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**The economic value  
building creation in the  
group purchasing and  
sales organizations**

**1. Introduction**

The creation of associations of commercial enterprises selling industrial goods and thus formation of the group purchasing and sales organizations is an interesting economic phenomenon. The independent functioning of companies typical for the 20th century becomes increasingly difficult in the situation of fierce competition, of the need to cope with network enterprises or also building hypermarkets. The participation in group organizations allows independent enterprises to cope with price competition. It also brings a lot of intangible assets, which enrich local enterprises.

The purpose of this article is to indicate the areas of enterprise activities, in which rents are generated, as value sources created through the membership in group purchasing and sales organizations. It was achieved on the base of domestic and foreign literature as well as of the analysis of areas and the ways of functioning of the polish group purchasing and sales organization in sanitary and heating areas. The references quoted in this paper involves dealing with economic rents in the enterprise

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Defining basic concepts constitutes the important stage of the research process. In case of the value it is essential, because it is notion ambiguous, differently understood by different scientific fields. The study of the value has rich history. Through the value in this article is defined an economical category, referring to the resource- based view, identical with the rent (Mazur 2011, p. 22).

## **2. The group purchasing and sales organizations from the perspective of the theory of inter-organizational agreements**

The group purchasing and sales organizations can be considered with respect to the theory of inter-organizational networks. In the network organization model, it is assumed that there is a deliberately selected, long-lasting and structured group of independent companies involved in the production process of goods and services, which is based on a default and indefinite agreement, which guarantees an elastic adaptation to the changes of the environment and uses the mechanisms for coordination and the protection of exchange transactions. The adoption of a broader approach for defining inter-organizational networks allows defining them as a mechanism to regulate the relations among companies, which differs both from the coordination based on a hierarchy and the coordination based on a market mechanism.

According to this approach, networks can be distinguished on the basis of: 1. Quasi -integration processes, assuming the lack of a control over the ownership at simultaneous retaining control over the assets of the entity, 2. The use of elements of the cooperation on the basis of a new production organization (Jones, Hesterly, Borgatti 2007, after: Krzakiewicz 2013). The described group purchasing and selling organizations belong to the second category.

The polish group purchasing and selling organization Instal Konsorcjum from Wrocław, being the example and object of the interest is a horizontal network. It was created as a result of strategic alliances, i.e. the cooperation of enterprises conducted to achieve mutual benefits. The enterprises creating it are potentially competitors; however, they operate in different country areas. It is in these alliances that enterprises produce the same or very similar products (in IK even common line of products produced on behalf of the group), provide the same services or operate in a similar sector. The cooperation in alliances covers most often such areas as research and development, supply (domain of IK), production or marketing (Fuks 2013, p. 55). The alliances secure certain autonomy for their participants and easiness

of withdrawal. They may have different character with respect to the area of their functioning, their form, their duration and relations amongst partners. The functions, which are carried out together by the described enterprises, include purchases of goods from producers and general distributors, marketing actions, corporate agreements and debt collection activities towards debtors above all.

The chosen strategy allows singling out symmetrical and asymmetrical networks. It is in symmetrical networks that there is no dominating entity and each of the participants can be involved in the coordination of the cooperation of the network. An asymmetrical network has a central entity, which draws up and implements the strategy (Łobos 2005, p. 169). The group purchasing and sales organization in sanitary and heating area invoked as an the example being the subject to the research has an asymmetrical and additionally bureaucratic character. It manifests itself in specifying formal conditions, procedures and responsibilities associated with the cooperation. The rules of the cooperation are clearly defined; rights and obligations are described and accepted. The main act determining functioning of the group is its agreement. The function of the central unit acts a company whose shareholders are all members of the group. There are regular mandatory meeting of the group, sales results are discussed, economic analysis of shareholders are made, corporate agreements are analyzed, a new legislation affecting the operation of enterprises are explained.

One of the fundamental features of any network is its size (comp.: Czakon 2012, p. 103) measured with the number of participants. In the static presentation, it determines the number of entities acting in the coordinated way at the particular moment. The dynamic presentation shows the development of the network within the given time. Over 18 years, the organization has increased from 4 members in 1996 to 25 members in 2014.

The strength of the commercial group is determined by the enterprises belonging to it. The described organization has been maintaining strict admission criteria over the years. The most important ones are: high financial reliability, a consistent development strategy associated with a choice of a customer, sales organization directed at professional distribution of goods along with providing an appropriate level of technical and logistic personnel. The position of a given company in the market and maintaining good relations with implementing companies of the owners and key employees in the company are also very important.

### **3. The rents generated in enterprises belonging to the group purchasing and sales organization.**

A value of each good is a discounted sum of the incomes (rents), which can be generated by it. A value of each resource can be changed, if its rarity is changed. These are the rents created in various aspects of activities of the enterprises that are the source of the competitive edge of the enterprises belonging to the given group purchasing and sales organization.

