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PUBLIC ORGANIZATION BUYING BEHAVIOR IN EMERGING
MARKETS
Case of Finnish SMEs

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1. INTRODUCTION

Public procurement is a major factor in an economy forming up to 10% - 25% of most countries' GDP. (EU 1, Kural 2006) Although the public procurement process is supposed to be transparent according to WTO agreements and most countries' legislation, this is rarely the case both in emerging markets and developed markets. The public procurement practices are rarely well known (Duncombe 2007); this presents a problem to companies whose customers public organizations are. Understanding the buying behavior of customers is crucial when designing and implementing marketing efforts; this holds true with public organizations as well. This bachelor's thesis will examine the aspects of public organization buying behavior to clarify the process and provide marketers with a basis for designing marketing efforts.

1.1. Research problem and objectives

The main objective of the study is to examine the most significant theoretical factors that influence the buying behavior of public organizations. Operating in emerging markets inevitably influences the behavior; therefore theory and characteristics from emerging markets are also studied. The empirical part of the study will attempt to clarify how small or medium sized companies (SME) perceive the buying behavior of public organizations that they have done business with.

Main research problem:

How do public organizations make purchases?

Sub problems:

What special characteristics affect the purchase process?

How does operating in emerging markets affect the perceived buying behavior?

1.2. Theoretical framework

Theories for organizational buying behavior usually examine the type of purchase or buy class, importance of the purchase, structure of the decision making unit or purchase center and decision making process. (Jobber 2003) All these aspects affect public organizations as well and the special characteristics of the public sector are found within the four aforementioned aspects.



Figure 1. Theoretical framework

1.3. Previous studies and literature

Organizational buying behavior has been studied by a number of authors such as Moriarty (1983), Hutt (1998) and Jobber (2003) to name a few, but the special aspects of public organization buying behavior have received only a little attention. Most public procurement literature has been written from supply management point of view and therefore offers only limited assistance to marketers. Duncombe (2007) has studied public procurement practices from a school district point of view and concluded that traditional well known procurement practices are still widely used.

There are some studies on public organization decision making (Nutt 2006) which provide valuable basis for analyzing the decision making process and its underlying influences. Nutt argues that public sector is still driven by bargaining and compared to private sector lacks resources to conduct analysis.

Emerging markets have received a lot of attention in the last decade due to their increasing economic importance. Instead of viewing emerging markets as trailing behind developed markets Akbar (2005) emphasized that there is a great deal that can be learned from the emerging markets most notably the important role of trust and relationships. Jones (2007) has studied public procurement in South-East Asia and although he considers the reform “work in progress” there are signs of significant changes towards efficiency, centralization and fight against corruption. Hu (2008) has focused mainly on the Chinese market and studied the role of government support or the lack of it for technological catch up of more advanced economies. Kedia (2008) has discovered several areas where emerging markets have made significant improvements e.g. IT infrastructure that present interesting implications to the case companies in this thesis.

1.4. Limitations

Since legislation varies greatly among countries specific legislation related issues are left out of the study to form a more general understanding and to avoid focusing on any specific region. However there are certain widely accepted guidelines to public procurement that for example WTO members have agreed to follow (WTO), these guidelines are not completely left out due to their significance.

Decentralized purchases that involve small amounts of money do not follow any special procurement practices and are therefore left out. The focus will be on more significant centralized purchases where the

procurement process comprises identifiable aspects such as the existence of decision making unit (DMU) and stages of decision making process.

Highly specialized public procurement practices such as procurement for national defense or emergency purchases that do not follow regular procurement process are not examined in this thesis since the case companies do not operate in fields where these highly specialized conditions apply.

Emerging markets concept has been limited to exclude market areas that could be categorized as emerging markets but are not viable areas for foreign SMEs due to closed economies or very low income level.

1.5. *Research methodology*

Due to the nature of the research problems a qualitative method and more specifically a case study was chosen. Yin (2009, p. 9) suggests that when three conditions are met: the form of research question is “how”, research focuses on contemporary events and researcher does not have control over behavioral events case study is the most suitable research method. Two Finnish SMEs were studied for the empirical part whose experiences with public procurement were examined in semi-structured interviews. In a semi structured interview the questions are the same for all respondents, but the answers to the questions are not limited in any way and no answer alternatives are provided (Eskola 1998, p. 86).

The case companies for the study operate in similar markets and serve the public sector; therefore it is expected that results from the companies are similar or if there are differences the reasons for the differences are clear. Yin (2009, p. 54) considers this an important justification for selecting case study as the research method to ensure validity of the results.

1.6. Structure of the study

This thesis is divided into four parts; the first part is an introduction. The second part is the theoretical part of the study which examines the characteristics of public organizations and the effects of those characteristics to the decision making process and choice criteria. Also the type and importance of purchase and their effects on the buying behavior are analyzed. The third part of the thesis attempts to discover the factors that are characteristic of public organization behavior in emerging markets and the opportunities and challenges that arise from those characteristics. The fourth and last part reports and analyzes findings from two interviews with the management of Finnish SMEs. The results of the interviews are introduced and reflected to the theoretical part to determine how the theoretical assumptions relate to the empirical findings.

2. BUYING BEHAVIOR OF PUBLIC ORGANIZATIONS

This chapter will take a closer look at how organizations make purchases and what are the factors that differentiate public organizations from private ones. There are certain aspects that make organizational buying behavior challenging to understand. Hutt (1998, p. 20) states that business sector customers most often make purchases to serve their own customers instead of themselves. Since public sector serves its customers i.e. the public according to public interest and not to maximize profits (Bovis 2006, p. 14) the complexity of public interest complicates the decision making process.

