.

Van der Valk et al. (2009) demonstrate in their study effective buyer-supplier interaction patterns in ongoing service exchange by concluding that there was largely found the positive effects of proposed patterns on service exchange success. In following paragraphs the previously classified business services are represented again in terms of displaying the interaction processes.

Van der Valk et al. (2009) found that interaction-wise for component services (e.g. payment handling services, pension fund administration) the key matter is to match the purchased service with the existing offerings of buying company, besides that they highlight the significance of continuous communication and on time information delivering. Because component services are straight passed to end customer it is essential to have marketing representatives in addition to buyer specialists with their knowledge of end customer's demands while interacting with supplier. (Wynstra et al., 2006; Van der Valk et al., 2009) With this strong involvement in ongoing

interaction, marketing representatives are in a vital position of the interaction process as they are ensuring that end customer's demands are noticed. Capacity and quality is both important supplier capabilities (Van der Valk et al., 2009) in case of specialized services innovativeness and quality development are responsibilities of the service provider (Wynstra et al., 2006).

Even though Van der Valk et al. (2009) were not able to include results of interactions for semi-manufactured services (e.g. weather forecasts which are transformed into specific flight schedules) in their study they argue that those interactions are based on optimizing the form and degree of processing of the service. For production and quality representatives of the buyer side, concerned in this interaction, the critical capabilities normally are translating the end customer demands, optimizing the compatibility of internal and supplier's operations, as well as synchronizing suitable contacts in the interface of internal and supplier's operations. The communication focuses on the service transformation possibilities and customers requirements. (Wynstra et al., 2006)

Main point in interaction for instrumental services (e.g. marketing services, IT outsourcing) is to make sure that the service has the desired effect on the primary process, or on resources used within the process. (Van der Valk et al., 2009) For buying company's side business development representatives and relevant internal customers will also participate in the interaction where the implementation skills are in the center of attention. From supplier's side, there are product representatives with consulting team or process engineers taking part in this process in addition to strong marketing involvement. (Wynstra et al., 2006) The effective interacting for instrumental services requires exchange of sensitive information about the buying company's primary processes. (Van der Valk et al., 2009)

Purchasing consumption services (e.g. cables and connections for work spaces) the interaction consists of buyers and internal customers of buying company's side and from supplier's side marketing representatives and product specialists. On ongoing basis, translating and communicating internal customer demands, as well measuring and evaluating continuously user satisfaction are needed (Wynstra et al., 2006) while these services' main objective is to support the core processes various departments and employees are on a large scale affected by the purchased service. For supplier it

is essential to enable adaptation of the service in specific situations within buying company's functions (Van der Valk et al., 2009). Main topic of continuous communication is service performance, and its measurements and evaluations (Wynstra et al. 2006).

According to Grönroos (2011) in service interaction, like in every other business, value creation is an ultimate basis. In question of service purchasing, the value of service is always uniquely created (Lusch, 2011) within the interaction. In service interaction, supplier's role is to be as a facilitator who provides value-supporting resources and interactive processes that facilitate the customer's (buyer) value creation. Within the service interaction process service provider and the buying company are co-producing the service while being both value co-creators. To be able to manage and understand the interaction between buyer and supplier is as important as to be able to purchase the desired service (Axelsson & Wynstra, 2000). What comes to defining interaction by the buying company with their service provider Wynstra et al. (2006) as well as Van der Valk et al. (2008) found that interaction is more formally defined and designed for high-risk services. Consequently, also risk can be seen a vital factor that has its effect on buyer-supplier interaction.

Understanding the interaction, with its main objectives and factors, is just as important as understanding the need of classifying the business service that is being purchased. Purchasing services is a comprehensive process that requires understanding as well as managing the interaction process. In which, besides the service is being produced, creation of the final value of service and service implementation are also taking place. Active interacting and open communication between buying company and supplier are required through the whole process of purchasing services. Purchasing services needs to be taken care of with purchasing expertise while it needs to be noticed that it is not enough by itself. This multi-dimensional process requires actors from both sides such as internal customer, marketing representatives, supplier representatives (e.g. consultants, product specialists, process engineers) and possibly some other actors to be involved, including the active interacting between them to cover also all the possible black spots of this ongoing process.

3. RESEARCH RESULTS

In this chapter the research results are described. On this description, the results of both quantitative and qualitative research data are combined. Describing the research results begins with few focal observations of service businesses' position in Finland, following description of the status of business service procurement in general in Finland, and eventually, this description reaches the comparison between two groups of companies divided by the rate of service purchasing at the same time making the organizational differences possible to be delineated. Results of interviews are showed in last phase of results. Following represented figures are mainly concerning the year 2010 in case of exceptions the year is mentioned.

3.1. *The state of business service buying in Finland*

In Finland, like in other developed countries, supply of services has expanded rapidly thanks to increasing amount of service businesses. It is showed that in many developed countries, for example in Finland the share of industrial manufacturing in country's GDP has been decreasing in the long run (see Appendix 1). Arantola (2010, 20) argues that service sector is the largest industry no matter what angle it is being viewed from, where services are naturally considered as a focal factor affecting the whole economy and society. Another way of illustrating services' focal meaning in Finland is to notice that every other industrial enterprise produces and offers also services as a part of their final offerings (Arantola, 2010, 23).

These changes have had their impact on procurement of services in business-to-business sector too, in which purchasing of the business services has become more and more common. Like the following Table 2 shows the average share of service purchasing among Finnish companies is around 25 % of company's total procurement. Differences between companies were naturally considerable minimum of 0 % and maximum of 98 %.

Table 2 Service buying on average

	N	Minimum	Maximum	Mean	Std. Deviation
Share of service purchasing (%)	161	0	98	24.37	20.522

Responded employees were mainly working in company's middle management (57 %) or in top management (33 %). This, for one proves that purchasing and supply management still has its way to climb in the very top of the firm's management. In which stage functioned the purchasing expertise will have the positive effects maximized on firms' businesses. The above-mentioned share of service purchasing can also be described with the following Figure 4. The Figure 4 recreates within the picture the share of service buying by dividing companies into five categories regarding the share of service buying. It is noticeable that 38 % so total of 62 out of 161 companies are purchasing services with a rate of 10 % or less. At the same time, noteworthy is that only one company is claiming to purchase no services at all. On the other hand there are a quarter of respondents purchasing services with a level of over 30 % of their total procurement which is a lot. There were three companies who are making service purchasing with a volume of 90 % or more.