The subject of the rents attracted the attention at the end of the 20th century. It is the Ricardo rent that has the longest history. It is consistent with the economic theory of the surplus gained due to possessing (using) valuable and scarce resources. It is the most popular type of a rent. Ricardo described it as a part of a product of a land paid to a land owner for its use. The bigger the demand for the given resource is, the higher the income of the resource owner should be (while assuming the constant resource supply). The amount of the Ricardo rent results from the relationship between supply and demand for the given resource. (rarity). The value of a company depended on the quality (rarities) of resources owned by the company (the relation between supply and demand) and cost-effectiveness of their use. A. Marshall additionally pointed at the relevant rent. It is on perfectly competitive markets being in a long-term balance that every enterprise is making only standard profits. The normal profits are a production cost, which an enterprise has to pay in order to keep its capital. If an enterprise does not make standard profits in a long term, it will move to industries, in which it will achieve standard profits. Standard profits are a production cost and they are indicators for a price. (Landreth, Colander 2005, p. 448).

It can be assumed that the premise to join inter-organizational networks, which are group purchasing and sales organizations, is a unique potential of immaterial resources being in the possession of the members of the network as well as potential benefits of the existing network members due to the acquisition of new members.

There is no common opinion as for network rent characteristics (Niemczyk 2013, p. 34). The new institutional economics assumes that networks give possibilities of obtaining savings due to network contracts, which are concluded in the place of individual ones, and savings resulting from the liquidation of the costs of the hierarchy. Through the use of the network coordination, the network reduces transactions costs and thus it allows reducing operating costs. While starting from this point, it can be assumed that the premise to join group purchasing and sales organizations by companies is the possibility of obtaining

a permanent access to traded goods on more favourable conditions than the ones for individual businesses.

The economic literature provides two views of the economic rent. These are the definitions created on the basis of the neoclassical theory. The first one describes it as: "The difference between the remuneration for services of the manufacturing factor and the minimum amount necessary to induce the owner so that this manufacturing factor still is used in the given way" (Frank 2007, p. 600). The second definition refers to the payments received for the long-term use of the given resource above the costs of its use. The economic rents appear in case of the rarity of resources. (Begg, Fischer, Dornbusch, 2007, p. 316.). The economic rent i.e. the profit of an entrepreneur above the cost of the invested capital or the difference between the current and expected value of goods, which is the possibility of its seizure, is the reason for functioning of enterprises in group purchasing and sales organizations.

The network effect is reflected in the utility increase perceived by a consumer due to joining the network by a next user. According to author, the attractiveness of the described network grows along with joining it by next users, which confirms the thesis cited in the literature (Krugman, Wells 2012 p. 795 and next; Niemczyk 2013). The existing users of the organization benefit materially and immaterially from accepting new users. The accumulated demand for individual goods allows obtaining favourable price conditions, which are impossible to obtain by an individual company. On one hand, the condensation of participants in the network allows purchasing on more favourable conditions; on the other hand, it may result in competition among participants of the same group purchasing and sales organization.

W. Czakon (2012, p. 104) assumes that the greater the network is, the smaller resource limitations perceived by its participants are. This argument is due to the resource theory of an enterprise, which sees the main factor of maintaining its competitive edge in the control of the resources by the organization. The size of the structure affects the management and the problems, which appear in its course. The greater number of the network members leads to extending communication paths and thus results in appearance of the coordination and control costs.

The network approach shows also the rent due to the appropriation; especially of a part or the whole rent generated by other participants in the network. The appropriation or appropriating according to W. Czakon (2012, p. 91) refers to taking over a part of a generated value equal to the own contribution or a bigger part. Different bonuses granted by producers to the group purchasing and

sales organization for the largest purchases can be an example, if they are later redistributed by the management board of the group to the most active participants of the group but not to everyone. It should be noted that the group purchasing and sales organization would not purchase for such amounts, if there were no other participants in the network buying the given goods, however, in smaller quantities.

The Chamberlin rent is a right to receive incomes due to the privileged position in the sector and in the market. The bigger the share in the market of the given company is, the bigger its extraordinary profits are (Cournot point). The success of a project can depend on economies of scale but also on entry barriers as well as on the chosen strategy on the market. The monopolistic rent is also gained by participants in group purchasing and sales organizations. The competition is eliminated due to impossibility of offering better purchase conditions to the final customers (comp. Frank 2007).

The rent described by E. Penrose (1995, after: Stańczyk- Hugiet 2012, p. 89), is generated on account of the better use of the full set of resources. These resources create production resources; including the organizational-administrative resources. It results from the internal synergy effect. It is in the nonoperation activity areas that the group takes advantage of the economies of scale, which result from the accumulation of the demand for external services. The availability in warehouses of industrial goods being the object of the wholesale trade depends on their rotation. The goods difficult to sell are usually available to order. It is a common practice. It is possible to use the goods being in warehouses of allies in the group that streamlines the action and accelerates the process of providing services.