All organizations have rules and regulations that need to be followed but in the public sector the purchase process has many elements that are forced by the law. According to Bovis (2006, p. 14) public sector procurement is regulated to make public markets as similar to private markets as possible. Duncombe (2007, p. 515) has divided the goals of regulation to three parts: providing open and fair competition, preventing corruption and ensuring best price. These goals are usually achieved through promoting competition, centralization and control. The World Trade Organization (WTO) has published very detailed guidelines on how to conduct public procurement which all member countries are required to follow (WTO, p. 7). The similarities between countries are mostly due to the WTO influence. How the regulation and other special characteristics of public organizations affect each aspect of the procurement process is studied in the following chapters.

2.1. Types of purchases

In literature the type of purchase is divided into new task purchase, straight repurchase and modified repurchase (Jobber 2003, p. 84; Hutt 1998, p. 71). All three classes exist in public procurement as well; the emphasis in this thesis is on new task purchases. As the names suggest modified and straight repurchase are simply purchasing a product or a service that has been purchased before at least once. Straight repurchase requires very little decision making since the supplier and the product remain unchanged; it is often made by a single person in the purchasing organization or it may even be automated. From a supply management perspective streamlining straight repurchases to create cost savings and efficiency gains is the highest priority, therefore a great deal of supply management literature has been dedicated to the subject. Straight repurchases will not be analyzed further in this thesis; from a marketing point of view they are more related to customer relationship management which is an entirely separate subject.

Modified repurchases occur when the buyer purchases a similar product but changes the supplier or uses the same supplier but changes the product. Modified repurchase is often a result of seeking continuous improvement which has become a key factor in procurement (Lysons 2006, p. 17). By acquiring the best possible suppliers and products organizations are able to improve value for the end user and achieve efficiency gains or cost savings. While it may require thorough evaluation in some cases most often modified repurchases are less complicated than new task purchases. Most importantly funds for the purchase are likely to be allocated in the budget already. The buyer is likely to have knowledge about the product or service or be familiar with the supplying party which provides basis for comparisons and careful evaluation (Mitchell 1998).

New task purchase refers to a situation where the buyer is making a purchase of a completely new product based on recently arisen needs. New task purchases require more information search and evaluation of

different options due to the limited experience of the buyer. The perceived risk level is usually fairly high; at least on par with modified repurchase (Mitchell 1998). Marketing efforts are crucial in this phase since the buyer is likely to have no strong predispositions towards different suppliers. They may not have strong opinions towards the usefulness of the product or whether the product provides additional value to the end user or not.

If the product is new to the buyer the marketer may need to educate the buyer and provide them with information on what is the value to the end user. Public organization is most likely required to arrange a tendering process i.e. create competition so raising awareness and educating should never be the only goals for marketing communication. Tendering process is one of the special characteristics of public procurement and in the case of new task purchases the purchasing organization is often required to arrange it to guarantee open and fair competition. In addition to promoting competition the tendering process presents an opportunity for the public organization to provide information to the potential suppliers thus reducing risks of misunderstandings (Muñoz 2009, p. 309). Tendering process will be studied in more detail in the decision making process chapter.

2.2. Importance of purchase

Jobber (2003, p. 87) identifies some factors that are likely to increase the perceived importance of a purchase to an organization, high price of purchase, high cost of making the wrong decision and uncertainty about other offerings. When the price of the purchase is high public organizations are likely to view the importance even higher than private organizations. The higher the monetary value of the purchase the more likely it is that the whole process will be longer, more complicated and involve more people. Public organizations are publicly accountable for the money they use and are required to offer best value i.e. end user satisfaction with the available resources (Duncombe 2007, p. 517). The

amount of money that can be used is limited by a budget and it has to be used as efficiently as possible according to the public interest.

Another important factor is a large cost of making a wrong decision. In a manufacturing organization this could mean for example being unable to manufacture goods due to wrong type of materials. For a public organization the cost of making a wrong decision is more likely to cause dissatisfaction among end users than direct monetary losses. The risk of making a wrong decision varies greatly between different public organizations; a wrong decision by a hospital may even endanger human lives while a wrong decision by a school district would cause inconvenience to teaching staff or students.

The final factor, uncertainty of alternative offerings and their outcomes affects both private and public organizations equally. Having a limited number of viable options for a supplier or only one option increases the risks involved considerably. Duncombe (2007, p. 516) states that competitive bidding is the core of public procurement system and if there are too few vendors the competitive bidding may not be successful.

One important implication of the importance of purchases is that importance is directly related to risk. All factors that increase the importance of the purchase also increase the related risks. Public organizations have traditionally been considered more risk averse than private organizations; Nutt (2006, p. 298) has discovered that not only are public organizations risk sensitive but it causes them to be more action averse. Reducing the perceived risks, uncertainty and possible controversy of the purchase are important tasks for the marketer. Anticipating the buyer's concerns will allow the marketer to focus on marketing efforts that are likely to have a better effect.

In the consumer market brand is considered an important part of reducing the perceived risk while in business to business markets recognizable brand is considered less significant. Due to being risk averse public

organizations may value brand higher than private organizations. In addition to the brand of the product the image of the selling organization is likely to reduce perceived risk if it is associated with consistency and reliability.

