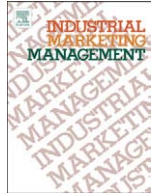


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An Agency Theory perspective on the purchase of marketing services

Wendy L. Tate ^{a,*}, Lisa M. Ellram ^{b,1}, Lydia Bals ^{c,d}, Evi Hartmann ^e, Wendy van der Valk ^f

^a Department of Marketing and Logistics, University of Tennessee, 303 Stokely Management Center, Knoxville, TN 37996, United States

^b Department of Marketing, Farmer School of Business, Miami University, Oxford, OH 45056, United States

^c Centre for Strategic Management and Globalization, Copenhagen Business School, Porcelænshaven 24 B, 2000 Frederiksberg, Denmark

^d Bayer Business Services, Building B151, 51368 Leverkusen, Germany

^e Friedrich-Alexander-University Erlangen-Nürnberg, 90403 Nürnberg, Germany

^f Innovation, Technology Entrepreneurship & Marketing Group, School of Industrial Engineering, Eindhoven University of Technology, P.O. Box 513, Paviljoen L.0.11, 5600 MB Eindhoven, The Netherlands

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ABSTRACT

The purchase of business services has become an important part of organizations' acquisition of external resources, and is therefore receiving growing scholarly attention. The supply management function is increasingly supporting more complex service purchases, including a wide range of marketing services. The trend to involve supply management in the purchase of these complex business services is partially being driven by increasing awareness of the value of applying standard purchasing techniques to the purchase of these non-standard items. The purchase of such services has historically been managed by content experts, with limited involvement of supply management. However, the involvement of supply management in these purchases is driving the content experts to adopt a more facilitating relationship in which both areas interact with the supplier. This research uses Agency Theory as a lens to look at the Agency Triad among supply management, marketing, and suppliers. Elaborating on prior seminal work, the basic tenets of Agency Theory and its assumptions regarding human behavior are combined with the results of a focus group and case studies to develop propositions on the design of contractual arrangements between two Principals (marketing and supply management) and a single Agent who provides marketing services.

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1. Introduction

The purchase of services has been receiving increased academic attention (Wynstra, Axelsson, & Van der Valk, 2006; Axelsson & Wynstra, 2002; Ellram, Tate, & Billington, 2004; Ellram, Tate, & Billington, 2007; O'Reilly, Garrison, & Khalil, 2001). Starting with non-product related services like facilities and MRO services, the supply management (SM) function is now involved in more complex spend categories, including marketing (e.g., media, advertising agencies, market research, marketing support). Marketing services belong to the category of professional services (Axelsson & Wynstra, 2002), and are critical for sustaining and expanding companies' competitive positioning. This spend category has been growing significantly in recent years and has become increasingly important. In 2003, marketing spend amounted up to an average of 13.5% of total purchasing expenditures (CAPS Research, 2003), with the majority of

those on media advertising and sales promotion (Barwise & Styler, 2003). Moreover, a recent report by Aberdeen Group (2007) shows that more than half of the surveyed organizations had planned to make sales and marketing a top investment for 2007.

However, the services spend in general and marketing services spend in particular have been managed very informally (Ellram et al., 2007; McKinsey & Company, 2002), and with limited SM involvement (Carter et al., 2003; O'Reilly et al., 2001; Smeltzer & Ogden, 2002). Consequently, the level of collaboration and interaction between SM and marketing (MKT) has been low (Kahn & Mentzer, 1998). Overall, about 40% of SM functions are not involved, and do not know what their companies spend on marketing related services (John et al., 2004). In addition to difficulty in tracking internal metrics on services spend, marketing service outcomes are often difficult to measure objectively. Like many professional services, marketing services are characterized by heterogeneity and intangibility of outcomes, and performance on one facet of a marketing service may be inseparable from performance on another facet of that service (Zeithaml, Parasuraman, & Berry, 1985; West, 1997); O'Reilly et al., 2001; (Axelsson & Wynstra, 2002); Grönroos, 2008; (Van der Valk, Reunis, & Wynstra, 2005). These measurement challenges result in little incentive for suppliers to improve their cost management, as it is

* Corresponding author. Tel.: +1 865 974 1648; fax: +1 865 974 1932.

E-mail addresses: Wendy.Tate@utk.edu (W.L. Tate), ellramlm@muohio.edu (L.M. Ellram), lydia.bals@web.de (L. Bals), evi.hartmann@atl.fraunhofer.de (E. Hartmann), w.v.d.valk@tue.nl (W. van der Valk).

¹ Tel.: +1 513 529 9918; fax: +1 513 529 1290.

difficult to trace which costs really add value (Ellram & Billington, 2002).

SM involvement could help address some of the service marketing selection and measurement issues. However, MKT and SM do not always share common objectives causing a misalignment between the two functions. Even when common objectives exist, there may be a different opinion on how those objectives are most effectively achieved, also creating misalignment. When there is misalignment, SM involvement is not always welcomed by MKT. Perceptually, MKT may see SM as too focused on price reduction as a means to help bottom-line profitability, whereas SM may think that MKT focused too much on possible ways to increase sales, without regard to cost and profit impact. Furthermore, problems may emerge when suppliers receive apparently conflicting messages from MKT and SM. While both desire to improve profitability, SM may emphasize price reduction, whereas MKT may emphasize timeliness to market with new product launches. Thus, we are dealing with a relationship triad (see Fig. 1) where MKT and SM have an intra-organizational relationship, but also each has a separate (yet interconnected) relationship with the supplier. Agency Theory provides a useful theoretical lens here, since the supplier (the Agent) simultaneously deals with MKT and SM who together represent the Principal.

In this paper, we adopt an Agency Theory perspective to investigate how MKT and SM (two Principals) can achieve internal alignment in working with the supplier (Agent) and to gain an understanding of how contractual agreements influence the alignment between the buying company and the service provider. Internal alignment is defined as the degree to which parties within an organization have common goals and performance metrics. In addition, internal alignment exists where the parties have overarching common goals, and little, if any goal conflict in operating goals. Hereafter, we use the term Agency Triad to denote the three-way relationship between MKT, SM, and the supplier.

Just as the key account management literature developed to address the problem that suppliers were having due to multiple points of sales contact from within their organization to a single customer (McDonald, Millman, & Rogers, 1997; Workman, Homburg, & Jensen, 2003), this paper aims to address the issue of how multiple points of contact from a buying company should most effectively interface with a single supplier. One of the key differences here is that the multiple points of contact from the buying company also represent different functional areas that may have different sub-goals and approaches to relationship management. SM and MKT have differing accountabilities within the organization and external to the organization with regard to management of the supplier. Though they both want the organization to be profitable and successful, the conflict in functional goals and responsibilities introduces complexity into the Agency Triad and also generates conflict between the two Principals.

The paper is organized as follows. After a synopsis of Agency Theory, we discuss the changing relationships between MKT, SM, and their professional services providers, including the problems and

opportunities that emerge. We then frame these issues in Agency Theory. Following this, we draw on focus group and case data to develop propositions for triadic relationships. This theory-driven research builds on Eisenhardt (1989a) seminal work on dyadic relationships in Agency Theory, and uses inductive reasoning to expand her work into the context of the Agency Triad. The paper ends with conclusions, limitations, and directions for future research.

2. Agency Theory

Agency Theory explicitly addresses under which contractual arrangements the relationship between a Principal and an Agent operates most efficiently. It can be used to look at both the explicit (legal) and implicit (social) aspects of the contract (Eisenhardt, 1989a). It is concerned with solving measurement and motivation problems that occur when Principals and Agents have differing goals and desires, and it is economically or otherwise infeasible for the Principal to verify the Agent's performance. Underlying Agency Theory are specific assumptions about human nature (self interest, bounded rationality, risk aversion), information (which is seen as a commodity that can be purchased), and organizations (goal conflict among members) (Eisenhardt, 1989a). This theory is well established in the management literature, but has been applied to a lesser extent in the marketing literature. Thus, the Agency Theory assumptions are applied to the MKT–SM–Supplier agency relationship in Table 1 and explained more fully in the paragraphs below.

