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[ijmp@ijmp.jor.br](mailto:ijmp@ijmp.jor.br)

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Uygun, Meltem

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## **PURCHASING DECISIONS AT PRIVATE HOSPITALS IN THE FRAMEWORK OF RESOURCE DEPENDENCY THEORY**

*Meltem Uygun*  
*Gazi University & Yıldırım Beyazıt University, Turkey*  
*E-mail: mel.uygun@gmail.com*

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### **ABSTRACT**

The environment influencing hospitals in the health industry is quite complicated, and despite the high volume of inputs, the functions that occur at purchasing level are very intricate. The reason that the feedback mechanism of health services is not organized completely, and thus another reason that the health system is quite complicated, is diversification of inputs and the consequent rising volume of inputs from the environment, and high dependency on the environment. Governing the demands and pressures of the environmental actors and reorganizing them for its own benefit are only possible for the business, depending on how much power it has in the interdependent relationship. Therefore, it is necessary to clarify the role of power as a concept when analyzing these environmental relationships in order to elucidate the behaviors of organizations. This study addresses power relations in the framework of resource dependency theory. The "power and dependency relationship" of the actors that are influential in purchasing decisions regarding clinics at a private hospital where physicians, who are experts in their field work, is the proposal of this research. The matter of which actors (hospital upper management, purchasing department, relevant expert physicians) have an influence on purchasing decisions and mutual relations are discussed in the context of power.

**Keywords:** Resource dependency theory, power, dependence, decision making



\* This paper presented (in Turkish) at the 2<sup>nd</sup> organizational congress held by University of Meliksah Kayseri Turkey in 6-8 November 2014.

## 1. INTRODUCTION

Hospitals are the businesses that are highly dependent on the environment with a large volume of input into the system, a complex structure, and a unique health system. Development of strategies and policies to procure resources are more important for hospitals compared to organizations in other sectors due to the unique structure of the health system.

This study attempts to assess the power and dependence relations of actors that have an influence on purchasing decisions concerning clinics of a private hospital where expert physicians work, drawing upon the basic assumptions of resource dependency theory, organization-environment relationships, and power-dependence relations.

Power does not always originate from dependence and asymmetry of power between the parties; sometimes actors may obtain the advantage of seeming more powerful than they are by implementing various strategies. The power relationships of organizations include not only the relationships with external actors, but also the relationships with internal actors.

The matter is not as simple as determining interests of the business, deciding what is best for the business, and implementing this decision. The departments and their sub-divisions also have their own priorities and interests. These sub-divisions also strive to protect their own priorities and interests with whatever power they have. Power is not only defined as equivalent to dependence in the organization literature. The power relationship is closely related to the degree of influence of one actor on another as a conclusion of this research proposal.

## 2. RESEARCH METHODOLOGY

This research proposal examines how the power that expert physicians possess as a result of having authority over purchasing decisions is dependent on the administrative power of the physicians at the relevant hospital, how powerful their work-flow relationships and how central an actor they are in the network they create as a conclusion of this research proposal.

The suitability of the medical materials at private hospitals is often determined by the physicians, and therefore it can be said the power that physicians have is the most prominent at this point in the process. In some cases, bids that are cheaper are not found suitable by the examination committee or the physician that has requested the material, and more expensive materials are chosen for purchase. This situation demonstrates that physicians, who are experts in their fields, play an effective role in the context of "power and dependency".

### **3. BASIC ASSUMPTIONS OF THE RESOURCE DEPENDENCY THEORY**

Organizations have a presence, an entity complete with economic, social and political aspects, and more importantly, they must strive to sustain this entity. Despite being dependent on their environments for their resources, organizations want predictable access to their own resources.

Organizations undertake the management of their relations with the environment in order to grant access to the resources. Fundamentally, resource dependency theory aims to answer the question of how organizations can continue to exist as an entity, i.e. sustain their presence. Resource Dependency Theory is based on three theoretical ideas.

The first one is the open system theory explained by Katz and Kahn in their book "The Social Psychology of Organization" in 1978. Closed systems do not interact with their environments; on the other hand, open systems have a dynamic relationship with their environments. Katz and Kahn (1978) state that organizations perform their activities in an open system.

The second idea is inter organizational relations involving social exchange, suggested by Levine and White's (1961) studies. According to Levine and White (1961:587), exchange refers to "any voluntary activities between two organizations which have consequences for the realization of their respective goals or objectives."

The third idea, based on Emerson (1962) and then later Blau's (1964) research on dependency and power relations stemming from transactions in social environments, constitutes a more theoretical pivot point for resource dependency approach.