2.3. Structure of the decision-making unit

Purchases in public organizations are often centralized which means there is a group of selected buyers that make purchases for a large number of users. Centralized purchasing brings several benefits to the purchasing organization; specialized and skilled purchase personnel are likely to have more knowledge about the markets and suppliers, higher volumes will lower unit costs, standardization will make maintenance cheaper (Hutt 1998, p. 81; Duncombe 2007, p. 516).

In centralized purchasing due to the high volumes, large amounts of money involved and general complexity of the purchase the buying center or decision-making unit (DMU) consists of people with various expertise and different responsibilities.

The roles found in a decision-making unit have been categorized by Webster (1991, p. 40) into:

1. Initiators, who begin the buying process.
2. Users, who will use the product or service.
3. Deciders, who are able to decide the supplier or product that is purchased.
4. Influencers, who are able to affect the decision and provide information.
5. Buyers, who have the authority to make the purchase.
6. Gatekeepers, who control the flow of information.

Webster (1991, p. 41) emphasizes that an individual can occupy several roles within the DMU, for example initiator, decider and gatekeeper can be

a single person. The structure of the decision-making unit may sometimes be fixed if the purchase is a straight repurchase but for modified repurchases and new task purchases the structure is rarely fixed (Jobber 2003, p. 85). Modified repurchase may require users of the product or other experts to evaluate the characteristics before the final decision is made. For a new task purchase even senior management may be involved especially if the purchase does not have funds allocated for it in the budget.

Although centralized purchasing brings several benefits the end user needs and final choice criteria are problematic to define; centralized purchasing creates distance between the end users and purchasers (Lysons 2006, p. 169). If the product in question is for example an IT based system for a hospital it is likely that the buyer in the DMU who has the authority to sign the final contract is not familiar with the needs of the users in the hospitals and therefore the DMU will include hospital staff and administrators for that purchase. If the product is for educational purposes the DMU needs to include people who are aware of the needs of the students and teaching staff. Technical complexity is a factor that has a clear effect on the structure of the DMU; e.g. for IT related systems there is usually at least one DMU member with a technical background.

The importance of the purchase will also have a large effect on the size and structure of the decision-making unit. Factors that were mentioned in the previous chapter e.g. high price, cost of making a wrong decision, uncertainty about other offerings and generally factors that make the purchase risky all increase the probability of all DMU roles being found in the purchase. For large or complicated purchases there are most likely several individuals occupying a single role, for instance there may be several different influencers in different stages of the process.

From a marketing point of view it is beneficial to understand the structure of the DMU; targeting the correct people with marketing efforts is crucial. Hutt (1998, p. 85) claims that in a purchase for expensive medical

equipment the DMU members who are most involved in the purchase process are physicians, nursing staff and hospital administrators instead of purchasing professionals. This would mean that convincing the actual buyer of the product's value is less effective than targeting the users and the influencers.

2.4. Decision making process

The decision making process of an organization is generally viewed as more complex than the decision making process of private organizations (Nutt 2006, p. 289; Hutt 1998, p. 48). Due to the position that public organizations hold in the society their strategic options are fairly limited and their decision-making is more rigid (Nutt 2006, p. 290). We can assume that regardless of the complexity the decision making process is more predictable in public organization since they are limited by certain factors that do not limit the private sector. For instance private organizations have more freedom to skip stages of the decision making process or limit the number of people in the DMU to make their purchasing more efficient.

Every country has their own laws but there are remarkable similarities in the decision making regulations between countries. This is most likely due to the WTO government procurement agreement that most member countries have signed. The WTO agreement (WTO, p. 13) includes guidelines for ensuring transparency, arranging open and fair tendering process, qualification of suppliers and countless other instructions that all member countries are required to add to their legislation. Jones (2007, p. 7) describes how many Southeast Asian countries have managed to improve their public purchasing after WTO membership, for example Singapore has followed strict public procurement regulations that are in accordance with the WTO guidelines ever since it became part of the government procurement agreement and now it is known for its' highly efficient procurement practices.

There are a number of stages that can be identified in most public procurement processes. The stages are similar to those of private organizations with a few exceptions. A private organization is not required to go through each stage, e.g. searching for and evaluating suppliers may be very brief and informal process if one option has been recommended by a partner or if the first option meets the requirements. Public organizations on the other hand are required by the law to arrange a formal tendering process for a new task purchases that exceed a certain monetary value. For public organizations several stages require formal documentation and verification (Kural 2006). The following stages are likely to be found in public organization decision making process:

1. Need recognition is the first stage for any purchase process. Jobber (2003, p.80) divides need/problem recognition to internal and external. Internal being a need recognized by the organization on its own and external being a need pointed out by an outsider e.g. sales person. If the need recognition is internal the marketer has limited power to influence the beginning of the process. The buyer may have set the choice criteria, budget limits and DMU structure before the selling party becomes aware of the need and is able to present their offering. If the need recognition is external the marketer has an opportunity to affect the following stages of the process.
2. Determining the characteristics and quantity of the need is the next phase. Different public organizations may have very different needs and choice criteria which are examined in the next chapter in more detail. Determining the characteristics is possibly the most crucial part of the process from a marketing point of view; once the characteristics have been set and documented the final decision has to be based on the selected criteria. This is part of the open and fair competition that public procurement regulations strive to promote. Nutt (2006, p.294) argues that public organizations have vague goals which means decisions are often inefficient. Without clear goals the needs of the end

users may not be efficiently satisfied. For the selling party this means that a marketer may be able to affect the goals better since they are not clear. This phase may also involve initial estimations of the price based on the needed quantity and market conditions (Kural 2006, p. 105).