With regard to *human nature*, Agency Theory's assumption of self-interest relates to the fact that in case of unanticipated events, actors will each behave in the best interest of their companies (Logan, 2000), or perhaps functional area. Due to bounded rationality of the players and the complexity of contractual situations, the Agent's decisions and decisions which maximize the welfare of the Principal frequently conflict (Wright, Mukherji & Kroll, 2001), as a result of which agency costs accrue. Finally, Agency Theory assumes that each actor in the relationship differs with regard to risk aversion (Wright et al., 2001). In the case of two Principals, these Principals may have differing risk preferences.

Information is viewed as a commodity that can be exchanged (Eisenhardt, 1989a). If interests are misaligned and there is goal incongruence, then information may be hidden, thereby creating information asymmetry. SM is interested primarily in pricing, contract compliance and performance information as a means to reduce risk and monitor supplier behavior, thereby minimizing the risk of supplier opportunism (Zsidisin & Ellram, 2003). MKT looks at information regarding the supplier as a means to improve and build the relationship, and wants to see the completed project and its influence on sales, marketing and branding (Glazer, 1991). Thus, in many situations, the type of information each Principal is interested in and how they will use the information differs. This is the case when the business has strong functional organizations with very specific goals that functional members identify with. For example, SM may have strong cost reduction and supply base reduction goals which it views as a way to improve profitability. MKT may have strong goals to increase sales, and thinks that can best be done by spending more money on promotions and adding new suppliers, which it believes will also improve profitability. This situation is of interest for this research. Such conflict may not be present in organizations with very strong cross functional product teams who have more attachment to the team outcomes than to possibly conflicting functional outcomes because they can see the total impact of decisions on the product line in question.

Finally, *organization* relates to the fact that goal congruence between Principal and Agent is required for contracts to be effective. The Principal wants the provider to meet or exceed agreed upon service levels and the Agent wants to be fairly rewarded for his efforts (Logan, 2000). Both parties' biggest fears are that the opposite occurs.



Fig. 1. Typical triadic relationship: supplier–marketing–supply management.

Table 1

Agency assumptions applied to principal and agent in a marketing services relationship (Eisenhardt, 1989a).

Assumption	Marketing (Principal)	Supply management (Principal)	Supplier (Agent)
<i>People</i>			
Self-interest	Focus on increasing sales, marketing, brand and relationship.	Focus on cost control and efficacy of contracts.	The Agent may or may not behave as agreed.
Bounded rationality	Limitations come from the lack of information.	Limitations are due to an over-emphasis on tangible issues at the potential expense of critical, but less tangible performance issues.	Limitation comes from lack of information about Principal's future needs and commitment.
Risk aversion	Risk averse when the relationship is important, prefer sole source.	Risk neutral when the opportunity exists to multi-source.	Risk averse when security and income are often tied to a single firm.
Information	Under-specify the requirements in the contract so supplier creativity is uninhibited.	Information requirements are high with regard to conformance to outcome oriented metrics.	Want communication flows limited to relational issues but will exchange information to achieve security and income.
Utility of information	Rely on relationship with supplier rather than monitoring supplier to get best results. Use information to improve the relationship. View information as contributor to and outcome of good relationships.	Use more formal, specific contracts and require clearly defined deliverables before payment. Use information to control supplier opportunism. View information as a commodity.	Use information as a commodity.
<i>Organization</i>			
Goal conflict	Wants a strong alliance with the supplier and highly creative output. Overarching goal is to create a positive image for the organization and increase sales.	Wants relationship more formalized and the service more commoditized. Reduced cost, timely delivery, and measurable quality. Overarching goal is to control agency costs and achieve contractual results.	Wants to provide a highly individualized service with limited interference on process. Overarching goal is to maximize profit, which includes maintaining the relationship.

For services, and especially for professional services like marketing, the Principal might be unable to effectively verify Agent performance (Eisenhardt, 1989a). Furthermore, both Principals have different expectations of the Agent. These issues complicate goal congruence among all parties in the Agency Triad.

As a result, the contractual preferences of each party in the Agency Triad differ. These differences are summarized in Table 2. Outcome-based management contracts emphasize measurable results or contractual effectiveness (Eisenhardt, 1989a; Zsidisin & Ellram, 2003) and tend to be popular in SM (Zsidisin & Ellram, 2003; Choi & Liker, 1995). Behavior-based contracting efforts focus on processes, tasks and activities that will accomplish the desired results (Zsidisin & Ellram, 2003), and are most appropriate when the agent's behavior can be readily monitored and measured (Eisenhardt, 1989a). The latter is particularly complex in professional services settings, since it is difficult for the principal to monitor behavior at a reasonable cost and establish a link between that behavior and certain outcomes (Sharma, 1997).

While the application of Agency Theory has been limited in the marketing literature, Bergen, Dutta, and Walker (1992) suggest a number of areas in which Agency Theory could be used, one of which is advertising agency–client relationships. Heide (2003) and Heide and John (1992) have used Agency Theory in extensive studies on buyer–seller relationship governance, albeit in a manufacturing setting. To date however, agency-based literature on outsourced service relationships is still limited (Logan, 2000). As exceptions, Sharma (1997) uses Agency Theory to frame business exchanges involving the hiring of professional service organizations, while Mills (1990) uses it to investigate quality in service encounters. Ellis and Johnson (1993) identified what factors make a performance-based contract favorable over a behavior-based contract. Among those factors favoring performance-based agency compensation are length of the relationship, the ease with which outcomes can be measured, and the level of risk aversion of the client.

Agency Theory can be used to help design the most effective types of contracts and relationships to provide fair outcomes to all parties. The contractual question concerns the management of the Agent using behavioral-based contracts or outcome-based contracts while balancing the Agency Triad. The next section presents the background

and literature that makes the triadic SM–MKT–Supplier relationship so relevant today.

3. Nature of current and shifting relationships among marketing, supply management, and marketing services suppliers

The Principal–Agent relationship in services marketing is primarily between the marketer (Principal) and the supplier (Agent). This research focuses on situations in which MKT and SM both interface with the supplier and are not aligned. The misalignment occurs primarily because the Principals are rewarded using different metrics and for different aspects of operating performance, as presented above. If marketers have ill-defined needs for marketing services, MKT and other users of professional services rely on the suppliers for many things, ranging from telling them what the “best” service to purchase is, to reporting on their own performance (Ellram & Billington, 2002). This dependence contributes to the intense, long-term, loyal nature of relationships between the marketing function and its service providers (Abbott, 1988; West, 1997). Sharma (1997) noted “... professionals in advertising, banking, and consulting apply in their work a body of knowledge and techniques acquired through training and experience, have a service orientation and distinctive ethics, and have a great deal of autonomy and prestige in the modern economy” (p. 763). Such professions are often held above question in terms of their performance, behavior, and even pricing structures (Dingwall, 1983).

SM involvement in buying (professional) services, including marketing (Bals, Hartmann, & Jahns, 2006; Van der Valk et al., 2005), is generally low (Axelsson & Wynstra, 2002). SM involvement is often limited to creating a purchase order after the purchase commitment has been made. While early SM participation in purchasing decisions facilitates a full discussion of the commercial issues, such as price, service offerings (including bundling and a la carte options) and performance measurements, MKT frequently views these matters as secondary to the service provision itself, in part because these are often not considered essential marketing metrics. The supplier would rather avoid discussion and retain control of these issues.

Table 2
Focus of each party in using contracts.

	Marketing (Principal)	Supply management (Principal)	Supplier (Agent)
Contractual preference	Behavior-based contracts; focus on relationship, builds loyalty so the supplier will do a "good job" in this difficult to measure area	Outcome-based contracts; can track fulfillment of requirements along the purchasing process (monitoring), initiate consequences if necessary	Behavioral contracts; outcome-based contracts transfer more risk to the supplier, create more limitations
Issues associated with contractual preferences	Incomplete information. Unable to verify supplier behavior.	Contracts demand more information in order to know what the Agent has done and is performing to expectations.	Self-interests, opportunistic behavior (Moral Hazard), withhold information.

Adapted from the work of Eisenhardt (1989a), Zsidisin and Ellram (2003), Choi and Liker (1995) and Sharma (1997).