Emerson (1962) explains the relative power of a social actor as a result of its dependence on another, and this approach, which emphasizes resource

dependency have also been utilized in intra- and inter-organizational power analysis by Salancik and Pfeffer (1977). This conceptual backdrop is complemented by Crozier (1964) and Perrow's (1970) ideas on power differences in the various departments within the organizations, and their financial foundations.

Today, the fundamental framework of the resource dependency theory is drawn up by Pfeffer and Salancik's work *The External Control of Organizations*, published for the first time in 1978. Power and dependence relations within the framework of resource dependency theory constitute the main focus of this study.

The key to organizations sustaining the existence of their entities lay in their ability to procure and protect their resources. However, in the open system approach, organizations are not completely self-sufficient (PFEFFER; SALANCIK, 2003:2).

Levine and White (1961) demonstrate that social actors only agree to make an exchange with the organization depending on how much they value the organization and their relationship with them. Organized federations (unions) are connected to their environments through institutions, customer-supplier relations, competitive relationships, and the governing social-legal order (PFEFFER; SALANCIK, 2003:2).

However, it is also important, in terms of the resource dependency approach, if the relationships are not fairly balanced and the consequences of this imbalance.

Resource dependency theory has construed a unique identity for itself because it explains the behaviors of organizations around the concepts of power and dependency. According to Davis and Cobb (2009:3), the theory strives to explain "sources and consequences of power in inter organizational relations: where power and dependence originate from, and how those that run organizations use their power and manage their dependency".

In this context, the resource dependency theory is based on the two key ideas; that organizations can only survive as long as they are effective, and the level of their effectiveness depends on environmental conditions.

#### **4. ORGANIZATION-ENVIRONMENT RELATIONS IN RESOURCE DEPENDENCY THEORY**

Organizations are not self-sufficient and do not have total control over their activities. Dependency status is defined as an outcome of the open system idea, also a foundation of the resource dependency theory (USDIKEN, 2007:85). Usdiken (2007:79) highlights two claims that differ from the conditional dependency approach of the resource dependency theory:

*“One of these is that, what organizations generally do, meaning what behaviors they exhibit, are dependent upon not only their goals and administrators, but also pressures from and the limitations of their environment. The other one is that power has an important role in the organization’s own structure, and therefore, their decision-making process has a political quality to it.”*

Resource dependency theory claims that actors can also influence environmental conditions contrary to the claims of conditional dependency theory and organizational ecology theory. Figure 1 depicts Pfeffer and Salancik's (2003:229) layout model of how organizational environments can have an influence on organizations. In this model, organizational environment (source of uncertainty, constraint and probability) influences distribution of power and control of the organization.

Distribution of power and control of the organization affect choice and removal of administrators, and thus affect organizational behaviors and structures. And subsequently, organizational behaviors and structures affect the environment of the organization through sources of uncertainty, constraint and probability.

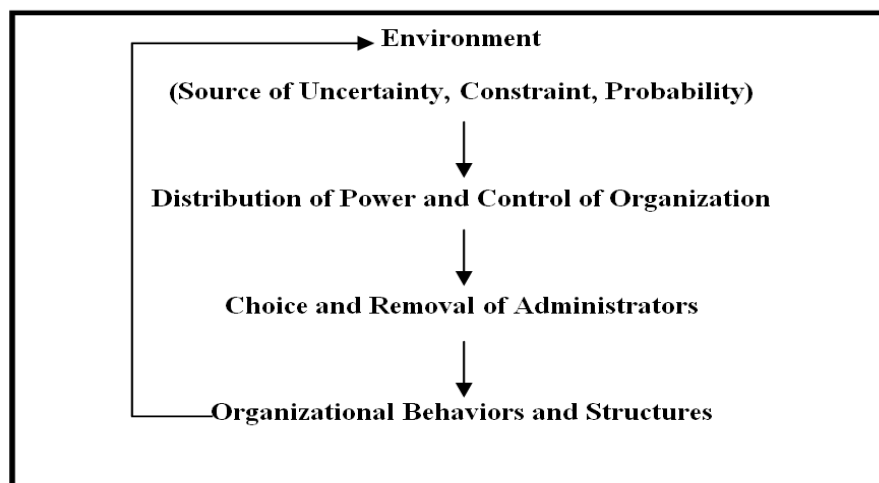


Figure 1: A layout model of how organizational environments can have an influence on organizations

Source: Pfeffer and Salancik, (2003:229).