3. Determining the procurement practice is a phase that cannot be found formally in private sector procurement. For public organizations several factors affect the choice of suitable procurement practice. Under certain special conditions such as no tenders are submitted, the characteristics are impossible to determine, emergency situations no tendering process is required (Kural 2006, p.107). This study will not focus on these exceptions but rather on more common practices that can be prepared for; open process where anyone can submit an offer or a restricted process where the most suitable candidates can submit offers. Purchases exceeding a certain monetary value always require a tendering process to be arranged, excluding the aforementioned exceptions.
4. Search for potential sources in the public procurement is included in the tendering process. Although some variations exist between countries generally it involves making previous phases of the process public, for instance the needed items, choice criteria, requirements and instructions for the tenders and an invitation to submit an offer. Public sector has limited funds for information search (Nutt 2006, p.290) which has direct implications to several stages of the decision making process. Arranging the tendering process is fairly expensive for especially smaller public organizations therefore they may not always reach all the potential suppliers with their request for bids/offers; in a way the public organization is dependent on suppliers finding them. There are channels through which the tender documentation is published; the channel can be a newspaper or an online location. It could be argued that the restrictions in information search increase the influence of the selling party's marketing efforts since the public

organization has to rely mostly on information that is distributed to them by the tenders.

5. Acquisition of proposals is also regulated to guarantee fairness in the process. The final possible time for submitting a proposal is notified in the documentation that is sent to the selected tenders along with other relevant information as described in the previous phase. The potential tenders submit their offers for the evaluation of the DMU.
6. Evaluation of alternatives should be based on the choice criteria that the DMU has agreed upon. Procurement practices are slowly shifting from seeking the lowest unit price to guaranteeing the best value for the end user and achieving the lowest overall or lifetime costs. (Duncombe 2007, p.517) Price still remains possibly the most important individual factor; the basis for the evaluation is analyzed further in the next chapter.
7. Order routine selection is the next phase in organizational decision making process (Jobber 2003, p.80). For public organizations even this phase has its peculiarities. The tender who was awarded the contract has to be approved before an order can be placed to ensure they are not ineligible due to e.g. unpaid taxes (Kural 2006, p. 119). The decision is made public and is subject to change if the procurement process has not been conducted according to regulations.
8. Evaluation of the process is the most beneficial if it is done in a timely manner after each stage. This will allow controlling and improving the process as it progresses (Vasilecas 2007, p.174). The purchasing organizations evaluate the suppliers to guarantee best possible value to them selves (Lysons 2006, p. 18). In order to create positive word of mouth a company should strive to perform well in all stages and continue marketing efforts even after winning the contract.

The formal and complex process causes public purchasing to appear very bureaucratic and rigid. The goals of the formal purchase process are

derived from the WTO government procurement agreement and due to the agreement public organization buying behavior will most likely continue to develop towards similar practices in all market areas.

2.5. Choice criteria

Members of the DMU will have a set of different criteria which their decisions are based on. The users may value durability and ease of use over other criteria while the buyer or decider may value low price above all (Jobber 2003, p.81). Public organizations usually have a set of criteria that decisions should be based on while private sector has more freedom to set and alter its criteria at any point of the purchase process.

Organizations in general are shifting their choice criteria from lowest price to total quality and best value (Duncombe 2007, p.517; Jobber 2003, p.82). For many organizations life cycle costs have become the deciding factor instead of purchase price. Total quality perspective places less emphasis on price and attempts to guarantee the best possible quality of the product or service and thus achieve the highest end user value. It could be argued that public organizations that face greater risks in making a wrong decision are more quality conscious, for example the health care sector is likely to have more strict requirements for quality than the education sector.

Although procurement practices in general have moved towards value oriented view public procurement still has an extremely strong link to price. Even the European Union directives state that contracts should be awarded to the tender with the lowest price or to the most economically advantageous tender. (EU 2) It is understandable that public procurement emphasizes price more than private sector, after all one of the most important reasons for regulating the public procurement is to promote competition. Price provides considerably easier grounds for comparison than quality. Neither WTO government procurement agreement nor the

EU directives suggest that open and fair competition means choosing the lowest price automatically. Tender processes often have limits for the lowest acceptable price to prevent predatory bidding i.e. companies making unprofitable bids to win a contract and later presenting more demands when it would be costly to change the selected tender. (Muñoz 2009, p.309)

The second part of the European Union directive (EU 2) states that economically advantageous tender may also be chosen based on delivery date, running costs, cost-effectiveness, quality, aesthetic and functional characteristics, technical merit, after-sales service and technical assistance as long as the choice criteria are clearly listed. In different market areas the basis for evaluation may differ greatly. Rapcsák (2000, p.8) describes a tendering process for IT related purchase that used extremely specific criteria in the tendering process such as printer speed to narrow down the possible candidates. As long as the evaluation criteria are the same for all parties there are not many limits to what can be used as criteria.

The choice criteria present some interesting implications to marketers. Low price is likely to be one of the deciding factors but when it is possible to affect the criteria through marketing efforts the marketers should emphasize the importance of the characteristics that can be found in their products i.e. emphasize the significance of durability, reliability and ease of use over the price. In the previous example where the choice criteria was printer speed a tender whose solution offered high speed could have benefited from emphasizing efficiency gains from high printer speed in their marketing. To be able to affect the criteria the marketer has to be involved in the process before the tender documentation is created.