The network is also an instrument for knowledge creation and diffusion. K. Perechuda (2013, pp.116-120) believes that the network value is the ability to create the tacit knowledge of the integrating company and then the diffusion of this knowledge to co-operators. Such a rent is a surplus on account of the network tacit knowledge creation and diffusion. The organizational rent results from the transfer and standardization of the most effective organizational, cut costing practices of functioning of participants in the group.

The managerial rent is being identified with the quality of managerial resources. The managers of the group have shares of the company and are interested in the optimization of the result, which is also beneficial for the members. There is a flow of knowledge and information.

An entrepreneurial rent appears, when an entrepreneur uses resources in a new and different way, and the effect of this use is not known in advance.

(Rumelt 1987, pp. 137-158). It is a rent that corresponds to uncertain times and is associated with such a resource management, which would give the opportunity of using new opportunities created by surroundings and the rent being an effect of entering into transactions involving these resources. From other perspective, the entrepreneurial rent corresponds to the achievements of the new institutional economy. The transactional perception of organizations promotes the diffusion of the entrepreneurial characteristics.

The Schumpeter and entrepreneurial rents refer to the research subjectivity in economics (Niemczyk 2013, p. 31). They do not refer to states of equilibrium but to creation of imbalances by entrepreneurs, which lead to development. The group identifies occasions in its operational activity and configures resources, so in this respect it is possible to talk about the entrepreneurial rent. The Schumpeter or innovation rent results from introducing an innovation; the innovation may have both organizational characters as well as be a new product, new technology or new sources of the labour supply (Schumpeter 1995, p. 25). Schumpeter refers to the concept of the creative destruction, which revolutionizes economic systems. The factor of the growth and wealth development is the innovation rent. It does not to be limited, it does not have to be related to resources, it does not has to be based on the past, it may eliminate competition but also it may also initiate imitation processes.

A relational rent is an additional result generated together by participants in an arrangement, which could not be achieved by any of the parties independently and which is based on shared investments inherent for this relation and incurred by the involved parties (Dyer, Singh 1998, pp. 660-679). The relational rent refers to the phenomenon of the inter-organizational synergy. The joint accomplishment of a goal or mutually consistent goals is a factor of the exploitation of the cooperation relation, which is supposed to bring a better result than would be achieved in case of the independent creation of the competitive edge (Wójcik-Karpacz 2013). It is possible to assume that the profit earned by the company of companies is an additional value.

## Summary

The integrating company, which is the company of companies in the described group, performs many functions towards its co-operators. It is a technological supervisor, an initiator of streamlining and innovation processes, a project coordinator, it monitors implementations and improvements, it is a creator of images of the network enterprises. K. Perechuda (2012, p 120) also mentions

the roles of an archivist of information and knowledge, a dispatcher of the flow of resources, a generator and the owner of basic processes). Thanks to its operations, the enterprises operate more efficiently in the complicated economic reality.

The participation in the network organization, which is Instal Konsorcjum, allows obtaining a surplus of the revenue above the costs of operational activities. It is within the activities, which are not the domains of the participants of the organization, that the economies of scale can be also used (contract with a telephone operator, office and advertising materials). It gives a possibility of eliminating and at least putting forward an offer worse than the one of competitors (monopolistic rent). It speeds up the transaction implementation process by giving the possibility of obtaining the goods being in warehouses of allies. It allows for obtaining knowledge and the most effective organizational solutions from other participants (organizational rent). The organization ensures timely settlement of liabilities by enterprises by disciplining it. At the same time, it supports it by recovering the amount due, offering the help in the collection, where there is also a contract with a special company for all participants in the group. The integrating enterprise takes new initiatives (innovation rent), whose effects are not predictable. It is also responsible for the creation of images of the members of the organization. The integrating company collects and analyses information from the market, notices potential risks and tries to present the participants with them. The trust and friendship relations among participants are built.

The transformations in the competition in the described market led to a situation, in which the need of participating in a network is vital. The competition moved to the level of inter-organizational networks. This phenomenon can be seen as a consolidation of the market and a kind of its monopolization

## Summary

### **The value creation in group purchasing and sales organizations.**

Participation in buying and sales groups of independent companies gives the opportunity to win rent in different areas of their business. The article lists the described areas. Based on the literature, an attempt was made to name the individual rents.

**Keywords:** *rents, inter-organizational networks, group purchasing organizations.*

## Streszczenie

### **Kreowanie wartości w grupach zakupowo- sprzedażowych**

Uczestnictwo niezależnych przedsiębiorstw w grupach zakupowych daje możliwość realizacji rent w różnych obszarach ich działalności. W artykule wyszczególniono opisywane obszary. Bazując na literaturze przedmiotu podjęto próbę nazwania poszczególnych rent.

## Słowa

**kluczowe:** *renty, grupy zakupowo- sprzedażowe, sieci międzyorganizacyjne.*

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