The potential for conflict between MKT and SM becomes clearer when looking at their incentives. SM generally reports to a supply management or operations executive, who is concerned about obtaining cost competitive and reliable sources of supply to meet the organization's requirements. MKT, in contrast, generally reports to marketing or a business unit executive, who focuses primarily on generating revenue to improve the organization's profitability (Narver & Slater, 1990). These differences cause both functional disciplines to behave as separate Principals when dealing with a supplier, the Agent. Consequently, the presence of two distinct Principals with conflicting objectives in the Principal–Agent relationship may add substantial complexity for the supplier. For example, Lonergan (2005) concluded that it is often best if SM has little or no participation in the purchase of public relations (PR) consulting services. He found that some SM employees put excessive focus on detailed price schedules, cost breakdowns and timesheets, and treat PR as a pure commodity, to the point that the detrimental effects on the supplier relationship and the supplier's performance outweighed any benefit SM provided.

Relevant expertise such as that possessed by MKT is necessary in order to properly interpret information about the supplier's performance (Jacobides & Croson, 2001). The relationship marketing literature (Biong & Silkset, 2006; Heide, Wathne, & Rokkan, 2007; Heide, 2003) thus suggests the use of an internal Agent (MKT) to reduce information asymmetry in relation to an external Agent (the supplier). In-house expertise enables a buyer to design meaningful monitoring systems and measurement standards (Anderson & Oliver, 1987; Ouchi, 1980).

At the same time, SM has gained significant credibility in manufacturing organizations by simultaneously saving money on goods while improving quality and other aspects of supplier performance (Fawcett, Ellram, & Ogden, 2007; Nelson, Moody, & Stegner, 2001). Recently, the function has also become heavily involved with many (routine) services, where they save money and improve performance by defining services, setting up standardized specifications, and carefully measuring and monitoring supplier performance (Tate, Ellram, & Wade, 2006). Less tangible professional services, including marketing services, are viewed as the next focal area for professional supply management activities. Marketing spend is an area with substantial untapped cost savings potential (Ariba, 2004; Degnan, 2004). At the same time, the *value* of these creative services which may generate unique concepts tailored to the buying firm's specific product and service offerings (El-Murad & West, 2004) should not be overlooked. In the context of professional services, Stuart (1991, p. 30) talks about 'meaningful involvement' of SM, i.e. "the timely and useful collaboration of purchasing's knowledge and expertise...in all aspects of the acquisition process, including the decision making process, leading to the best buy decision with the objective of satisfying the immediate needs of the specifier and the long term needs and strategic objectives of the organization as a whole". This suggests that for SM involvement to be effective, it must be planned carefully.

To summarize, prior research supports that there are strong interrelationships between MKT, SM, and the supplier. However, since research on triadic relationships has been limited to date, the study of

the relationship between MKT, SM, and the supplier appears to be particularly fruitful.

4. Research methodology

Rather than testing an existing theory (Popper, 1959) or developing completely new theory (Glaser & Strauss, 1999), theory elaboration refers to refining a theory through empirical analysis in order to specify the circumstances in which it does or does not offer potential explanations (Walker & Cohen, 1985; Voss, Tsiriktsis, & Frohlich, 2002). In this research, we use theory elaboration (Vaughan, 1992; Lee, 1999; Gilbert, 2005) to extend Agency Theory beyond dyads to analyze the triadic relationships between MKT, SM, and marketing service providers.

Two complimentary empirical studies were performed. The first consisted of a multiple case-study (Eisenhardt, 1989b; Ellram, 1996; Miles & Huberman, 1994; Yin, 2003) in the United States. These case study firms were all Fortune 500 organizations (Table 3) and were selected on two criteria: 1) the recent involvement of SM in the purchase of marketing services; and 2) the ability of the researchers to access participants that were engaged in the purchase of these types of services. Case companies were selected one by one and additional cases were added until the point of theoretical saturation was reached, where new participants did not increase the base of knowledge regarding this particular phenomenon. The case studies captured issues related to the overall organizational setting, history and current practices in the purchase of marketing services and the organizational structure of the marketing and the supply management departments in the respective companies. This was critical to understanding existing principal–agent relationships. Multiple informants from various functional backgrounds including supply management, marketing, and the business units were interviewed for each of the case studies. A summary of each of the case study firms is provided in Appendix A. Multiple sources of evidence were gathered from these organizations, including organizational charts, statements of work, and RFPs (request for proposals) allowing for triangulation of data.

The second empirical study was a series of focus group workshops with five companies conducted in Germany. As applied by Angell and Klassen (1999), the focus group process served as an extension of the preceding literature review and in comparison to the case studies provided the opportunity to gather in-depth data on MKT–SM interaction including potential conflict between the different functional areas. Four focus group workshops took place every two to four months, over a one year period. The focus groups involved five to six participants that were representatives from MKT and SM departments of five companies from different industry sectors (Table 3). The focus groups were structured but participants were asked open-ended questions about the particular topic of implementing performance improvement measures in purchasing marketing services. A summary of each of the focus group firms is provided in Appendix A. Focus group participants were selected to ensure representation of multiple

Table 3
Overview of the companies studied.

Company	Data gathered through	Industry sector	Participating functions	Predominant reason for interest in changing marketing-SM relationship
AIR	Focus group	Air carrier	Marketing, supply management	Increase in outsourcing of marketing activities
PHARMCHEM	Focus group	Pharmaceutical and Chemical	Supply Management	Supply management was excluded from participating in marketing purchases
CP1	Focus group	Consumer products	Supply management	Identified spend category as opportunity for supply management involvement
COLOR	Focus group	Paint	Marketing, supply management	Wanted to make supply management more professional
AUTO	Focus group	Automotive	Business owner, supply management	Interest in further enhancing collaboration, which was going already well
SOFT	Case study	Software	Business owner, supply management	Change in top management. Saw opportunity for collaboration
CP2	Case study	Consumer products	Marketing, supply management	Budget constraints
CHEM	Case study	Industrial air products, gases and chemicals	Sales, supply management	SM was underperforming; hired outside consultants who saw the value of collaboration
FIN	Case study	Financial services	Supply management	Mandated by regulatory constraints
TECH	Case Study	Technology	Supply management, business owners	Customer satisfaction was a becoming a key performance indicator. Price was not necessarily in alignment with good customer service

industries, and also to obtain a cross-functional perspective by including participants from both marketing and supply management.

The focus group workshops were characterized by intensive discussions between the MKT and SM representatives. This provided an opportunity for comprehensive data collection concerning potential conflict areas, by directly studying interaction at the MKT–SM interface. The interactive, multi-participant nature of focus groups helped the researchers delve deeper into the rationale behind participants' responses (Bailey, 1994; Krueger & Casey, 2000; Morgan, 1997). Therefore, the focus group workshops allowed the researchers the opportunity to gather data complementary to the case studies. There were a number of Agency Theory-related aspects seen during the interaction such as differences in preference and risk aversion among MKT and SM. As in the case studies, multiple sources of evidence were gathered from the participating companies. These additional documents included organizational charts and purchasing spend data. There were other reports that analyzed the purchasing spend and supplier segmentation. Some participants had prepared documents that outlined different projects and experiences in which both marketing and supply management had participated.

The collected data was pooled in the two empirical studies in an effort to increase the joint knowledge and experience. This pooling approach is similar to a study conducted by Cousins and Spekman (2003), who combine data from a United Kingdom (UK) and a United States (US) study. Each of these qualitative studies was used to explore different aspects of the research objectives. This approach also enabled the combination of work from multiple researchers working on the same issues in different countries, which is expected to bring insights that go beyond the learning obtained from a single study.

Eisenhardt and Graebner (2007) argue that the representation of multiple firms in the case studies and focus groups enhances theory elaboration because empirical evidence is gathered on the viewpoints of both SM and MKT as well as on the interaction between these parties. Different perspectives are also explored by including case and focus group companies that stem from a variety of sectors. Such contrast allows for clearer recognition of the central constructs and their relationships (Eisenhardt & Graebner, 2007).

Tests of construct validity, internal validity, external validity, and reliability were used to assess the quality of the research design (Flint, Woodruff & Gardial, 2002; Johnston, Leach, & Liu, 1999; Voss et al., 2002; Yin, 2003; Ellram, 1996). According to Yin (2003) these tests should be assessed throughout both the case study and focus group research. During implementation of the case studies and focus groups, researchers documented impressions and discussed these impressions in order to adapt the research protocols (Eisenhardt, 1989b). The researchers also sent follow-up emails and phone calls to the participants if the data

needed clarification. One significant burden involved with this methodology is the amount of data gathered from both the case studies and the focus groups. To better manage and control the data, at the completion of each case study, the researchers performed a within-case analysis. These assessments were primarily descriptive in nature, but helped to organize the extensive data early in the collection process (Eisenhardt, 1989b). At the completion of each phase of the focus group, the researchers met and compiled detailed notes and ideas. Other tactics used address threats to validity and reliability and brief descriptions of how these tactics were implemented in the study are shown in Table 4.