Political influences are an inevitable part of public sector decision making. While the private sector managers are driven by customer preferences the public sector managers are obliged to follow the views of the oversight bodies (Nutt 2006, p.292). This means that real end user needs may not

always be among the choice criteria and changes in the end user needs are likely to transfer relatively slowly to the decision making of public organizations.

As it was briefly discussed in the importance of purchase chapter the image of the selling company or the brand of the product may also have an effect. For marketing this means emphasizing certain factors in brand and image building. While there is no universally accepted list of factors that would be valued by all public organizations we can draw conclusions from the nature of the public sector. Risk sensitiveness suggests that reliability, consistency, experience and good track record in doing business are likely valued characteristics.

Individual factors should never be underestimated in marketing; decisions are made by humans in all organizational buying. Webster (1991, p.47) suggests that individuals in an organization are concerned about how their individual performance in the purchase process will be evaluated and rewarded which means that directing marketing to the individuals instead of the organization leads to better results.

3. OPERATING IN EMERGING MARKETS

There are several differences between operating in emerging markets and operating in developed markets. This chapter will examine the characteristics of emerging markets and reflect those differences to the public buying behavior concept. There are countless differences between the numerous countries that can be categorized as emerging markets but to form a more general understanding we will focus on factors that are shared by the most significant ones.

The term emerging market has been defined in a number of ways; Akbar (2005, p.390) states that countries with fast growth in GDP per capita, improved employment and inflation situations and increase in foreign FDI are usually considered “emerging”. Here we will focus on the emerging markets that have the greatest market potential such as the BRIC countries (Brazil, Russia, India, China), Eastern Europe, South East Asia excluding developing countries with closed economies or very low income level such as central Africa.

3.1. Advantages

Operating in emerging markets has become a more viable possibility for many companies due to trade and tariff barriers being greatly reduced (Kedia 2008, p.6). Although many barriers still exist the economic growth and future possibilities make emerging markets more lucrative than many developed markets. Previously opportunities in these markets were practically impossible to utilize for especially SMEs due to heavy restrictions imposed by governments. Large multinational enterprises are fairly well established in the largest emerging market areas because they have more resources to influence their surrounding environment.

Significant structural changes have taken place in many emerging markets; one of the most famous being China opening its economy. Akbar (2005, p.390), considers these structural changes that lead to a more open economy an important characteristic of an emerging market. Integration with global economy that allows fair foreign competition presents many foreign SMEs with interesting possibilities.

The IT infrastructure is already well developed in countries like China and India and is constantly developing in all emerging markets (Kedia 2008, p.6). For companies whose products and services are based on IT the developing infrastructure presents greater opportunities compared to markets with already well established IT infrastructures. In developed countries public organizations are more likely to have undergone projects to equip schools, hospitals and offices with IT based systems. In emerging markets the ever developing IT infrastructure will require applications and solutions.

Economic growth allows more funds to be directed to improving public services such as health care and education. Hu (2008, p. 1466) argues that many emerging markets in Asia e.g. Taiwan, Korea, Singapore have enjoyed strong public support while “catching up” to more advanced markets while the role of public support in China still has room for improvements. Sustaining economic growth and improving living standards will continue to require heavy public investments in education, health care and many other sectors in all emerging markets.

3.2. Challenges

Public procurement practices are not as advanced in many emerging markets as they are in developed markets; one indication of this is the relative importance of price as a choice criteria. Vasilecas (2007, p.176) states that public procurement in for example Lithuania is still strongly price driven regardless of recommendations to use more balanced criteria

by the World Bank. For companies with technically superior products this presents a real challenge; convincing the buyer to choose a product that offers the highest value to the end user becomes extremely difficult when the organization making the purchases is accustomed to base their decisions solely on purchase price.

Despite the several improvements and structural changes in many emerging markets public procurement is still widely plagued by discrimination and lack of transparency. Jones (2007, p.3) argues that tendering process and evaluation of the tenders is not often fair towards foreign vendors. Some DMUs may choose an inferior product or a more expensive product to favor a local vendor for political reasons or for personal gain. If the purchase process is not transparent and the DMU members favor a local option there is very little that can be done by an individual company to improve their chances. Jones (2007, p.11) states that especially in the less developed Asian countries e.g. Vietnam, Laos, Cambodia public purchases are often done without even arranging a tendering process. Contracts are often given to local companies without ever considering foreign companies.

A great challenge for many foreign companies is the very different nature of competition they may face compared to the developed countries they are used to operating in. According to Akbar (2005, p.393) surprising competition has led many companies to defensive strategies and failures in the Asian markets. When dealing with public organizations that are required to arrange a tendering process preparing for competition is an important part of doing business.

Corruption in public procurement is very common in certain emerging markets while others have been successful in reducing it. Most common forms of corruption according to Jones (2007, p.16) is public officials directing funds to themselves and bribery. Bribes can be very clear i.e. public officials demanding money for awarding a contract or more subtle i.e. gifts. Since business gifts are an important part of business in many

countries it can sometimes be challenging to differentiate bribes from normal business practices. For example in Chinese culture business gifts are a way of building important personal relationships or GuanXi.

Intellectual property infringements are still common in many countries, including e.g. China. (Akbar 2005, p.394) This is a risk to any company operating in the market but the risks are especially high to foreign companies that have local partners. Operating with a local partner is often the best way to operate in a foreign market, therefore partner selection becomes one of the most important factors for success.