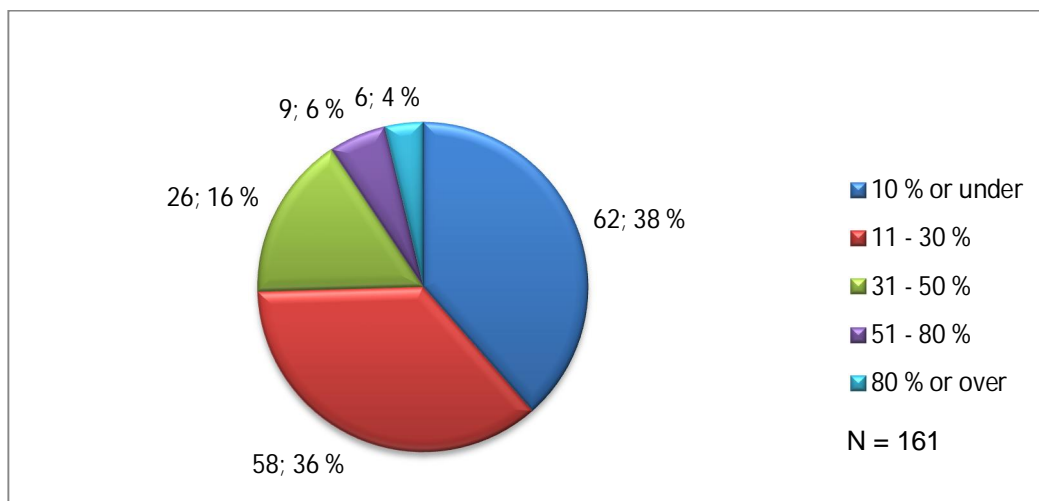


Figure 4 Share of service purchasing

On average, the turnover of 2009 among the participated companies was 704 million Euros which for one certifies the participated companies' focal role in the field of business in Finland. The estimated share of total purchases from company's turnover on average was 53 %. There were little differences between industries where information and technology industry had the mean at 44 % the wholesale and retail trade industry had its at 66 %. Nearly half of the responded companies had the share of total purchases from company's turnover over 60 %.

As a result of all participated companies the combined turnover in 2010 was 105.5 billion Euros. On average, these responded companies did purchases annually with rate of over 260 million Euros whereas the total sum of all 153 companies was over 55.9 billion Euros (calculated; the sum of respondents' given turnover of 2010 multiplied by the average of purchasing rate). These numbers describe the size of today's procurement in Finland and should for one already highlight the procurement's fundamental role to companies. These days companies, here 153 responded companies, are spending huge amounts of money on buying services. As Table 3 shows the maximum spend on service procurement among these companies was as much as 1.6 billion Euros in a year while the average of all 153 companies was over 80 million Euros. In total, the sum of 153 respondents' expenditure on purchasing of business services in 2010 was enormous 25.7 billion Euros (calculated; the sum of respondents' given turnover of 2010 multiplied by the average of service purchasing rate).

Table 3 Share of service buying (th EUR)

	N	Minimum	Maximum	Mean	Std. Deviation
Share of service purchasing (th EUR)	153	0	1 640 000	80 222.7	239 119.8

There were noticeable differences between industries on procurement of services. Figure 5 below pictures the polarization of procurement into two ways; purchasing of services and goods. The industry of transport and logistics services was the only case, in which the share of service purchasing (74 %) as being bigger part of total procurement than purchasing of goods and materials (26 %). In environmental and housing services (43 %), and in construction industry (42 %), purchasing of services is in an essential position of company's overall procurement. For wholesale and retail trade industry the role of service purchases is the most insignificant with only 13 % of service buying, where purchasing of goods and materials are dominating with 86 %. In case of the overall rate of purchasing does not match with 100 % the root of problem is within the responses. Respondent has either not made the rates to match

each other or not made the rates to complete in aggregate the 100 %. The industry named “Other” consists of six industries or so called line of businesses, or activities; financial services, accommodation services, and human health activities, among others. In Appendix 2 the responded companies are categorized by industry.