5. Results

This section delves deeper into the focus group and case study findings, interpreting the data in the light of the contractual considerations of Agency Theory. From this point forward, all of the firms studied are referred to as “cases” or “firms”. We use inductive reasoning to present a series of theory driven, testable propositions regarding agency relationships in triads, elaborating on Eisenhardt's (1989a) seminal work on buyer–seller dyads. The rich data available from the focus groups and case studies provide new insights into the MKT–SM–Supplier relationship, beyond those available from quantitative data analysis (Eisenhardt & Graebner, 2007).

Table 5 provides a summary of the focus group and case findings concerning how each member of the triad views the elements of the service provider (agency) relationship. The findings that emerged from the focus group and case studies are fairly consistent. Both groups indicate considerable differences in preferences regarding the key elements of the triadic relationship.

First, all of the firms studied had experienced a change in the way that marketing expenditures were managed. In all cases, this change was voluntarily initiated by MKT. MKT was interested in getting more support from SM, for example to help extend the reach of its limited budget, or to improve supplier management. MKT was convinced of the value of SM involvement for improving services marketing spend management, due to seeing SM's results elsewhere, by SM's internal sales efforts, or by top management recommendation.

Another commonality in the case studies was that MKT had sole responsibility for contracting marketing services. Consequently, the contracts were likely to be very “ad hoc”, often based on fairly amorphous outcomes, yet including clear payment schedules. At SOFT and CP2, SM indicated that MKT included very limited, if any, objective outcome measures in their contracts. In all of the cases, SM suggested that one of its contributions to MKT was to increase the ‘objective’ measurability of the contract. For these measureable outcomes, such as cost, timeliness, and issue resolution, the evidence suggests that performance improved

Table 4
Overview of how validity and reliability were addressed in the case studies and focus groups.

Test	Definition	Tactic	Implementation in cases/focus group
Integrity Internal Validity	The extent to which conclusions can be drawn for causal effects and a causal relationship can be established	<ul style="list-style-type: none"> • Pattern matching • Rival explanations • Logic models • Explanation building 	<ul style="list-style-type: none"> • Selected multiple industries and multiple functional areas for participation. • Performed a within case analysis. • Cases included group discussion and individual interviews. • Investigated patterns across the case studies and then compared these patterns to those found in the focus group companies. • Examined different relationships such as the process for procurement and involvement of multiple cross-functional team members. • Discussed and documented detailed notes at the end of each focus group.
Credibility Construct Validity	The extent to which the research instruments measure what they are supposed to measure; Establishes the correct operational measures for the constructs being studied	<ul style="list-style-type: none"> • Establish a chain of evidence • Use multiple sources of evidence • Key informants review draft of report 	<ul style="list-style-type: none"> • Used multiple informants with differing internal perspectives such as supply management and marketing. Also, interviewed informants from differing organizational levels. • Research team members continuously provided input during data collection and analysis. • Key informants and other members of the organization reviewed the write up and addressed follow-up questions. • Gathered multiple documents including organizational charts, spend and supply base analysis, and copies of statements of work.
Transferability External Validity	Extent to which the research results can be applied to the populations and the settings of interest; Then establishes a domain in which the findings of the study can be generalized	<ul style="list-style-type: none"> • Use replication logic in multiple case studies. • Use case study protocol • Develop case study data base 	<ul style="list-style-type: none"> • Conducted B2B multiple studies in different industries and countries for both focus groups and case studies. • Continuously refined and implemented study protocol with all firms.
Dependability Reliability	Extent to which the findings demonstrate repeatability		<ul style="list-style-type: none"> • Use of detailed protocols in focus group. • Created a study database.

Source: Ellram (1996), Flint et al. (2002), Voss et al. (2002), Yin (2003), Tate and Ellram (2009), Tate, Ellram and Brown (2009).

once SM became involved. For example, CP2 was able to get a similar amount and mix of media exposure with a budget comparable to its budget eight years earlier, despite the fact that media prices had risen considerably during this time period. SOFT experienced significantly improved problem resolution with its suppliers.

Based on Neely (1999), who claims that people focus on the issues that are measured and rewarded within an organization, it is likely that the Agent will behave in its own interest by complying with the objectives that are more easily measured and thus are used to evaluate its performance. As Eisenhardt (1989a) proposed: "When the Principal has information to verify Agent behavior, the Agent is more likely to behave in the interest of the Principal." This notion is also supported in the relationship marketing literature (Heide, 2003).

It should be noted however that certain aspects of the contract, such as advertising creativity, are very difficult to measure, which may result in conflict between MKT and SM. For example, while MKT at CP2 indicated that it was comfortable that it was still receiving the same quality of creative work from its supplier as before, this quality level was not measured. MKT interpreted the qualitative marketing results using their functional expertise, something which SM usually lacks. At TECH, SM used lowest price and the number of seats available as the two main supplier selection criteria in the purchase of call center services. Criteria such as customer satisfaction and innovation were not considered, thereby negatively affecting MKT's needs. Based on our observations regarding the Agency Triad, we bring forward the following proposition:

Proposition 1. *When the internal alignment between the two Principals within an Agency Triad is insufficient, the Agent will behave according to the more measurable targets set by either of the Principals.*

The risk of opportunistic behavior was another common issue in the cases. SOFT had to continuously modify its measures, or suppliers

would act in their own self-interest and try to "game" the system. For instance, if the number of calls made were an important criterion on sales calls, suppliers could purposefully target parts of the country where it was lunch time and complete a call without ever talking to someone (even though they knew that the point was to actually make contact with a person). Thus, in this outcome-based contract, criteria had to be modified to take all possible deviations from the intent of the contract into account. The suppliers focused on what was measured, rather than performing to the behavior that they clearly knew that SOFT was interested in. One of FIN's suppliers who was paid by the call tried to "game" the system by adding a large number of seats to its call centers. Since calls were routed among competing call centers based on agent wait time, it received more calls than it would have otherwise. While this was not strictly against the "letter" of the contract in terms of what was being measured, it was against the behavior-based spirit of the agreement that all call centers should be similarly staffed to balance calls among the various call centers.

These findings show that if contracts are not designed carefully, opportunistic behavior may occur in the unmeasured areas, so that the spirit of the contract may be lost. Heide (2003) states that in situations in which output measures do not reflect the level of performance, the buyer faces the risk of quality degradation. It is thus highly important that appropriate measures are identified. However, even if suppliers possess the "right" skills, they may still fail to use them if information asymmetry allows such actions and if there are cost savings involved (Mishra, Heide and Cort, 1998). Therefore, the contract should be designed so that the actions with the highest pay-off to the Agent are also the actions that are most appropriate from the Principal's point of view (Bergen et al., 1992), or in this case, the two Principals' joint perspective. This requirement is known as incentive compatibility (Hurwicz, 1972).

At SOFT, there were conflicts between the business units and SM in rewarding and penalizing suppliers based on their performance. Each

Table 5

How does each member of the triad view the elements of the relationship?