What happens and how in an organization is not solely an outcome of the structure, leadership, procedures, directives, or the goals of the organization. What happens in the world of a business is shaped by the environment it operates in, and conditions and constraints stemming from that environment (PFEFFER; SALANCIK, 2003:2).

The ability to understand a behavior of the organizations requires understanding the environment in which the behavior occurs. According to resource dependency theory, it is not possible to think of organizations isolated from their environmental conditions, because businesses are not self-sufficient and are required to trade resources with external actors that have an influence on them.

These actors can be customers, suppliers, or investors. The resource dependency theory, as does the conditional dependency theory, accepts the idea of environment as the context from which the organization procures the necessary inputs to sustain its entity.

The organizations compete for the scarce resources that supply inputs such as capital, raw materials, ingredients, intermediate products, energy, labor, information that they need to sustain themselves. This competitive struggle makes them dependent on their environments, and forms the foundation of the power relationship they have with the environmental actors they are dependent on.

## **5. POWER-DEPENDENCY RELATIONS IN ORGANIZATIONS ACCORDING TO RESOURCE DEPENDENCY THEORY**

Between two organizations, there needs to be asymmetry in exchange relationships where one organization has more power over the other, according to Pfeffer and Salancik (2003:53). Therefore, to know that A has power over B, the criterion is B's dependency on A as well as A's lack of dependency on B. Power is a relative concept. If B is more dependent on A than A is on B, then A has power over B (LAWLER; YOON, 1996).

Pfeffer and Salancik (2003:52) explain the mechanism in which power and parties with different interests come together in an organized manner as depending on how much one party needs another to protect its interests or achieve its goals and there is going to be a concentration of power in the relationship.



However, this interdependency relationship does not constitute the only basis of the power relationship. Asymmetry between parties, i.e. one party being more dependent on the other creates the real basis of the power relationship between the organizations.

According to Pfeffer and Salancik (2003:52-54), there are three reasons that sub-divisions in a business possess power. These reasons are; the ability of the division to deal with uncertainty, this ability being unique to that division, and the prevalence of environmental uncertainty. If a sub-division within a business, for example the department of marketing, manufacture, purchasing or finance, has the potential to influence and manipulate business decisions in favor of the department's interests or goals, this means that the department possesses power.

Pfeffer and Salancik (2003:54) specify that the department that has a critical importance under some conditions "is determined by environmental conditions that the business is in, for example the market conditions with which the business is competing."

The influential power that an organization has on others varies with its level of autonomy over control of resources, the dependency level of the other organization, and its potential to counteract the power in question. The fact that different people, groups, and organizations assess the entity and activities of a business according to different criteria also is the origin of an important problem.

According to Pfeffer and Salancik (2003:56), the fundamental problem at this point "stems from the fact that different sets of criteria are irreconcilable with one another or cannot be fulfilled concurrently. These conflicting and competing demands from the relevant parties force organizations to respond to some demands and ignore some others".

Fulfillment of one party's expectations may cause another party to be not satisfied or even harmed. Defining a power relationship as a whole (for example with its weak and powerful actors) allow for the power relationship's reasons, its meaning, timeframe and costs etc. to be analyzed in a detailed manner. However, an analysis of power relations with their maximum characteristics prevent a thorough examination of the details of the relations (BALDWIN, 1980:497).



Willer et al. (1997:580) has defined power in resource dependency theory as "the potential that is determined structurally in order to achieve advantageous results in relationships based on mutual interests. Power is determined in a structural manner through understanding of the nature of the mutual relations." The questions of who is dependent on whom, and who has how much power reveal the character of the relations, and in this research proposal, the problem is addressed in this context.

## **6. RESOURCE DEPENDENCY IN THE CONTEXT OF HOSPITAL MANAGEMENT**

This study addresses power relations in the framework of resource dependency theory. The "power and dependency relationship" of the actors that are influential in purchasing decisions regarding clinics at a private hospital where physicians, who are experts in their field work, is the proposal of this research.

The matter of which actors (hospital upper management, purchasing department, relevant expert physicians) have an influence on purchasing decisions and mutual relations are discussed in the context of "power, dependency". Since nowadays businesses are organizations that cannot act independent of the environment, this shows how much influence the environment has on businesses. However, not every business can adapt to the environment.

Therefore, in spite of the positive and negative influences of the environment on the business, the important thing is that the hospital administration should eliminate the environmental uncertainty with a proactive approach by utilizing certain strategies. Only this way the hospital administration can realize maximum effectiveness and productiveness, and achieve success. With the new legal statutes regarding designation of hospital service charges, the hospital administrations pay more attention to purchasing decisions.