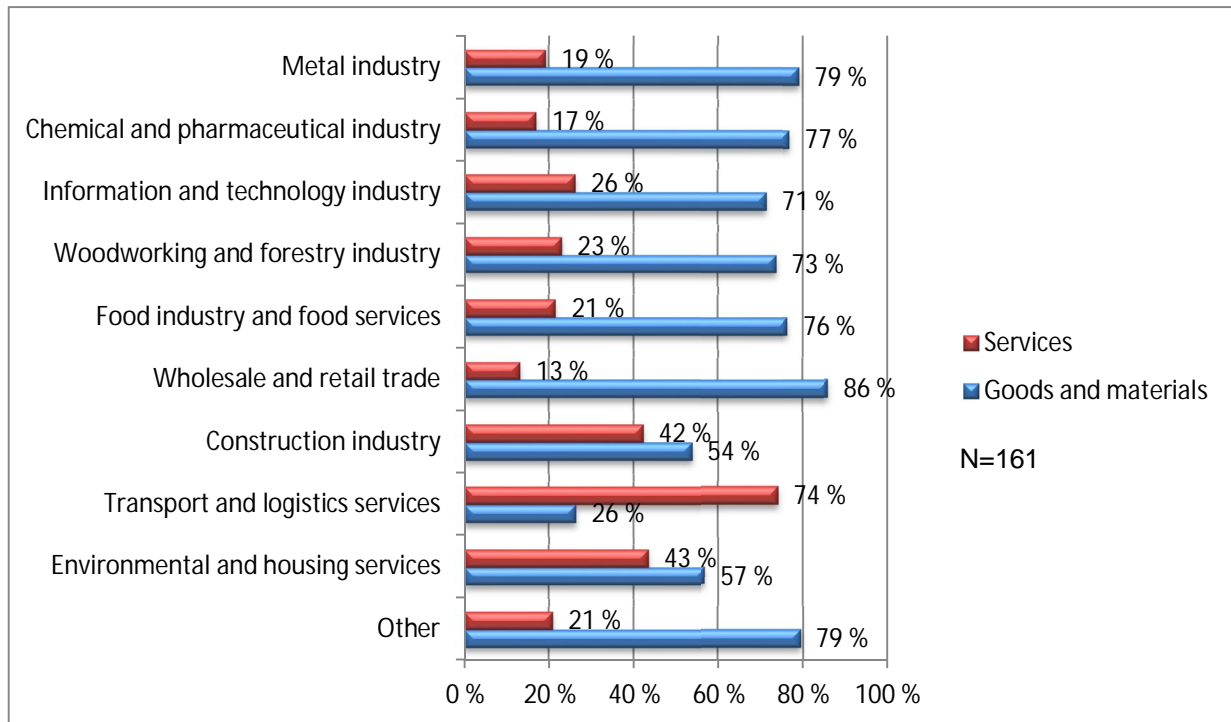


Figure 5 Polarization of purchasing by industry

In Figure 6 is illustrated the average of annual spending on purchasing services by industry in year 2010. There are remarkable differences between industries. The group of industries; Other had the least total spending on services (16 M€), also chemical and pharmaceutical industry (18 M€), and wholesale and retail trade industry (21M€) had hardly any bigger spending. Transport and logistics services had the biggest expenditure on service purchasing with around 260 million Euros. Also woodworking and forestry industry (170 M€), information and technology industry (130 M€), and construction industry (120 M€) recorded clearly over 100 million Euros of spending on services.

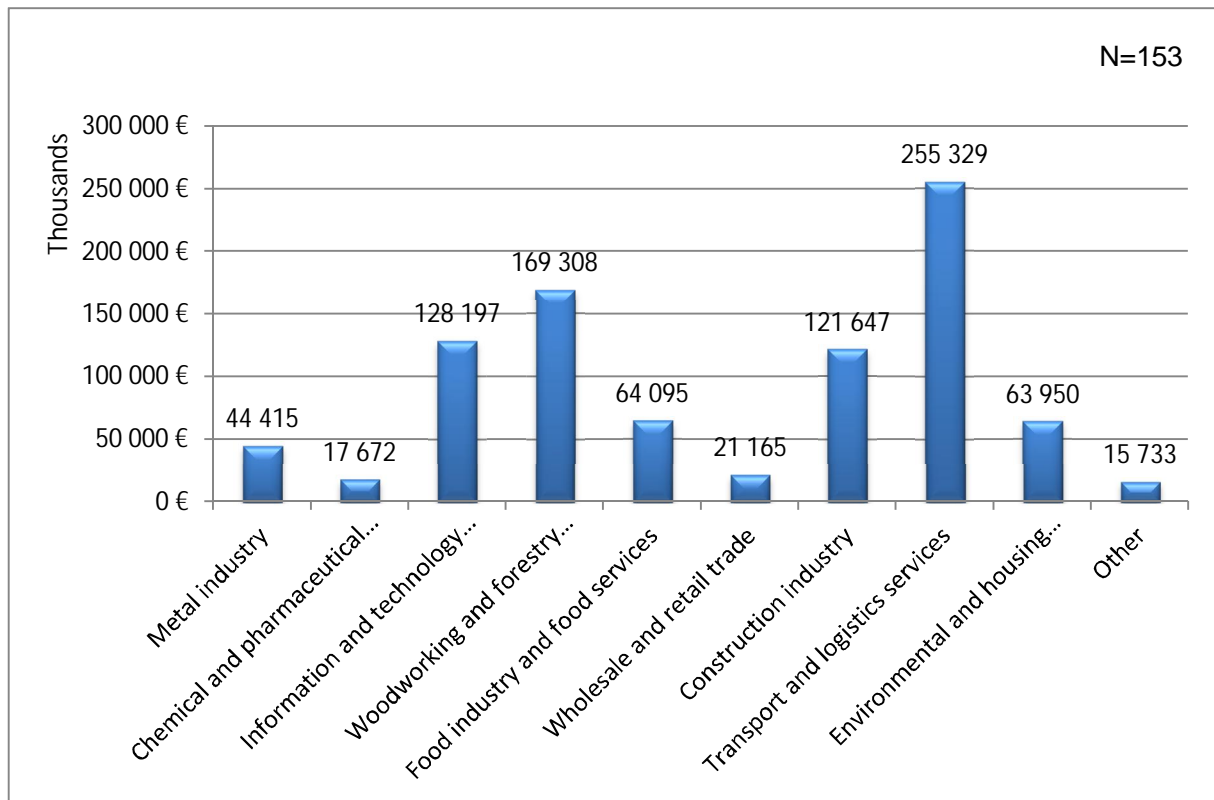


Figure 6 Average of annual expenditure on service purchasing by industry (th EUR)

3.2. *The effect of business service buying on organizational structure*

The effect of business service buying on organizational structure was examined using Independent-Samples T Test for comparison of means, and correlation. First, companies were divided into two clusters depending on the rate of purchasing of service using TwoStep Cluster with one input (rate of service purchasing) as a method for classifying the responses. Companies were classified into two clusters as follows; cluster of minor service buying, total of 121 companies (78.2 %), and cluster of major service buying, total of 40 companies (24.8). The cluster of minor service buying includes companies with 32 % and lower rate of service purchases whereas the cluster of major service buying includes companies with 35 % and higher rate of service purchases.

In Table 4 is showed focal difference between these two clusters. The Table 4 is condensed and shaped the initial tables can be found in Appendix 3. The table below shows also the statistical significance level (Sig. (2-tailed)) of the variable in this

comparison of two clusters. Mean difference showed in the table is formed regarding the cluster of major service buying.