Element	Marketing (Principal)		Supply management (Principal)		Supplier (Agent)	
	Preference	Impact	Preference	Impact	Preference	Impact
Legal agreements	Limited length, for changing suppliers	Costly to develop new contracts for each project; easier to terminate relationship	Lengthier, more specific	Costlier/lengthier to develop first, then less repeated costs; possibly develop suppliers; higher switching costs	Lengthier	Get long-term business; allows more flexibility, perhaps trust
Specification of performance	Outcome specifications	Difficult to measure success, and to enforce if problems occur	Specific performance measures along process (behavioral), e.g. statements of work	Easier to enforce, measure, provides benchmarking data; may limit creativity of supplier or overemphasize trivial issues	Clear performance based expectations within control of supplier	Allows more creativity; more difficult to hold accountable for non-performance regarding outcomes
Services delivery	Meet deadlines	May pay more to speed up process	Meet contractual milestones	Predictable cycle, does not allow for changes in direction	Interim flexibility; meet deadlines	Difficult to monitor interim progress
Management of the supplier	Minimal	Less costly to administer, may delay discovery of problems	Varies with the importance of the purchase, risk and experience in working with supplier	More costly; assigns resources to where they can be used most effectively	Minimal interference	Able to work independently; may delay discovery of problems
Monitoring and performance	Assess based on deliverables	Less administrative burden; too late to correct mid-course problems	Clear performance metrics, detailed milestones	More costly to develop and administer, allows for early problem detection	Minimal	Saves supplier effort; may be informed of problems too late

business unit had unique contracts with different risk and reward clauses in the statements of work. Because the businesses used the same suppliers, they were actually competing against other internal units for suppliers. As a result, SOFT had problems with their suppliers acting opportunistically. AIR had similar issues with opportunistic behavior when pricing communicated to MKT was considerably higher than when SM got involved. Observing this type of behavior by the Agent in response to receiving differing messages by the two Principals resulted in the development of the next proposition:

Proposition 2. *When the internal alignment between the two Principals within an Agency Triad is insufficient, the Agent operates opportunistically.*

At CP1 and CP2, MKT defined the entire advertising process and outcomes as uncertain because it involved the creative process of generating the advertising campaign, but in reality, only a part of the supplier's services were intangible and unpredictable in nature. At CP2 SM worked with MKT to unbundle the contracts, thereby separating market research, various media spending, copy-editing and other items from creative activities like developing an advertising campaign. As Ellis and Johnson (1993) argue, in order for outcome-based compensation schemes to be useful, companies have to develop specific and easily measured outcomes. SM involvement resulted in the contracts changing from behavior-based to primarily outcome-based. Initially, CP2's major supplier was so alienated by this transformation that it refused to even provide an unbundled bid. Perhaps the "one-contract", bundled approach allowed for more opportunism for the supplier in the case of behavior-based contracts. Using behavior-based contracts, CP2 and AUTO paid for all advertising services with a monthly retainer, and then received a large summary invoice covering any differences at certain intervals. This invoice had very little detail regarding how much was being charged for creative efforts versus very tangible things like editing advertising copy. With behavior-based contracts the supplier has lower risk, as it cannot be blamed for poor results as long as it displayed the specified contractual behaviors. In an outcome-based contract, the supplier is fully responsible for attaining the agreed result (Straight, 2006). However, this requires that performance can be easily linked to a desired marketing outcome (Ellis & Johnson, 1993). Eventually, when the supplier realized that CP2 was not going to return to its old way of

doing business, the supplier relented and entered in to the bidding process for the unbundled marketing services.

CP2's key supplier's reaction to its proposal to shift its contracts from behavior-based to outcome-based illustrates the increased risk that suppliers perceive when moving to outcome-based contracts. As CP2 shifted some of its risk to the supplier, the supplier needed to trade off the importance of CP2's business versus the likelihood that other suppliers might accept the new outcome-based approach. In this case, the outcome-based contracts were primarily driven by SM, and were an initial source of conflict in "allowing" SM's participation in marketing services relationships. Similarly, SM at CP1 integrated outcome measures into its contracts in order to provide incentives for suppliers which in the long term would harmonize the goals between CP1 and its suppliers. While SM initially met with resistance from the suppliers, the outcome-based contracts eventually were accepted and turned out to be successful.

Because this research studies companies that had recently changed the way that they managed the procurement of marketing services, the researchers were able to make some observations about the nature of the changes when MKT solely managed the marketing services expenditures, versus when it received substantive support from SM. In line with Grönroos (1984) and Parasuraman, Zeithaml and Berry (1985), we observe that the way in which the service is perceived governs much of the contractual behavior related to services. If MKT sees a service as highly creative and difficult to measure, it may use a behavior-based contract, whereas SM might perceive the same services as readily specified and measurable, and desire the use of an outcome-based contract.

For example, MKT at SOFT perceived call center services as difficult to measure. Thus, MKT relied more on behavior-based contracts to encourage creativity and meet customer demand. MKT paid to have a certain number of people in place at call centers, rather than for specific measurable outcomes provided by those call centers. However, when SM became involved, it spent extensive amounts of time interviewing MKT about what MKT was really trying to accomplish in the call centers. A similar process took place at COLOR and CP1. SM was able to demonstrate that the vast majority of MKT's own articulated desires were measurable, with fairly predictable outcomes. SM's re-framing allowed the contracts with

the suppliers to be modified, and performance to specification improved significantly. However, it should be noted that the new measurement came at the expense of suppliers due to the extra reporting requirements. In fact, one SOFT supplier said it had to hire additional people to take care of the new reporting requirements, and passed the cost on to SOFT during the next contract negotiations.

Apart from considerations of internal involvement of other parties in contractual choice, Agency Theory in general posits that the right type of contract varies with the length of relationship (Eisenhardt, 1989a). Behavior-based contracts are more suited to longer relationships. Ellis and Johnson (1993) state that in relatively new buyer–seller relationships, compensation should be performance-based. While this may be true if all else is equal, we did not find support for this proposition in the practices among focus groups or the case studies. For example, prior to SM involvement, CP2 used behavior-based contracts with its suppliers within long-term relationships. Later, when SM became involved, CP2 modified its contracting approach to improve measurable performance, and developed a mix of behavior-based and outcome-based contracts. In contrast, SOFT had only behavior-based contracts with all current and new suppliers because marketing was controlling the nature of the contractual relationship. At SOFT, MKT perceived outcomes for all services it was involved with as being difficult to measure. Based on these observations and those seen with COLOR, CP1 and CP2, we argue that the perception of the functional area regarding the tangibility of the service influences contract type more strongly than does the length of the relationship.

Related to this, Eisenhardt (1989a) and Ellis and Johnson (1993) propose that the Principal's risk aversion is negatively correlated to behavior-based contracts and positively correlated to outcome-based contracts. MKT's higher level of risk aversion versus SM's relative risk-neutrality in the marketing services purchasing setting contributes to differing contractual preferences. Thus, we propose:

Proposition 3. *Within the Agency Triad, MKT views professional marketing services as intangible and heterogeneous and thus prefers behavior-based contracts, whereas SM focuses on tangible and standard elements in marketing services and thus prefers outcome-based contracts.*

Apart from the issue of differing contractual preferences of the two Principals, extant literature suggests that certain contracts are more appropriate in some situations than others (Eisenhardt, 1989a). Whereas behavior-based contracts are more likely to foster creative solutions, outcome-based contracts encourage an emphasis on compliance (Oliver & Anderson, 1994). It appears that in many cases, a mix of both is needed. Both Principals in this case (MKT and SM) have legitimate concerns about the best interest of the company from their individual perspectives of bounded rationality and self-interest. MKT may desire a creative advertising campaign and be concerned that too many limits and rules might stifle the supplier's abilities, while SM would like the supplier to complete the services on time, within budget, and perform all of the elements that are included in the contract. This increases the complexity of this type of services spend. A hybrid contract type will increase the efficiency of the contract as all parties' needs will be better met. In fact, CP1 had recently begun to implement such a hybrid approach to compensation. They used behavior-based elements that provided detailed information about team structure and milestones to be achieved while integrating bonuses for the achievement of certain outcomes. For the outcome-based bonus, they developed a weighted scheme incorporating business goals (e.g. sales increase), communication goals (e.g. brand image), and the evaluation of how well the relationship with the supplier worked. At AUTO a mix of criteria was developed to reflect behavior- and outcome-oriented considerations, moving beyond mere costs savings. All of these examples entail

a mix of behavioral and outcome elements. Thus, our next proposition reads:

Proposition 4. *In complex services purchases a hybrid contract type that combines elements of both behavior-based and outcome-based contracts is most appropriate to reduce conflict within the Agency Triad.*

Such a hybrid approach reduces the conflict between MKT and SM by allowing both to incorporate their goals. From a SM perspective, the hybrid approach also has the benefit of providing detailed performance data regarding the behavior-based elements, while retaining SM's preferred outcome focus. From a MKT perspective, the hybrid approach allows MKT to maintain the positive relationship with the supplier while still achieving the desired results. Eisenhardt (1989a) proposed that "When the contract between the Principal and Agent is outcome-based, the Agent is more likely to behave in the interests of the Principal". Since the hybrid contractual arrangement includes both behavior- and outcome-oriented elements, the Agent will be more likely to behave in the interests of both MKT and SM. This carries tremendous potential benefit, since the opportunity arises to exert plural governance over the Agent and to purposefully combine, as Heide (2003) puts it, the "invisible hand" of the market through SM expertise, and the "visible hand" of the internal organization through marketing's ability to evaluate whether the supplier meets its needs.