Public procurement practices have been fairly homogenous in the developed countries for long but in the emerging markets there is more variation between countries. For example public procurement practices have more similarities between USA and EU than those between China and India. Jones (2007) has identified a very high degree of fragmentation in the public procurement process in several Asian countries. A lot has been done to improve the system and take it more towards WTO, World Bank and other international standards and this will most likely continue to be the trend in most emerging markets.

4. CASE OF FINNISH SMEs

To understand how public organizations in emerging markets make purchases a qualitative research approach was chosen. Two Finnish companies were willing to participate in this study which is part of a larger project supported by TEKES (Finnish Funding Agency for Technology and Innovation) that aims to provide tools for Finnish SMEs to internationalize successfully. Further justification for selecting case study as the research method was introduced in chapter 1.6 Research methodology.

4.1. Data collection

Three interviews were conducted in March 2008 where the representatives of two Finnish SMEs were interviewed, the outline of the interviews can be found in Appendix 1. The structure of the interviews was derived from the theoretical framework of the study; the questions aim to clarify how the case companies have perceived the buying behavior of public organizations and whether the findings support the literature study findings. One of the interviews was conducted as in English; other interviews were conducted in Finnish.

Due to the nature of the project the interviews comprised other sets of questions for other studies as well; the interviews lasted from 1 hour to 2 hours from which the questions of this study comprised approximately 15 to 20 minutes. The interviews were semi structured. Justification for choosing semi structured interviews was the fact that the interviewer was not the same person who designed the questions; therefore a less structured interview might have not provided answers that are relative to the study. The interviews were recorded and transcribed for further analysis.

4.2. Introduction of the case companies

Both companies are from Finland but operate in several other market areas including many emerging markets. Operations in foreign markets are currently arranged through partner networks which are mainly responsible for sales, maintenance and after sales services. Partnering is usually seen as the easiest way of gaining access to foreign markets for SMEs (Äijö 2005 p.23) and both of the case companies have also chosen partnering as their preferred mode of entry. Operating in public sector where the purchase process is very long it would be extremely costly to use own sales force in all markets for an SME. Both case companies sell IT based systems and consider public organizations among their main customer segments although their customer base is not strictly limited to public sector. Since both already have presence in emerging markets in a form of partner networks but are seeking further growth from those markets they are ideal for this study.

The first case company (later referred to as company 1) sells IT based systems for education purposes. For this company the vice president for corporate and product marketing (later manager A) and a manager for sales, marketing and strategic partnerships were interviewed (later manager B).

The second case company (later company 2) sells IT based systems for the healthcare sector. For this company export manager (later manager C) and sales manager (later manager D) were interviewed.

4.3. Findings

The findings from the interviews are divided into three themes. First one is public organization decision making process that forms the core of buying behavior. The second one is end customer needs where the selling organization's offering meets the buying organization's determined need

and choice criteria. The final theme is emerging markets as an operating environment.

4.3.1. Public organization decision making process

Several factors affect how well an outside entity can recognize stages from the buying process of any organization. In public sector requirements for transparency, regulations and consistency between organizations make some stages of the purchase process easier to identify.

The tendering process is easily recognizable since the public organization distributes the tendering documentation to public. The distribution channel can be a newspaper or the internet. Bids or offers are primarily based on the distributed information and sent to the public organization for evaluation which is done according to the already established evaluation criteria (manager A). The tendering process aims to create competitive bidding which Duncombe (2007, p. 516) describes as the very core of public procurement. Since the documentation is made public and even the choice criteria are predefined the tendering process is in theory equal to all parties.

Since the public organization is required to arrange a tendering process and invite a certain number of competitors to compete for the contract the only way to guarantee winning is to be part of the earlier stages of the process; to be there when the choice criteria are determined (manager B). Determining the criteria is an early stage of the buying process preceded only by need recognition. If the need recognition is divided into internal and external as Jobber (2003, p.80) suggests the selling party that suggests the need to the buyer would gain an advantage since they would be able to emphasize the importance of the characteristics found in their product. If the need is recognized internally by the purchasing organization it is considerably more difficult for the selling party to enter the decision making process prior to the tendering phase.

The importance of being involved as early as possible in the process is further emphasized by the fact that if the choice criteria are set to favor a competitor's product there is very little that can be done to win the contract. Often the winner is known even before the choice is made based on whose product the choice criteria favor, as manager C stated in the interview: *"...if we see that another supplier has been in mind we have already lost the deal"*.

Identifying the members of the decision making unit is the first step in influencing the decision criteria. Webster (1991, p. 41) states that an individual can occupy several roles in the DMU which is rarely a fixed entity; these factors make it challenging to identify all roles clearly and determine which member influences which stage of the process.

When purchasing technical or IT based solutions the DMU always comprises someone who understands and can evaluate the technical characteristics of the product e.g. IT personnel, engineer (manager A, B, D) Since public organizations are risk averse (Nutt 2006, p. 298) they are unlikely to leave any uncertainty factors into the process. Having arguments about the technical superiority of your product is only one side of the decision.

The users of the products are often the initiators in the process (manager A). The users are likely to be the most aware of the actual needs and therefore the first ones to discover room for improvements. Although users clearly have a certain role in any DMU (manager A, B, D) still the significance of their opinion is far from clear.

Both users and IT personnel are more likely to be interested in the quality and performance of the product than price, yet price is often regarded as the most important choice criteria in public procurement. Since public organizations are publicly accountable for the money they use (Duncombe 2007, p. 517) the DMU will always have buyers, deciders or influencers

who are concerned with price. The health care sector where case company 2 operates in appears to be less price-sensitive as long as the DMU consists of people who understand the importance of the quality of the product (manager C). Case company 1 that operates in education sector identifies price as a more common decision criteria in public procurement (manager A, B). The sector differences can be explained by examining the factors that affect the importance of the purchase in chapter 2.2; two of the first factors that Jobber (2003, p. 87) identifies are price and cost of making a wrong decision. It is likely that health care sector is relatively more concerned with making a wrong decision than the education sector due to the potential risks of malfunctioning equipment.