Table 4 Comparison of means (see Appendix 3 for all results)

TwoStep Cluster		N	Mean	Std. Deviation	Mean Difference	Sig. (2-tailed)
Estimate the share of total purchases from your company's turnover (%)	Minor service buying	116	52,31	17,199	2,918	.381
	Major service buying	38	55,22	19,402		
What is the share of total purchases conducted centrally through the purchasing department? (%)	Minor service buying	120	70,04	27,531	-13,805	.22
	Major service buying	38	56,24	32,696		
How many full-time purchasing employees are there in your company?	Minor service buying	120	15,88	44,082	9,042	.327
	Major service buying	40	24,93	65,901		
How interested are you in outsourcing your supply management? (for example IT services, sourcing, and auditing) 1 = Not at all, 7 = Extremely interested	Minor service buying	120	2,81	1,525	,667	.017
	Major service buying	40	3,48	1,502		
Knowledge of supply network management; f) Service procurement	Minor service buying	119	4,43	1,312	0,42	.049
	Major service buying	39	4,85	1,065		

By comparing the means can be seen that there is a little difference (about 3 %) between these two clusters on the share of total purchases from company's turnover. Companies of higher rate of service buying are having the procurement as a bigger function in a company (55.22 %) whereas companies of lower service buying are having the mean at the rate of 52.31 %. All the responses together (156) the mean is 52.99 %. When describing only companies with service buying rate of 70 % or over the result of the share of total purchases from company's turnover is increased considerably to a level of 68.12 %. Despite the finding, statistically this difference between the clusters is not significant (.318), meaning that statistically shown there is no difference consequent on division of companies.

There is remarkable difference on the means of the share of total purchases conducted centrally through the purchasing department. Companies of minor service buying are conducting centrally through the purchasing department with a rate of 70.04 % whereas major service buying companies are at the rate of 56.24 %. Already, by logical thinking it is obvious to say that in case of high volume and high

intensity of purchases the procurement is managed centrally through the purchasing department, in most cases the purchases are considering big quantity of goods or materials. At the same time, like *Kristiina Nieminen* from Skanska enlighten in the interview still many times service purchasing is made without of any purchasing expertise. So it is made by some other actor outside of purchasing department, where the service purchase may even not be seen and understood as a task of purchasing department and it is considered just as regular buying. Again also this can be considered statistically as not significance result in which Sig. (2-tailed) at 0.22.

Companies of major service buying are more likely to have higher degree of full-time purchasing employees total of 25 (24.93) employees working on procurement. At the same time, companies that do less purchases of services have on average 16 (15.88) full-time purchasing employees. Like in previous situations this result is likewise, statistically examined, not significant (.327). By referring to theoretical phase and literature there is explained service buying to be more complex by the same token it needs more actors in the purchasing process to get it managed efficiently.

Apart from the previous mentioned comparisons the difference on interest of outsourcing supply management process or its parts, like IT services, sourcing, or auditing, is statistically significant (.017) between these two groups in the 95 % confidence interval of the difference. Even though the difference is not bigger than the existing 0.667 it is noteworthy to realize that companies with higher volume of service purchasing are more willing to outsource the supply management. In the background of this could be the knowledge and better understanding of different outsourcing possibilities as the companies already have more experience on purchasing services. They have the competence and willingness to do so as they already know how complex and challenging purchasing process of services can be. Companies with higher rate of service buying seem to have also more full-time purchasing employees. These notions together could mean that companies see procurement as a vital function of their business which they wanted to be further developed and improved with outsourced tasks or functions, like supporting IT

services. However, on average the willingness of the outsourcing among these companies is only in a medium level (3.48).

Another, in the 95 % interval of the difference, statistically significant difference between the two groups is found on the matter of knowledge of supply network management (.049). Specifically, there was asked that what capability areas of supply management are important to develop in their company, here it is about service procurement. The mean of all responses is 4.54. On average, companies of major service buying see their need to develop their service procurement at a level of 4.85 whereas companies of minor service purchasing are in a level of 4.43. Overall, these numbers show how today's companies are willing to develop their service procurement. Among the companies of major service purchasing the need of developing service procurement as improving the knowledge of supply network management is surely easier to observe because the higher volume and the more important role of service buying for company's business. Nevertheless, by comparing service procurement to other capability areas in need of developing within all responses included the service procurement is merely seen with a medium need of improvement.

During the ongoing study, became evident that early involvement (.029) of supplier is more common for companies of minor service buying (4.95) where for companies of major service buying it is less common (4.48). In other words early involvement of supplier is seen more important among purchases of goods and materials, in which suppliers are wanted to be part of the product development as early as possible. Product development mainly consists of developing the specifications. About this matter Van der Valk et al. (2005) argue on their research results that developing specifications is more difficult for services than for goods, in a light of previous, this sounds a kind of inconsistent. In the literature the importance of early and active interaction between buyer-supplier in a purchasing process of service is highlighted but in this case it seems to be less important in procurement of services. However, it might be that in many cases of buying services it is not seen as the same kind of way of collaboration as purchasing of goods or materials.

In the following Table 5 is represented correlation matrix which is drawn up to investigate the consistency and linkage between answers of the survey questions.

Correlation is measuring the linear relationship between two variables and it shows the strength as well as the direction of this linear relationship. The used questions for the correlation matrix are itemized below the table as a list. For viewing the full table of correlation matrix, see Appendix 5.

Table 5 Correlation matrix (Pearson Correlation) (see Appendix 5)

	Q10.2	Q7	Q8	Q9	Q11	Q21f	Q41
Q10.2	1	,109	-,213**	-,008	,178*	,161*	,088
Q7		1	,132	-,039	-,015	,124	-,092
Q8			1	,067	-,171*	-,018	-,013
Q9				1	,205**	,070	,101
Q11					1	,253**	,171*
Q21f						1	,280**
Q41							1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Q10.2: How are your purchases divided in your company? Purchases of services (%)

Q7: Estimate the share of total purchases from your company's turnover (%)

Q8: What is the share of total purchases conducted centrally through the purchasing department? (%)

Q9: How many full-time purchasing employees are there in your company?