The alignment of the Principals will also improve the relationship with the Agent. For example, SM and MKT at CHEM began to hold formal pre-bid meetings with key services suppliers as part of the strategic sourcing process. CHEM clearly laid out its expectations, something it had never done before. By having these expectations presented by both MKT and SM, it also showed its suppliers that MKT and SM were united and aligned. SOFT and FIN both developed cross functional teams that included members of MKT, SM, and other functional areas. AIR put together teams that were specific to the type of service being purchased. Issues of misalignment were discussed early in the purchasing process, as a result of which suppliers were no longer confronted with diffuse communication on a diverse range of objectives, but had clear targets on which they would be measured. Jacobides and Croson (2001) refer to this as "maximizing joint agency value", rather than minimizing the (individual) Principals' costs.

However, when combining elements of behavior-based and outcome-based contracts, care must be taken not to make a contract so complex that it becomes a burden for all parties. SOFT found that there was a distinct balance between the behavioral and outcome-based aspects of the contract. A one-page contract would not suffice for either party whereas a 200-page document full of measures and controls would restrict productivity and creativity. Therefore, SM has focused on adopting a more relational approach towards its suppliers. By standardizing coordination with MKT and the business unit, SM is able to obtain a good overview of the suppliers' activities, learn from them, and make appropriate investments in their capabilities. Thus, an important argument for internal alignment is that, in order for monitoring mechanisms to work, a social contract should be in place between the buying company and the supplier (Heide et al., 2007). A social contract can only develop based on trust, and part of building trust between the buying company and the supplier is giving the supplier a consistent message. Without one face forward, the supplier will not be able to rely on the word of the buying firm. Because all of the supplier relationships in this research were initially established with MKT, it is likely that the social contract will mostly be part of the longstanding relationship between MKT and the supplier. As a result of this "social contract", monitoring efforts will actually lead to positive outcomes, even though it is likely that such monitoring will be initiated by SM. All of the case firms indicated that SM had MKT support in establishing performance systems for measuring and verifying supplier behavior. For example, PHARMCHEM had recently initiated a SM-driven project to evaluate suppliers.

Thus, the presence of two Principals when buying marketing services can add value both for the buying company's Principals as well as the Agent. This leads to our final proposition regarding the Agency Triad:

Proposition 5. *Within the Agency Triad, maintaining the interests of two Principals with different immediate perspectives, but a common goal of company success enhances the development of hybrid contracts, improves contractual outcomes, and improves the relationship with the Agent.*

There are some caveats to this particular proposition. For example, SM is accustomed to playing a key decision-making role in supplier selection for goods. At CHEM, the SM department initially had a difficult time accepting that the money it was saving was MKT's, and not somehow part of the SM budget. As one of the interviewees explained, "Any money we saved on projects was theirs to keep and spend." There was some frustration that SM would not get "credit" for helping MKT improve its spend management. Similar situations occurred at PHARMCHEM, CP1 and COLOR. However, as CHEM was simultaneously going through a transformation in its data management and SM processes in other areas, it assigned a corporate controller and staff to measure and report savings as well as other areas of performance improvement. The fact that SM got some recognition for supporting performance improvements satisfied SM. MKT was pleased with SM's support, as long as MKT could make the ultimate decisions regarding supplier selection and how to spend any savings. Similarly, at AUTO, it was argued that savings in themselves were irrelevant to SM's success. Instead, the relationship between SM and MKT was deemed much more important. As a result, SM is regularly evaluated by means of questionnaires regarding their performance as an internal service provider.

6. Conclusion and discussion

Although SM is increasingly involved in more complex spend categories like marketing, this involvement is not without challenges. MKT and SM can have different expectations and priorities with regard to supplier performance, which results in sending mixed messages to the service provider. These mixed messages are likely to reduce supplier performance, and negatively affect efficiency as the supplier tries to interpret conflicting communication.

This paper has drawn on Agency Theory to conceptualize the triadic relationship between MKT, SM, and suppliers of marketing services. The main objective was to investigate how two Principals (MKT and SM) could effectively operate as one towards the Agent (supplier). Furthermore, we wanted to gain an understanding of how contractual agreements influence the alignment of goals and behaviors between the buying company and the service provider. For this purpose, we combined data from case studies and a series of focus group workshops to investigate the Agency Triad, how two Principals (MKT and SM) could effectively operate in unison in representing their company towards the Agent (supplier). We examined the development and execution of suitable contractual arrangements and relationships with providers of marketing services, elaborating on the seminal work of Eisenhardt (1989a). Five propositions related to the alignment of two Principals within a triadic relationship with a supplier were developed to provide insights into this phenomenon. These propositions lend support for the theoretical framework shown in Fig. 2.

Considering the novelty of research regarding the supply of services in general and regarding marketing services in particular, the next section presents the theoretical and managerial contributions of this research. First, by laying out a basic scheme for the analysis of triadic relationships in the context of buying marketing services, we have sought to contribute to the body of knowledge surrounding Agency Theory and service contexts. Second, the findings of our study highlight

the value of internal alignment of MKT and SM and choosing appropriate contractual arrangements. Inappropriate contractual arrangements can diminish performance and create new openings for opportunistic supplier behavior beyond those present in the typical dyadic agency relationship (Frazier & Antia, 1995).

6.1. Theoretical contributions

Having both MKT and SM involvement in the relationship with the supplier creates an Agency Triad, in which there are opportunities for conflict between MKT and SM as supplier-level goals may differ. From a theoretical standpoint, this research contributes by developing a basic scheme for the analysis of triadic relationships in the context of buying marketing services. This allows for theoretical elaboration of Agency Theory, and a greater understanding of the service context.

Further, the introduction of the Agency Triad creates an opportunity for innovative, improved contractual relationships. This research helps elaborate upon existing theory to develop an understanding of the triadic relationship with dual principals. It provides insights into how an aligned Agency Triad creates an opportunity for innovative, improved, contractual relationships because of its ability to reduce conflict and opportunistic supplier behavior. It also highlights the value of internal alignment of MKT and SM, and suggests the appropriate type of contractual arrangements. This research suggests that a blend of elements of outcome-based and behavior-based contracts in purchasing marketing services will result in improved performance.

6.2. Managerial implications

The managerial contributions are linked closely with the theoretical contributions. As demonstrated by the empirical data gathered, the advantages of including SM as a participant in procurement processes of marketing services include more consistent goals, added value, and improved commercial effectiveness and cost efficiency. From a practical standpoint, this research supports that the cooperation between the two principals can improve performance through sharing of information, knowledge, and improved coordination. This finding is consistent with other research that has been conducted regarding SM involvement in services buying in general (Ellram & Billington, 2002; Ellram et al., 2007), and purchasing marketing services in particular (Bals et al., 2006; Van der Valk et al., 2005; West, 1997).

Prior research indicates that SM must be flexible in the role it takes in various types of purchase situations (Ellram et al., 2007; West, 1997). However, as Stuart (1991) noted, SM involvement must be meaningful. The SM participants in this study played an important advisory role in the purchase of marketing services. SM's support in developing a better definition of contractual requirements through collaboration of the two principals results in the greater achievement of desired outcomes. This initial upfront investment in the specification process increases measurability and predictability of outcomes. As a result, there is less risk of opportunism due to the supplier's hidden behaviors.

6.3. Limitations and future research

There are some limitations to this research. First, the fact that we focus specifically on marketing services could be viewed as a limitation. Some of the unique aspects of marketing services may limit the applicability of the results to other professional services. However, the use of multiple sources of empirical data for deriving propositions and the fact that we built on evidence from various countries increase our confidence in our findings concerning the marketing services context.

Rather than taking a purely exploratory approach, the researchers used their insights into the triad to extend the application of Agency Theory. As with any research which uses existing theory, the chosen theoretical grounding may have limited our insights more than using a pure theory building approach.