4.3.2. End customer needs

Serving the public according to the public interest is the most important reason for the existence of public organizations (Bovis 2006, p. 14). To serve their purpose they have to be aware of the end customer needs and make purchases based on those needs. Since larger purchases in public sector are done centralized the buying organization may not be very close to the actual users; this presents a challenge for making public purchases efficient. The selling party has to adjust their offering according to the end customer needs regardless of how well the purchasing organization is aware of those needs.

In most cases the organization making the purchase is aware of the end user needs but does not have a thorough understanding of the need (manager B). To further clarify the statement manager B gave an example: *“IT or finance members of the DMU know that equipment [...] is required but they do not understand what features of the equipment are important for a good learning outcome”*. Since some DMU members do not understand the end customer needs well enough to make valid comparisons between products that brings up the question of how much influence the users in the DMU have over the final decision (manager B). If

the users do not get their voices heard in public procurement the goals of the public organization inevitably become vague like Nutt (2006, p.294) suggests. From the selling party's perspective companies competing with superior products would benefit from larger role of users in the DMU while companies with lowest price would benefit from dealing with a DMU that does not fully understand the value of the product to the end user.

Another question relating to the end customer needs and how much they affect the DMU is the political side of public organizations. Sometimes there are individuals in the DMU who are more concerned about their own image than fulfilling anyone's needs (manager B). Webster (1991, p.47) has recognized the importance of personal factors in an organizational decision making; people are often most concerned about their own performance in a purchasing process and possible rewards. When this is linked to corruption that is still found widely in emerging markets according to Jones (2007, p.16) we can conclude that end customer needs may not be as important as personal preferences of the DMU members in some cases.

The tender document is a source of information regarding the end user needs but the main channel for learning end customer needs is contacting the customers directly (manager A, B, C). In markets where partners have the main responsibility for sales and after sales service it is important to build structures to the organization that guarantee a flow of information from the end customers to the organization. Occasionally the request for bids/offers contains irrelevant information that does not reflect the end user needs at all (manager B).

4.3.3. Emerging markets as an operating environment

Fast growth in GDP per capita, improved employment, infrastructure and inflation situations are only some of the factors that make emerging markets lucrative (Akbar 2005, p.390). In addition to great possibilities

emerging markets present foreign companies with a number of challenges.

Entering a growing market early has several advantages to a foreign company, some are very clear while others are less obvious. Among the biggest advantages in operating in the emerging markets is being able to affect the culture of that field; if someone else gets there before you and emphasizes benefits of certain product characteristics you will have a very difficult time entering with your products (manager D). Being able to affect the industry standards also provides protection against competition that enters the market later. This is probably the main reason for the surprising domestic competition that Akbar (2005, p.393) has identified in emerging markets. The domestic companies that have operated in the market longer have been able to set industry standards that favor their products.

Establishing yourself in a market early is like an investment because when the market takes off you need to be established there to benefit from it. Once it takes off there is a lot of room for the market to grow and you won't reach a point of saturation as fast as you would in developed markets. (manager A) Regardless of the several challenges in emerging markets the trend appears to be very clear; companies everywhere have realized the long term benefits of entering a growing market early on. On a strategic level it is more profitable to invest where the best markets will be instead of where they currently are.

On a national level the public sector is usually fairly well aware of what is important in the long run; they understand the significance of well educated people for future growth (manager B). There is a "leap frog phenomenon" in the emerging markets which means they do not upgrade from existing systems gradually like developed markets tend to do but rather purchase the latest technologies available (manager A). The significance of this was highlighted in the interview: *"...that means that you can immediately go with the latest and the newest which again offers*

some opportunities for developing your market share and growing your global market share ...” (manager A).

The real question is how can you match the need and the money required for the purchase (manager B). Most likely there is a foundational need for advanced systems in emerging markets and they are willing and capable to purchase those systems but there are also hindering factors that have to be overcome.

When selling technical solutions in developed markets the purchasing organization is usually well aware of what the required characteristics are while in emerging markets the organizations making the purchases appear to be less demanding. Since they have used these systems for a shorter period of time they are less aware of what should be required. (manager C, D) Although some improvements can be seen towards more value based procurement practices Vasilecas (2007, p.176) states that public procurement in emerging markets is still mostly price driven. Less knowledge regarding the technical aspects of the products that case company 2 has encountered can actually explain the higher emphasis on price in the emerging markets. As procurement practices develop and the level of knowledge increases emerging markets are likely to adopt a wider variety of choice criteria in addition to price.

The way of doing business between some emerging markets and developed markets is very different; some things that are considered normal ways of doing business in some places might be even considered illegal in other places. For companies that are used to Finnish way of doing things business customs in India or China may seem questionable. (manager B) Possibly the biggest challenge in operating in emerging markets is to understand the local way of doing business and how to make communication work (manager A). In addition to the lack of technical knowledge making the buyer understand why one product is ten times more expensive than the other can be a challenge (manager D). Learning how to do business in a market area can only be achieved through

experience; high degree of fragmentation between different emerging markets that Jones (2007) has identified implies that experiences from one market provide only limited assistance in other markets. For understanding local ways of doing business good local partner relationships are essential.