Q11: How interested are you in outsourcing your supply management? (for example IT services, sourcing, and auditing); 1 = Not at all, 7 = Extremely interested

Q21f: According to your opinion, what capability areas of supply management are important to develop in your company? Knowledge of supply network management; f) Service procurement

Q41: Systemic purchasing; Sum variable

As it can be seen, in four cases of the correlation matrix there are very significant relationships between two variables (with the 99 % confidence interval), as for the 95 % confidence interval there can be found the significant relationship in four of the cases as well. Here, the results concerning the service buying are illustrated more specific. Link between the rate of service purchasing and centralization is negative (-.213**), it tells that in case of the high level intensity of service buying the company's procurement is more likely to be decentralized, so managed by separate departments even from another place of business. Other way around, when company is managing their procurement centrally through the purchasing department it is purchasing fewer services. Companies with high rate of centrally made purchases are generally buying goods or materials with high volume where service buying has

less important role. It is also noticed that when company is more conducting purchases centrally through the purchasing department it is not looking for outsourcing their supply management (-.171*).

However, because of the nature and characteristics of services, commonly services are purchased by actor for who it is being purchased for or at least the end customer needs to get involved in the purchasing process. In case of cleaning services, it can be purchased for the whole company with its separate places of business, whereas many professional services, such as consultancy, need to be purchased by the user of the service who has the knowledge and clear understanding on what needs to be purchased. Centrally through the purchasing department without any participation from any other actor like internal customer conducted service buying will surely be insufficient and inefficient as well.

The rate of service buying seems to correlate with the interest of outsourcing the supply management (.178*). Like earlier mentioned, companies with higher volume of service buying are more willing to outsource their supply management's functions or tasks. Here, this relationship seems to be backing up this previous statement because this confirms that there is a connection between service purchasing rate and outsourcing interest. This tells, once again that companies with higher service buying are more willing to outsource their supply expertise, or its parts, and the reverse, where company who is buying more goods and materials are not that into outsourcing. In other words by outsourcing the supply management companies want to mend the lack of the competence of service procurement.

Another link between the interest of outsourcing and service buying is found, in case of company has realized the importance of developing their service procurement. Statistically it can be considered as very significant relationship (.253**). This linear relationship between the interest of outsourcing and the importance on developing the service procurement is clearly logical. Companies who feel that it is important to develop their service procurement as a focal capability area are more willing to outsource the supply management. Obviously, effective service procurement is seen often as a complex and challenging task, and in case of a lack of needed resources company is willing to find the expertise on supporting the supply management externally with outsourcing.

Like represented in the table, it turns out that companies who are buying more services experience the need of developing the functions of service procurement more higher (.161*). This may be clarified by stating that service buying can be very complex, and hereby seen increasingly as a challenging task. That is why within the function there is still even more potential to be developed and improved. It was found that companies where there are more full-time purchasing employees are more likely to do more outsourcing of supply management (.205**), this means the companies are doing a lot of procurement in which there is still room for outsourced expertise.

Previously mentioned service procurement, and its need to be developed, highly correlates with systemic purchasing (.280**). When a company is doing a lot of systemic purchasing, so purchasing of ensembles, a company is more willing to develop their service procurement. This can be seen in a way that services are increasingly taking part of different ensembles, where a company will regardless run into a situation of service buying. Therefore companies realize their need as well as the importance of developing the service procurement as a part of the supply management. Also within a higher volume of systemic purchasing companies are more than usual looking for outsourcing the supply management (.171*).

3.3. *Insights of buyer and supplier*

As interviewees, here was *Kristiina Nieminen* from Skanska for service buyer's perspective, and for service supplier's perspective *Antti Siiskonen* from Tietoset. Skanska is a company working in the construction industry, a company named Tietoset for one operates as a service provider, providing solutions for supply management and for sales activities. In the following, the main issues concerning the thesis' context are represented. By means of representing the results of interviews the today's nature of service buying becomes clearly more understandable.

It is noticeable from the interviews that in many cases the theory and real life practices differ a lot from each other. The patterns shown as well highlighted in the literature are not used as those should as far as purchasing of services is concerned the real life activities differ substantially. It became clear during the interviews that the main reason for these differences is on respecting the supply management's meaning for a company, as well its role as a business' function. The lack of the needed

appreciation is showing on its efficient. For one *Nieminen* highlights that the knowledge as well understanding on supply management and its importance for business needs to be spread and anchored all around the company. The point is that the most effective supply management is conducted through its experts and professionals through the purchasing department. Biggest problem in today's service purchasing seems to be in understanding purchasing department's essential function in the purchasing process.

Since asking the reasons for purchasing of services, in addition to common reasons, *Nieminen* brings out a new perspective; image based reasoning. There are situations where decisions of service purchasing are made because of the positive impact on company's image. There are times that these purchased and thus used services brings more value for the company as what it comes to potential customers', as well as potential partners', perspective and evaluations. Occasionally, services can be seen as references.

For one, who is doing these purchases of service *Nieminen* clarifies; "unfortunately it is common that services are being purchased by the end user itself, where purchasing expertise is not taken into account". Different departments, for example marketing or Human Resource (HR), are buying services on their own because they feel they have the competence on doing it. Where *Nieminen* criticizes that still there should be purchasing professional involved in the process, to make, for instance, the proper contract procedures or needed SLAs, which otherwise are left aside without any attention. *Nieminen* continues by adding that she sees this to be a common phenomenon among Finnish companies.