Hospitals are trying to lower the costs stemming from purchasing the right products, the right services, and the right patient chains at the right time, as much as trying to lower the costs of purchasing the medical products and materials themselves.

It is difficult to talk about an awareness of a purchasing department, an institutionalization process, and standard operations management at public or private hospitals where purchasing preferences and decisions are completely governed by a

doctor-centric structure. Therefore, any important consideration given to purchasing activities and process management, affects the costs, quality of services and profitability, and thus is a matter of concern for all kinds of product and service purchasing processes.

Any disruptions to the purchasing process may result in increased costs as well as affecting the treatment of the patient who needs that material at that moment, and thus may cause the patient's health to deteriorate or may even cause their death. For this reason, purchasing processes must be planned, organized and inspected accurately.

The right products, at the right time, with the right costs, in the right amounts at the level of desired quality must be supplied in an effectively managed purchasing process. Since private hospitals are exempt from Public Procurement Law number 4734, they can be more flexible when it comes to purchasing processes than public hospitals.

## **7. PURCHASING PROCESS AT PRIVATE HOSPITALS**

Hospitals and clinics as healthcare providers decide on clinical and non-clinical goods and services and make contract with suppliers and manage relations with these suppliers (Raaij,2016).

The purchasing process at private hospitals starts with the emergence of the need, followed by order request sent to the hospital upper management, one of the power actors, for approval and then the needs approved by the upper management being sent to the purchasing department.

The purchasing department, which is also one of the power actors, does the preliminary research and if the materials are to be purchased for the first time, asks the persons or the related division for detailed technical information about the materials, and then writes up an administrative specifications contract and a material specifications contract.

If enough information cannot be gathered for a material specifications contract, the material's general characteristics are specified and a bidding process is begun. If the material was purchased before and its technical characteristics are known, the purchasing department is supposed to already have the information

regarding the characteristics of the material and the suppliers that sell this material (GÜZEL, 2011).

Billaux, Borget, Prognon, Pineau and Martelli (2016) compared the importance of decision making in purchasing of innovative medical devices by the physicians, surgeons and as well as hospital pharmacists, which are the responsible people in for the purchase and management of sterile medical. Between these professionals in the evaluation criteria there is no significant difference was found. Google and HIMSS Analytics, "Hospital Decision Makers Study," May 2013 found that of %42 decision makers initiate purchasing decisions as a result of user requests and %71 of decision makers initiate purchasing decisions when replacing used or outdated technology. Many people influence the purchase decision as shown in the Figure 2 and Figure 3.

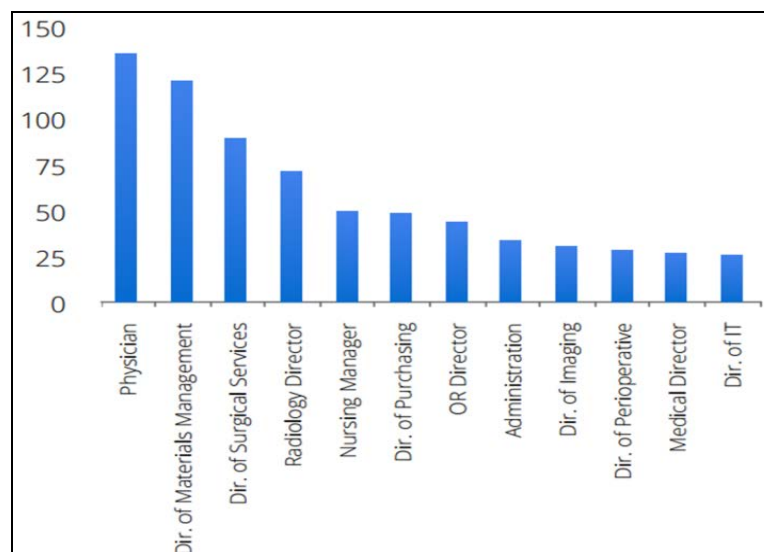


Figure 2: Key Influencers of purchase (Number of Titles/ Roles Cited)

The leading key influencers are physicians and dir. of materials management (Figure 2 and Figure 3) while the main key decision makers are physicians, CFO, CEO and administration.