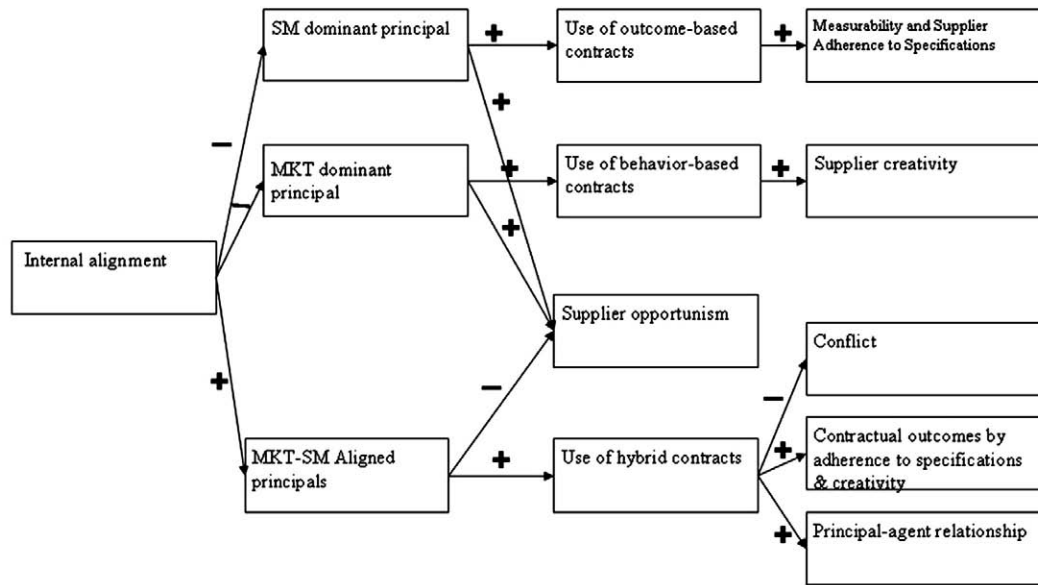


Fig. 2. Conceptual framework.

Our results suggest several directions for further research. First, follow-up research could be aimed at further validating and developing the propositions presented in this research. Second, West (1997) has put forward a number of factors that influence the propensity of SM involvement in the procurement of advertising services, including the type of relationship with the supplier (project-based or collaborative) and the knowledge and experience that SM has of advertising; trust; and commercial efficiency. Similarly, Heide et al. (2007) suggest that the type of monitoring and the relational context affect the results of monitoring in inter-organizational relationships. Thus, there is need for further research into how to integrate these contextual factors with the approach MKT and SM should take within the Agency Triad, in the purchase of marketing services, the appropriate type of contractual arrangement and subsequent monitoring of the contract. Further, the implications of current relationships between marketing and suppliers on governance of the triad should be investigated. Overall, we believe our research provides a good starting point for additional research on Agency Triads in various other service contexts.

Based on the managerial and theoretical findings of this research, investing in better internal alignment between the two internal principals (MKT and SM) is a vital route to improving the purchase of marketing services from a managerial point of view. Internal alignment is not merely about resolving internal frictions, but is a critical step to improving both the service outcomes and relationships with suppliers.

Appendix A. Summary of case studies and focus groups

AIR

Background

AIR is a global Fortune 500 air carrier. They particularly pursue high quality, security and innovation, with a strong global brand.

History of supply management and marketing relationship

MKT was responsible for its own purchasing completely, until recently, when many of the buying activities were outsourced to a third party procurement company. From that point, SM worked with MKT and got involved because of their knowledge and ability to handle the new activities. They started to evaluate which activities could be channeled through e-procurement catalogues and for the remainder, closely communicated with the third party provider. The approach to

switch to a third party was also partly a means to externalize the whole spend, making it rather transparent and having one overall supplier to be held responsible, in order to reduce complexity.

Changing relationship

Since this change to e-procurement and the third party provider, the relationship between MKT and SM has become close. MKT has started to communicate its demand and expectations much earlier in the process.

PHARMCHEM

Background

PHARMCHEM is a company active in the pharmaceutical and chemical sectors. It is committed to innovation and quality.

History of supply management and marketing

Historically, the MKT and SM functions did not have much interaction. MKT used to make its orders completely separate from SM. The purchasing process was rather unstructured and communication between MKT and the various suppliers was of an informal nature. There were long term relationships with some suppliers, but also a lot of orders were placed on an ad-hoc basis, ignoring already established supplier relationships. If involved at all, SM sporadically participated. Recently, a new direct spend guideline was agreed upon and new personnel was hired to manage this category. The new hire was trained in SM but works in the MKT area.

Changing nature of the relationship between Marketing and SM

The guideline for indirect spend, which among other issues ascribes SM more interaction points with the internal customers and explicitly states that they have to be involved, is still in its implementation phase. Although SM has made progress with MKT in terms of collaboration, there is still low involvement in the creative areas. In other areas, such as purchasing market research, there has been made some joint progress.

CP

Background

CP1 is a global Fortune 500 company that markets consumer products globally. They commit to highest quality and safety standards.

History of supply management and marketing

The MKT activities at CP1 are organized by country. In Germany, MKT was solely responsible for its own procurement until recently when SM got involved. One of the triggers for increasing involvement was to increase financial transparency of this area. In its efforts to achieve this, SM concentrated on agency business. A main point was the insufficient transparency across subsidiaries worldwide, which was regarded as a particular opportunity for purchasing to gain insights into agency pricing. When they got involved initially, they found that MKT was not using very specific selection criteria and that the process was rather unstructured. Also, the commercial terms were loosely structured and were considered a side-topic. Hard negotiations were considered to be potential affronts against the suppliers.

Changing relationship

Driven by the task to increase financial transparency, SM started to structure the purchasing process and to introduce more specific measures. This involved scrutinizing agency offerings and seeing how prices are composed based on team structures. For that purpose, SM developed a variety of templates to be used by MKT. MKT and SM started to work more collaboratively and also discuss agency compensation. This led to the integration of outcome-based and behavior-based measures into a new agency compensation concept. Also, they agreed on preferred lead agencies responsible for strategic issues and separately give out the other orders unbundled under value for money considerations.

COLOR

Background

COLOR is a German medium-sized company, producing paints. It is mainly active in the European Market and has a number of well-established brands.

History of supply management and marketing

At COLOR MKT was responsible for all its purchasing activities until recently. SM as a function is in general not very advanced in this company. Therefore, the initiative to improve practices and arrive at a more professional SM actually came from MKT itself. During the initial phase, MKT staff was entrusted with SM activities, but organizationally to stay part of the MKT function. In a first attempt, MKT tried to get an overview of what would be necessary in order to tackle issues such as supplier evaluation, selection and benchmarking, being the new spectrum of activity of the employee mentioned.

Changing nature of the relationship between marketing and SM

At COLOR the case is rather special as here MKT is particularly active and seeks to integrate SM know-how and skills into their function. For that purpose, they currently seek to expand their SM employee base further and go on in professionalizing their practices.

AUTO

Background

AUTO is a global Fortune 500 company in the automotive sector. They have a global brand and pursue high quality and innovation.

History of supply management and marketing relationships

At AUTO, there has been already a considerable history of MKT and SM interaction and collaboration. From an organizational viewpoint, they have a highly differentiated organization dealing with the supply of MKT services, comprising over 130 people worldwide, of which about 30 in Germany. There is structured involvement into MKT's activities, making SM an internal service provider familiar with issues of relevance to its internal customers. They work towards their suppliers in a joint effort to achieve best value for money. They have regular meetings with

all parties involved in MKT projects, following the rationale that the status of contract fulfillment should be continuously monitored.

Changing relationship

SM has already established a good relationship with MKT. At AUTO there are only incremental changes in the relationship between SM and MKT. SM is still looking for more differentiated ways to help its internal customers achieve its goals. They are pursuing further increasing global transparency of the supplier portfolio and find opportunities on this level.

SOFT

Background

SOFT is a Fortune 100 company that markets and distributes software products in North America, Asia, Australia, and Europe. The focus of this company is on improving the customer experience.

History of supply management and marketing

Until recently, MKT took complete responsibility for purchasing its own services such as advertising, print media, direct marketing, and customer support. More than 75% of the spend at SOFT was on services and of that direct marketing/advertising had the greatest piece. While assessing some of the categories of high spend like marketing and advertising, SM found that these service purchases were not being leveraged across the company, there were multiple people doing the buying with many suppliers, and there was no standardized purchasing process in place, and no centralized manner to determine total organization spend by supplier. Further, the various MKT units in different business units were actually competing against each other for the same suppliers, driving up prices. The purchasing organization at SOFT saw this lack of process as an opportunity to make significant improvements in performance, price and relationship management.