Because in today's service buying, at least indirect services; services that are not affecting straight to company's final offerings, are being largely purchased by the unprofessional actors, both, *Siiskonen* and *Nieminen* bring out a common feature of it, by picturing it as emotional-based decision making. This considerably common feature is noticeable in many cases of unprofessional sourcing, in which the decision making is based on purchaser's feelings or on personal relationships here the interaction process steps up. *Siiskonen* highlights previous even more, by saying that the emotional based decision making is more or less in the background of all human made procurement decisions. Another problem with unprofessionally made

purchases is the difficulty of measuring and evaluating quality of the service. In case of unprofessional buying without any SLAs or so, evaluating is much harder or even impossible if there are no proper agreements made with service provider. Now, there are situations where purchased service is not meeting the expectations of purchaser and there is nothing to do, since needed documents, agreements, contracts, SLAs, or even sections of the notice of termination, were not made beforehand the service is purchased. Anyway, what it comes to evaluations of services, eventually, the end users are evaluating the final quality of service. The efficiency of service's implementation is dependent on end users satisfaction as well as their will to approve the made changes.

Siiskonen illustrated an interesting view of the service's final quality. He sees that there are situations, in which the quality of service is experienced as too high which might have a negative effect on customer's side among the staff. For instance, employee might feel that the outsourced expertise is replacing, with a better know-how, his own contribution for the company where he experiences the service in a negative way. It might be rare, but still this aspect needs to be taken into account for service provider's side while interacting with customers and their staff.

From the buyer's point of view, services are seen as very complex and challenging purchases. For instance, indirect IT services concerning the whole company are notably challenging. Here, preparations are the key factor as well the biggest challenge, gathering all the needs and views of end users together where always needs to be done some adjustments. Matching this collected information with service providers' supply is either simple. *Nieminen* clarifies that the hopes and needs never meet directly with providers' supply therefore sometimes it is easier to bring into buying company's facility a representative of service provider to figure out the real needs and possibilities for the upcoming service. Commonly, service provider knows better what the customer needs where often customers do not even know what there is to be asked for. *Siiskonen* supports above-mentioned by saying, their starting point, as the service provider, is always to specify the customers' needs. At the same time he highlights the main feature of providing services; customer orientation.

By quoting *Nieminen*, in the purchasing process of services the hardest part is to make the exact specifications for the service in the initial stages of process where the

collation of information is primary task. In many cases of purchasing services there are many actors approving the proposals of the forthcoming service. That is why it is essential to take synergy issues into account when purchasing services concerning whole company. Because services are so complex and multi-dimensional *Nieminen* reminds there is always possibility to make “double buying” in which some existing services might already cover functions that are being purchased. In many cases unprofessionally made service purchases are causing that.

Where today, *Nieminen* argues that especially indirect services are way too often managed by even quarters like secretaries, which *Nieminen* pictures by saying; “perhaps the Finnish biggest group of purchasers”. At the same time she believes that in the future these indirect purchases will also be more and more conducted through the purchasing department. Though, it will take time because there are many organizational levels to be conquered as well as the most important one, the company’s executives and board members, who should be the first ones to be convinced of supply management’s essential role in today’s business.

4. CONCLUSIONS

As a summary of the thesis, here in the last paragraph the thesis is concluded with conclusions, and considerations of future research possibilities. This thesis was aimed to illustrate and picture the today's procurement of business services in Finland by portraying the status as well its nature. The description as its entirety was created by means of describing relevant literature on the subject, as well using both quantitative and qualitative methods; research data and interviews. As a whole this research managed to build up an extensive portrayal of service purchasing in a core of nowadays procurement.

4.1. *Concluding the thesis*

In this continuously and rapidly changing business environment services have received lot of attention among researchers and companies. Economies, as well entire societies are under changes. Now, when service societies are becoming more common and service-based thinking is gaining more visibility services are seen as vital factors of companies' business as well. At the same time, the share of industrial manufacturing in countries' GDP has been decreasing, whereas in present-day services are provided by every other enterprise in Finland.

In today's Finland the share of service buying among salient Finnish companies, as a part of their procurement, has still just a minor role compared to goods and materials. Only in the industry of transport and logistics services the share of service procurement constitutes the bigger share in companies' entire procurement. However, the level of service buying is on average at 25 % of companies' entire procurement, where annually, on average over 80 million Euros is spent on service purchases. Differences on service buying intensity between industries are still considerable big, where transport and logistics services, woodworking and forestry, information and technology, and construction industry have clearly over 100 million Euros spending, chemical and pharmaceutical, and wholesale and retail trade, for one has the spending on services only on the level of around 20 million Euros.

Statistically viewed, there are found differences on companies' organizational structure between the companies of more frequent service purchasing and the

companies of less frequent purchasing of service. It became evident that interest of outsourcing supply management is higher among the companies of higher service purchasing intensity, to mention one reason for it; companies of major service buying perceive their service procurement to be in need of developing and improving. Also, between these variables seems to be a linear correlation. It is noticeable that companies which buy more services the purchases are made increasingly as decentralized from separate locations by various actors this is also shown with the statistically significance linear relationship. It became clear that in the companies, in which more services are being purchased, are working more full-time purchasing employees.

From the interviews transpired that the real life practice differs clearly from the theory. At least, the used practices among service procurement are differing remarkably from the designs described in common theory. The interviews show, there is still much to do as improving and developing service purchasing within companies to make it run more effectively. Biggest problem seems to be in respecting the entire purchasing department in companies' business. It is still lacking the needed position and meaning as a strategic function for companies' business. The development which needs to be done for improving the role of purchasing and supply management in companies as vital function should be done by establishing as well regularizing the position of supply management in the companies' top level among executives and board members.

Managing the complexity of services within their purchasing will be focal issue also in future. Because services are becoming more and more general for businesses, it is noteworthy that in the future services might be additionally traded. Where today manufactured goods are forming the basis for many types of services in the future it could be totally the opposite. However, in the future services will be changing as well challenging the tasks of companies' supply management in which companies should get better prepared.

4.2. For future research

This research opens new possibilities and viewpoints for future researching. First of all, research such as the study in the background of this thesis could be conducted in

the future as well, to describe the recent progression of supply management capability and the role of service buying in companies' procurement. For the matter of service purchasing, there could be conducted even more extensive descriptive researches, in which purchasing of services is more precisely highlighted and concentrated on, with specific issues.