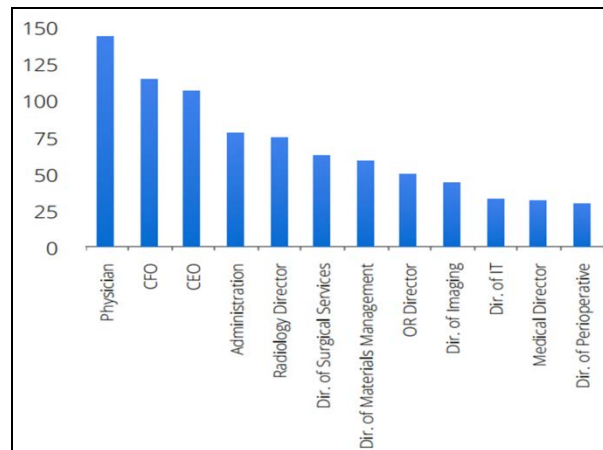


Figure 3: Key Decion Makers of purchase (Number of Titles/ Roles Cited)

During the bidding process, bids from various suppliers are listed. The list contains information about the name of the material, its characteristics, and the amount as well the specific recommended material from all the suppliers, price, amount, payment and delivery options etc.

The suppliers are asked to provide a sample of the material they supply, and then an examination committee or the physician, who is another power actor, who asked for the material, is consulted for technical advice on the suitability of the material. The technical consultancy involves observing the samples of the materials offered during bidding, and deciding whether the material is suitable for use.

The suitability of the medical materials at private hospitals is often determined by the physicians, and therefore it can be said the power that physicians have is the most prominent at this point in the process. In some cases, bids that are cheaper are not found suitable by the examination committee or the physician that has requested the material, and more expensive materials are chosen for purchase.

This situation demonstrates that physicians, who are experts in their fields, play an effective role in the context of "power and dependency". Afterwards, The National Database Product Number of the material decided for purchase is checked, and its Social Security Institution reimbursement conditions are reviewed.

Then the price of the material is compared with the prices of Public Procurement Authority and a purchasing proposal statement is prepared containing all the information about the materials, which then is presented to the upper management by the purchasing manager. The upper management has the authority

to make decisions regarding approval, correction, and cancellation of the purchasing process presented to them.

A purchasing decision is made about the materials found suitable by the hospital upper management, one of the power actors, and then the purchasing manager orders the materials by submitting an order document to the supplier, and thusly the purchasing process ends (GÜZEL, 2011).

## **8. CONCLUSION**

At hospitals, just like many businesses in the private sector, the necessary materials are supposed to be procured by the purchasing departments. Purchasing departments procure the necessary materials after arriving at the best decision by following certain procedures, and evaluating the quality, ingredients, applications, and costs.

Hospitals are labor- and technology-intensive institutions that provide health care services to the public for 24 hours, 7 days of the week. In addition to health personnel, various materials, devices, and services are needed in order for the hospital to provide uninterrupted, effective and productive health care. Hospitals procure the materials and services they need from pharmaceutical warehouses, medical material and device firms, and other suppliers.

The purchasing function is a matter of buying these materials at the most affordable price in the desired amount, at the desired time and quality level. Considered a background operation most of the time, purchasing function actually is effective in reducing costs for the hospital and providing high-quality health care.

Since the work done by purchasing managers at health institutions, one of the power actors there, is different compared to people at similar positions in other sectors, purchasing managers at health institutions should primarily have a good working knowledge of regulations, and standards and accreditations in their sector.

They also need to possess a satisfactory amount of knowledge about technical and financial specification contracts to be able to procure the desired materials at the best price and quality. Moreover, they need to be well-versed in the business's quality processes.

The power relationship is closely related to the degree of influence of one actor on another. In this context, it can be said that the power that expert physicians possess as a result of having authority over purchasing decisions is dependent on the administrative power of the physicians at the relevant hospital, how powerful their work-flow relationships and how central an actor they are in the network they create. Power is not defined only as tantamount to dependency in the organization literature.

Dahl (1957:205) defines power as "the friction that social actors apply on other social actors to accomplish the results and goals they desire". Quality, ingredients and applications are also important in purchasing decisions. In this context, when it comes to procuring the necessary medical materials, one of the power actors, the expert physicians' preferences (regarding quality, ingredients, and applications) are prioritized, and even when the costs are higher for the particular material, the brands preferred by the physicians are purchased unlike how the process works in many businesses in the private sector.

The main reason of this is the dependency of private hospitals on the expert physicians' knowledge as the most important deciding authority when it comes to purchasing. In conclusion, private hospitals manage their dependency on physicians by taking into account their decisions almost always exclusively, which result in the doctors, who have a high level of autonomy due to certain conditions in Turkey, having a strong preference to work at private hospitals.

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