Changing relationship

There was a change in top management in the SM area. The new leader of the SM organization saw the opportunity available across the organization. SOFT took a soft approach to sell the services of the SM area. The first tactic was to act as an internal consultant for the business units and the MKT departments. Purchasing ultimately became the integrator of the businesses and developed a competency of working across the entire organization. This allowed them to leverage the business to the advantage of the company, and develop an understanding of larger trends in pricing, services offering and availability. SM has shown the benefit of its involvement to the individual business units, and the company as a whole by saving money, improving service levels, etc. Today, SM and MKT are closely aligned. SOFT established a procure-to-pay model which routed all purchases through the purchasing area. They use appropriate cross-functional teams to gain buy-in and a balanced perspective. The role of SM has evolved to the point where it helps the business units articulate their requirements for a service, and then help them assess the alternatives that exist. The procurement process for marketing services consists of "one team". The goal of the team is to make the experiences of the internal client easier. Purchasing is responsible for qualifying suppliers through established criteria that is consistently applied, negotiating the contracts, and monitoring supplier performance. Purchasing is also extensively involved in developing the statement of work for these services.

CP2

Background

CP2 is a Fortune 100 consumer products company (CP2) that manufactures, markets and distributes branded consumer products throughout the world. Its primary market is in the United States.

History of supply management and marketing relationships

Historically, there has been no relationship between MKT and SM at CP2. SM was very focused on supporting ingredient and packaging purchasing, analysis, and management. It has long followed a very rigorous cost, quality and specification management process for items that become part of the finished product. However, more recently the company has been facing strong pressure to hold its prices for consumer products. For the first time ever, MKT was not given any budget increases, but was told that it had to hold its budgets to prior year levels. Since “marketing is king” at most consumer products firms, including CP2, this was unprecedented, and called for drastic measures.

Changing relationship

To make its limited budget go farther, MKT approached SM to help determine how to better spend its funds for marketing-related costs. A team was formed that involved a joint effort of purchasing, market research, marketing services, and the suppliers. It developed cost targets for various areas of marketing spend (ad development, media placement, market research and so on). The target cost was based what CP2 could afford to pay for the service, given its limited budget. Cost reductions were driven by examining how CP2’s own behavior drives cost, how the supplier’s behavior drives cost, unbundling of services and introducing competition. Initially, CP2’s key advertising firm, with whom it had a relationship spanning many decades, refused to cooperate. It simply would not give unbundled prices for advertising development, versus media placement, market research, and other elements. It wanted all of the business, or nothing. However, when this key supplier came to understand that CP2 was going to proceed with this new buying process with or without them, it reluctantly participated. CP2’s prices have dropped significantly for the same level of support. It continues to use the “legacy” advertising agency for much of its content development, but uses other suppliers for media placement and research, at significant savings, while retaining value. MKT retains strong control of the process and the decision making, calling on SM’s purchasing process expertise. CP2 is focusing on what it can afford to pay, rather than what the market perceived it could bear.

*CHEM**Background*

CHEM is a Fortune 100 company that manufactures and sells a variety of gases and related products and services to a number of industries, including medical and high tech. Due to the commodity nature of its business, it is under a great deal of pressure to manage and reduce costs. Several years ago, CHEM underwent a significant reengineering/reorganization of its sourcing area, which was perceived to be underperforming.

History of supply management and marketing

Historically, there was a limited relationship between MKT and SM. MKT was not a big force at this company, unlike a more consumer-oriented company. MKT worked primarily with the internal communications group and sales on promotion and advertising. The earliest efforts of the sourcing change process were focused on big recurring spend items like materials, then capital investment. The company did appoint a Director of Global Services procurement, whose domain included marketing and communication services. He assigned a SM professional to support that area of spend.

Changing nature of the relationship between marketing and SM

CHEM does not have a “mandate” culture in terms of forcing any area to work with SM. The assigned SM representative approached MKT and Communications and offered her services. Prior to that, several of the top directors in SM were moved into SM from high-level positions in the sales group. They had a good reputation and credibility in many areas, including with MKT and communications. SM had also earned a

reputation for helping businesses and functions improve their performance. Simultaneously, top management communicated that all businesses and all functions were expected to reduce their spending and gave each area a target. Based on a combination of these factors, the MKT and communications group was very willing to work with SM on improving its spend management. SM introduced MKT and communications to its standardized SM process, the same one it uses for goods. Several differences between this process and what MKT had done in the past include: beginning with a clear definition of requirements; identifying multiple qualified sources; meeting with interested suppliers in advance of the competitive bidding, developing rigorous contracts with clear expectations, and developing mechanisms for monitoring suppliers. Ultimately, the decision of which supplier to select was determined by MKT, but using a process focus rather than an ad hoc approach.

*FIN**Background*

FIN is a Fortune 100 company in the highly regulated financial services industry, serving individual consumers, small and middle market businesses and large corporations.

History of supply management and marketing relationship

There were a number of areas of services spend that were considered “sacred” at FIN. However, regulatory conditions drove the relationship changes between MKT and SM. The regulations for this industry are very specific and stringent in terms of how the business is managed to ensure economic stability, including how they manage their supply chains. Regulations were a primary consideration, with risk as an additional driver behind the changes. There was much concern about the risk that the suppliers pose when it comes to areas like consumer confidentiality, breach of technology, and proprietary information. These concerns created the need to change the way marketing and advertising services were purchased. All purchases, even those considered “sacred” were now routed through SM. However, SM still had to demonstrate its value proposition to MKT. It found that if the needs of the individual line of business were not met, there was nothing stopping other functions from setting up their own purchasing process. SM began to spend more time discovering what their internal customer’s wanted, and building strong relationships with those customers. Using the information compiled from these customers, SM defined key processes for a standard sourcing process and began to apply this process across both the standard and the specialized services purchased.

Changing relationship

Today, FIN has a matrixed leadership organization. Major service purchases go through a standard make versus buy analysis. SM meets with the business owner, assesses requirements and determines whether outsourcing is the best option to support its needs. Decisions regarding the marketing/advertising spend are made in conjunction with the owner of the line of business and the functional areas that support the service. The line of business has to develop a business case to justify the spending, including the budget for the particular service, the rationale for the budget and the purchase, and how the purchase will benefit the bank overall. This creates a more reasoned process for spending. Team members include representatives from quality and productivity, SM, finance and relevant line of business and discipline.

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Wendy L. Tate, Ph.D. is an Assistant Professor of Logistics at the University of Tennessee. Her primary research interests include services supply management, offshoring, and environmental supply chain management. She has published in the *Journal of Service Research*, *Journal of Operations Management*, *California Management Review*, *Journal of Supply Chain Management*, *Journal of Business Logistics*, and other managerial and academic outlets.

Lisa M. Ellram, Ph.D., C.P.M., CMA is the James Evan Rees Distinguished Professor of Distribution at Miami University in Oxford, OH, CO. Her primary areas of research interest include services supply management, supply chain cost management, and sustainable supply management. She has published in *Journal of Supply Chain Management*, *Journal of Operations Management*, *Journal of Service Research*, *California Management Review*, *Industrial Marketing Management*, *Journal of Business Logistics* and other managerial and academic outlets.

Evi Hartmann, Ph.D. is a Professor of Logistics at Friedrich-Alexander-University Erlangen-Nürnberg (Germany). Her primary areas of research interests include services supply management, global sourcing, and environmental supply chain management. She has published in *Journal of Supply Chain Management*, *Journal of International Management*, *Industrial Marketing Management*, *International Journal of Production Economics* and other managerial and academic outlets.

Lydia Bals, Ph.D. is Senior Consultant at Bayer Business Consulting, Germany and a Visiting Scholar at Copenhagen Business School, Center for Strategic Management and Globalization. Her research interests center on sourcing of services, offshoring globalization of R&D and early internationalization. Her research has been published among others in *Journal of International Management*, *Journal of Supply Chain Management*, *Industrial Marketing Management* and *International Journal of Production Economics*.

Wendy van der Valk, Ph.D., MSc works as an Assistant Professor at Eindhoven University of Technology, in the department of Innovation, Technology Entrepreneurship & Marketing. Her research focuses on exchange relationships for business services, specifically from an operations and supply management perspective. She obtained her PhD at RSM Erasmus University with a dissertation on interaction between buyers and sellers of business services. Her research has been published in the *International Journal of Operations & Production Management*, the *Journal of Supply Chain Management*, and *Industrial Marketing Management*.