For description of service procurement, comparison of service buying between various groups of companies from different geographic areas would enlighten the nature of business service buying even more comprehensively. In addition to large sample of companies as being chosen for quantitative researches, also qualitative material, the insights of service buyers, are giving much of knowledge of the current service procurement among companies as well its characteristics. The qualitative perspective is giving focal information of habits and practices used in purchasing of services which are characteristic of each period of time in service buying.

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APPENDIX 1 Share of industrial manufacturing in GDP

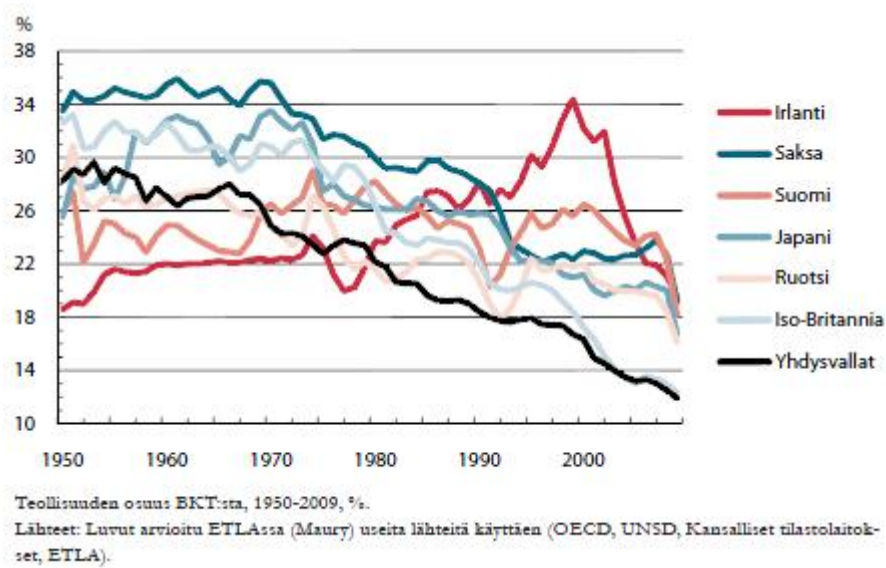


Figure 7 Share of industrial manufacturing in GDP (Arantola, 2010, 18)

APPENDIX 2 Respondents categorized by industry

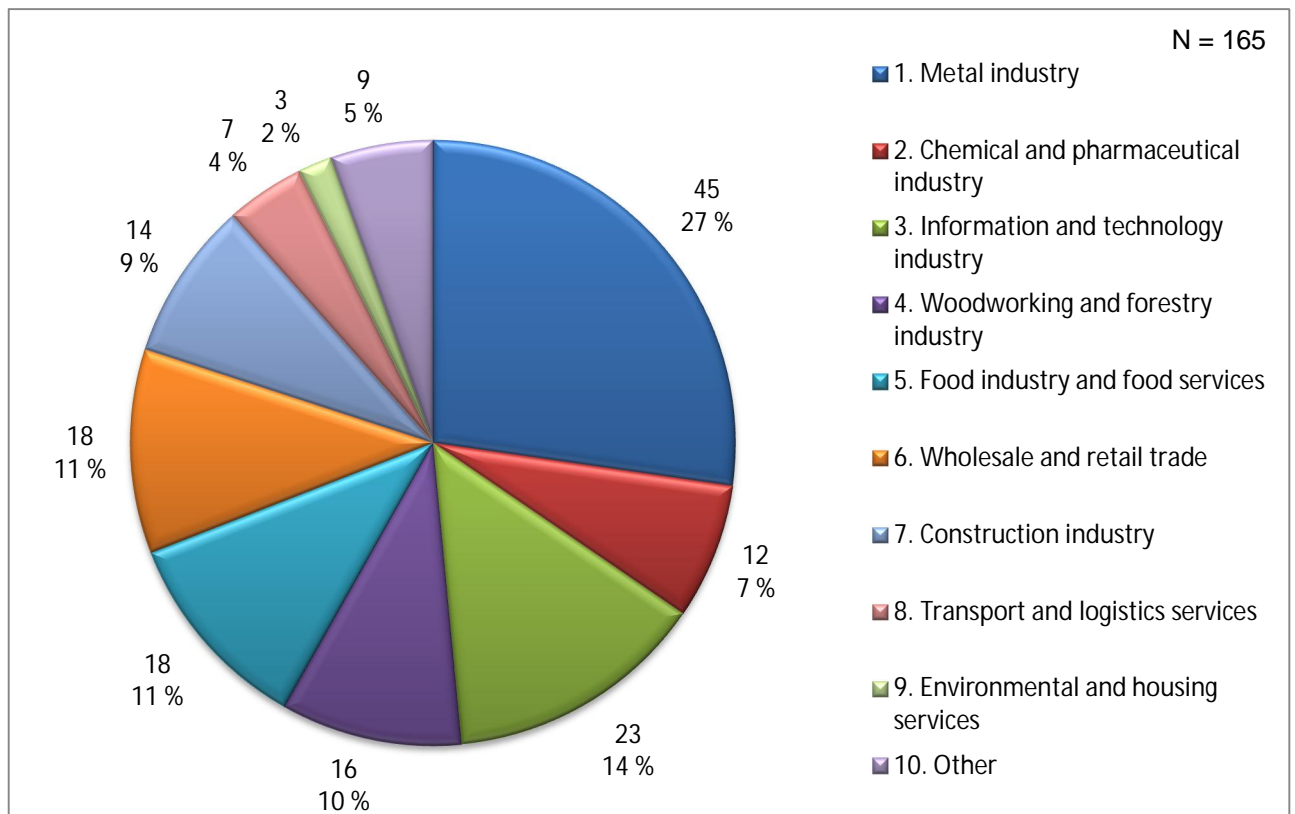


Figure 8 Respondents categorized by industry

APPENDIX 3 Results of Independent-Samples T Test

(Cont.)