5. CONCLUSIONS

This final chapter summarizes the findings to the research questions presented in chapter 1.2 and discusses the similarities and differences between the theoretical part and empirical part of the study. Limitations of this study are also examined.

5.1. *Summary of the findings*

Public procurement is a regulated complex process that comprises various stages. Tendering process where the public organization publishes the details of the purchase and invites suppliers to compete for the contract is a familiar process for the case companies after doing business with public organizations. While the tender documentation is an important source of information the competition and marketing to improve one's chances begins much earlier in the process. The best way to guarantee success is to influence the DMU in the earliest stages of the decision making process where the need is recognized and characteristics of the purchase are determined and documented.

Since the decision making unit consists of people with various expertise and responsibilities depending on the purchase the selling party has to be prepared to market their product on several levels which requires anticipating the structure of the DMU. Technical arguments have to be prepared for the IT personnel evaluating the product, more practical arguments regarding the value have to be prepared for the users and company performance and image and reliability related arguments have to be prepared for the deciders and actual buyer.

The two case companies operate in different public sectors; health care and education. The purchase process and DMU structure in both sectors appear to be relatively consistent with how they are depicted in the

literature. The most notable difference that was discovered in this study is the choice criteria. The education sector places greater emphasis on the purchase price compared to the health care sector. The literature study of the subject suggested that price is a relatively important decision criterion in public procurement and one of the most important factors increasing the importance of the purchase. The explanation for the health care sector placing less emphasis on price can be found in the other factors that increase the perceived importance of the purchase: the risk of making a wrong decision. In the health care sector reliability and suitability of the products is crucial since human lives depend on the equipment and therefore purchase price is less significant.

Both case companies place great value to gathering and understanding information directly from the end users of the products. The needs of the end users appears to transfer relatively well to the public organization decision making in practice although literature of the subject suggests that this may not always be the case. The users are well presented in the DMUs which suggest that directing marketing efforts to them and focusing on the end user value of the product is beneficial.

On some occasions the DMU members do not fully understand the value of the product to the end user which is especially the case in emerging markets where the level of technical knowledge is perhaps not at the same level as it is in developed markets. Justifying the price of the product becomes extremely challenging when the buyer does not understand the technical aspects of it.

Entering emerging markets early is extremely important because the markets do not have established clear preferences i.e. what is considered an important characteristic in a certain product. Being part of the process of creating preferences or standards allows creating a strong competitive advantage. Creating a presence in a market is challenging due to cultural differences therefore a local partner is usually the best way to enter a market for an SME.

5.2. *Limitations of the study*

This study is subject to some limitations which should be noted. In the absence of unified global public procurement regulations the study is not directly applicable to any single country or market area.

The data collection for the empirical part comprised two companies which operate in different public sectors from which four managers were interviewed and therefore the findings can not be regarded as completely valid. A larger sample would be required to be able to generalize the findings to all public organizations or all public sectors.

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APPENDIX 1

Questionnaire for the case companies

ENGLISH:

Public organization decision making process, how do they buy?

1. What stages/phases have you identified in the buying process?
2. What factors affect the length of the decision-making process? What enhancing or hindering issues have you identified related to the process?
How long is the process on average?
3. What roles have you identified in the buying public organization?
- Who influence the decision/manage the process/have the most information
4. Which criteria appear to be the most important for the buying organization when they make decisions?
5. What other special aspects are there when dealing with public organizations?

End customer needs

6. How aware of the end user needs are the buying organizations? How transparent are those needs to the seller?
7. How much information from the partners comes to you regarding end user needs, behavior of the buying organization, etc. and how do you receive the information?

Markets/Environment

8. What are the biggest differences in public organization decision making process between developed markets and emerging markets?
9. What are the biggest challenges when operating in emerging markets?
10. What are the biggest benefits of operating in emerging markets?

SUOMEKSI:

Julkisen organisaation päätöksentekoprosessi, kuinka he ostavat?

1. Mitä vaiheita olette tunnistaneet ostoprosessissa?
2. Millaiset tekijät vaikuttavat päätöksentekoprosessin pituuteen? Mitä edistävät tai estäviä tekijöitä olette tunnistaneet? Kuinka pitkä prosessi keskimäärin on?
3. Mitä rooleja olette tunnistaneet ostavassa julkisessa organisaatiossa?
- Ketkä vaikuttavat päätökseen/johtavat prosessia/omaavat eniten tietoa
4. Mitkä kriteerit vaikuttavat olevan tärkeimmät ostavalle julkiselle organisaatiolle päätöksenteossa?
5. Mitä muita erityispiirteitä julkisten organisaatioiden kanssa toimiessa on tullut ilmi?

Loppukäyttäjän tarpeet

6. Kuinka tietoisia loppukäyttäjän tarpeista ostavat organisaatiot ovat?
Kuinka selkeästi ne tarpeet tulevat ilmi myyjälle?
7. Kuinka paljon tietoa loppukäyttäjän tarpeista ja ostavan organisaation käyttäytymisestä etc. tulee teille ja kuinka tieto tulee teille?

Markkinat/Ympäristö

8. Mitkä ovat suurimmat erot julkisten organisaatioiden päätöksentekoprosessissa kehittyneiden ja kehittyvien markkinoiden välillä?
9. Mitkä ovat suurimmat haasteet toimiessa kehittyvillä markkinoilla?
10. Mitkä ovat suurimmat hyödyt kehittyvillä markkinoilla toimimiseen?