Table 6 Comparison of means (Independent-Samples T Test)

Group Statistics					
	TwoStep Cluster Number	N	Mean	Std. Deviation	Std. Error Mean
10.2) Estimate the share of total purchases from your company's turnover (%)	Minor service buying	116	52,31	17,199	1,597
	Major service buying	38	55,22	19,402	3,147
8) What is the share of total purchases conducted centrally through the purchasing department? (%)	Minor service buying	120	70,04	27,531	2,513
	Major service buying	38	56,24	32,696	5,304
9) How many full-time purchasing employees are there in your company?	Minor service buying	120	15,88	44,082	4,024
	Major service buying	40	24,93	65,901	10,420
11) How interested are you in outsourcing your supply management? (for example IT services, sourcing, and auditing) 1 = Not at all, 7 = Extremely interested	Minor service buying	120	2,81	1,525	,139
	Major service buying	40	3,48	1,502	,237
21f) Knowledge of supply network management; f) Service procurement	Minor service buying	119	4,43	1,312	,120
	Major service buying	39	4,85	1,065	,170

Table 7 Comparison of means (Independent-Samples T Test)

		Independent Samples Test								
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
10.2) Estimate the share of total purchases from your company's turnover (%)	Equal variances assumed	,531	,468	-,879	152	,381	-2,918	3,320	-9,476	3,641
	Equal variances not assumed			-,827	57,278	,412	-2,918	3,529	-9,984	4,149
8) What is the share of total purchases conducted centrally through the purchasing department? (%)	Equal variances assumed	4,953	,027	2,572	156	,011	13,805	5,368	3,201	24,409
	Equal variances not assumed			2,352	54,624	,022	13,805	5,869	2,041	25,569
9) How many full-time purchasing employees are there in your company?	Equal variances assumed	2,078	,151	-,983	158	,327	-9,042	9,193	-27,200	9,116
	Equal variances not assumed			-,809	51,129	,422	-9,042	11,170	-31,465	13,382
11) How interested are you in outsourcing your supply management? (for example IT services, sourcing, and auditing) 1 = Not at all, 7 = Extremely interested	Equal variances assumed	,181	,671	-2,404	158	,017	-,667	,277	-1,214	-,119
	Equal variances not assumed			-2,422	67,770	,018	-,667	,275	-1,216	-,117
21f) Knowledge of supply network management; f) Service procurement	Equal variances assumed	5,390	,022	-1,801	156	,074	-,418	,232	-,875	,040
	Equal variances not assumed			-2,001	78,942	,049	-,418	,209	-,833	-,002

APPENDIX 4 Correlation matrix

Table 8 Correlation matrix (Pearson Correlation)

		Correlations						
		How are your purchases divided in your company? Purchases of services (%)	Estimate the share of total purchases from your company's turnover (%)	What is the share of total purchases conducted centrally through the purchasing department? (%)	How many full-time purchasing employees are there in your company?	are you in outsourcing your supply management? (for example IT services, sourcing, and auditing) 1 = Not at all, 7 = Extremely	Knowledge of supply network management; f) Service procurement	Systemic purchasing; Sum variable
How are your purchases divided in your company? Purchases of services (%)	Pearson Correlation Sig. (2-tailed) N	1 161	,109 ,178 154	-,213** ,007 158	-,008 ,918 160	,178 ,025 160	,161 ,043 158	,088 ,280 154
Estimate the share of total purchases from your company's turnover (%)	Pearson Correlation Sig. (2-tailed) N	,109 ,178 154	1 156	,132 ,102 155	-,039 ,633 156	-,015 ,857 155	,124 ,128 153	-,092 ,265 150
What is the share of total purchases conducted centrally through the purchasing department? (%)	Pearson Correlation Sig. (2-tailed) N	-,213** ,007 158	,132 ,102 155	1 161	,067 ,403 160	-,171 ,031 160	-,018 ,822 158	-,013 ,876 154
How many full-time purchasing employees are there in your company?	Pearson Correlation Sig. (2-tailed) N	-,008 ,918 160	-,039 ,633 156	,067 ,403 160	1 162	,205** ,009 161	,070 ,379 159	,101 ,211 155
How interested are you in outsourcing your supply management? (for example IT services, sourcing, and auditing); 1 = Not at all, 7 = Extremely interested	Pearson Correlation Sig. (2-tailed) N	,178 ,025 160	-,015 ,857 155	-,171 ,031 160	,205** ,009 161	1 163	,253** ,001 160	,171 ,033 156
Knowledge of supply network management; f) Service procurement	Pearson Correlation Sig. (2-tailed) N	,161 ,043 158	,124 ,128 153	-,018 ,822 158	,070 ,379 159	,253** ,001 160	1 161	,280** ,000 155
Systemic purchasing; Sum variable	Pearson Correlation Sig. (2-tailed) N	,088 ,280 154	-,092 ,265 150	-,013 ,876 154	,101 ,211 155	,171 ,033 156	,280** ,000 155	1 157

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

APPENDIX 5 Questions of the interviews

(Cont.)

Service buyer: Kristiina Nieminen, Skanska

Grounding

What are main the reasons for purchasing services in your company?

How would you describe the role of service purchasing in your company?

How the procurement of services has changed or/and developed recently?

What is the future like for buying services? How would you describe that?

Defining / Classifying

How the purchased services are classified in your company?

How this classification of services affects the purchasing process of services?

Purchasing process

What kind of competence or/and knowledge is needed while purchasing services?

Which factors are the most important ones in purchasing process of services?

How would you describe the differences between purchasing of goods and services?

How the purchased services are evaluated and measured?

Buyer-supplier interaction

How would you describe the interaction between buyer and supplier during the purchasing process of services?

Which actors are involved when buying services?

Service supplier: Antti Siiskonen, Tietoset

What are the views of service purchasing from the perspective of service provider; at present and in the future?

How customers are approached? What are the vital starting points of selling the service?

How the quality of the provided service is measured and evaluated during the purchasing process? How the quality is ensured during the process?

Does service provider know how the buyer measures and evaluates the purchased service?

How would you describe the nature of buyer-supplier interaction during the process of purchasing service? How does it develop during the process?

How the future of service buying looks like from the perspective of service provider?