

Chapter 16

PROMOTING COMPETITIVE MARKETS: THE ROLE OF PUBLIC PROCUREMENT

Nigel Caldwell, Helen Walker,
Christine Harland, Louise Knight, and Jurong Zheng

INTRODUCTION

This paper discusses the role of public sector procurement agencies in influencing the development of competitive markets. Managing for competitive markets is an area that has been neglected in procurement literature. However at a recently organised international public procurement conference (Knight *et al.* 2003), the need to manage markets was deemed a major emerging issue. As there is so little guidance the aim of this paper is to bring together a number of themes that public procurement must address in order to become effective at managing markets for competition.

The paper starts with a literature review which identifies key issues in promoting competitive markets. The next section introduces the case methodology and describes three cases, each with a summary of key findings. The discussion provides both case and cross-case analysis. Finally conclusions are presented, along with the limitations of the research and areas for future research.

LITERATURE REVIEW

‘Muddling through’: policy as successive limited comparisons

In a seminal paper on policy-making in the public sector, Lindblom (1959) proposes that unlike the policy process set out in text books, most policy makers ‘muddle through’, setting policy by making ‘successive limited comparisons’ with imperfect information and complex and competing values. Kickert, Klijn and Koppenjan (1997) discuss three perspectives on policy making and governance: the rational central rule perspective, the multi-actor perspective and the network perspective. The

network perspective sees policy making and governance taking place in complex networks consisting of various actors with autonomous strategies.

Eden & Cropper (1992) note a new drive in the public sector towards clearly stated objectives, measurable indicators of performance and a well-articulated system of accountability. Their concern is not with the new systems of measurement but the wider issue of what public sector systems are tasked with achieving. Academics such as Thai (2001) have observed a trend toward strategic procurement and professional development in public procurement.

Defining Competition

Thus public sector solutions to dealing with turbulent environments have been to shift policy towards greater competition in the public sector and to apply private-sector style management practice to the public domain (Hood, 2000, p. 164).

In seeking here to provide some definition of what competition means in the public sector, the above quotation is interesting in that it implies competition is “low” or at least *below*, its potential level. The economist Galbraith (1956:58) suggests: “A market is workably competitive if, among other things, there is a progressive technology, [and] the passing on to consumers of the results of this progressiveness in the form of lower prices, larger output.”

Galbraith’s initial qualifier ‘workably competitive’ suggests pragmatism towards the perfectibility of markets. His emphasis upon low prices is unlikely to appeal to suppliers. Smaller suppliers define a competitive market as a lack of impediments to their ways of doing business, such as ‘unbundled’, appropriately sized packages of work (Badenhorst & Hugo, 2001) and simple, fast and efficient tendering processes (van Vuuren & Badenhorst-Weiss, 2003).

In the 1950s, Galbraith’s emphasis on innovation (and learning from the private sector) resonates with the recent UK government’s ‘White Paper’ which stated: “Government needs to learn and innovate as much as the private sector and it must create new mechanisms for sharing ideas and best practice. Just as the UK needs more entrepreneurs in business, it needs a new generation of innovation in the public sector” (Department of Trade and Industry, 1998). The current UK Government and Galbraith concur on the importance of innovation, but Galbraith and Hood (1991) suggest pragmatic limits to competition.

The Limits of Competition

Public markets are often uncompetitive in that they fail the tests of economic models that require features such as perfect information and low barriers to supplier entry (and exit). For Telecommunications and IT/IS the nature of the sector will involve a concentration of spend with relatively few players. A UK white paper has specifically addressed this issue in the market for communications networks where ‘high barriers to entry for new businesses, economies of scope and scale, networks effects, and technical gateways or bottlenecks ... may give their owners market power’ (Department of Trade and Industry, 2000)

In certain sectors relations with key suppliers will determine competitiveness of the market. However the tradition and legacy of public sector contracting is to adopt an arms-length approach and avoid forms such as partnering. Erridge and Nondi (1994) note that public accountability and competitive frameworks may limit the degree to which partnering can be pursued.

Having acknowledged the limits of competition in terms of classical views of markets, the pragmatism of those who suggest public market are not fully competitive is discussed here in terms of competing agendas. “If multiple and sometimes conflicting stakeholder goals can be identified in the cases, then the added dynamic of variations between stakeholder goals over time must also be included. That is it appears public procurement has to manage multiple stakeholder objectives that may be contradictory and which vary over time – e.g. demand for ‘cheap’ or ‘local’ services will vary with economic or political cycles” (Knight *et al* 2003:41).

Taking into account the various interests of the various stakeholders diminishes pure competition as a goal. Erridge & Nondi (1994) found that ‘the extreme form of competitive bidding is, on the whole, incompatible with successful achievement of Value For Money’. VFM and other policy objectives may mitigate the power of (public sector) market forces.

Any study of public procurement over time highlights how commonplace ‘reorganizations’ of structure are, indeed in some cases they appear endemic (Dooley & Tonkin, 2003). Some authors propose that the presence of continual reorganizations suggests that the central/devolved debate may be contingent, with no best solution. “The cycles of pushes for centralization vs. decentralization may well be tracked to the level of scrutiny or interest being shown by the public served by the agency. ... In times when public scrutiny is high, either because of poor economic conditions or a specific flash-issue or misappropriation, agencies will

probably push for greater control and centralization” (McCue, Buffington & Howell, 2003:197).

It has been suggested that purchasing as a function is rarely involved in choices over the level of devolvement (Lamming, 2002). Re-organizations can be based on wider political, rather than operational needs (Knight *et al*, 2003).

Innovative Procurement

This section examines innovation in public procurement approaches to market competitiveness. One of the barriers to competitive public markets is accurate, timely data. An interim review commissioned by the UK Office of National Statistics (Atkinson, 2004) suggested that the amount the Government spends on the public sector is not properly reflected in the country's National Accounts. Public sector spending was often wrongly classified in the economic accounts.

Significant markets will be specific to government departments (e.g. highways, defence) but common markets cut across the public sector in areas such as construction, IT/IS, consultancy etc. Even the seemingly ‘unitary’ nature of a ministry such as defence is misleading. Taking the UK Ministry of Defence as an example, external spend of some £11.5 bn with suppliers (Formby, 2004) is actually split between two organizations (the DPA and the DLO – the Defence Procurement Agency and Defence Logistics Organisation).

The likelihood of constructive liaison across PPEs is further hampered by the lack of common information systems across government. Indeed Quayle (1998) in an empirical examination of the impact of procurement strategy on corporate performance in UK government identified a lack of cross departmental dialogue on strategic procurement issues. In promoting such dialogue one critical challenge is to take into account these varying cultures, stakeholder requirements and requirements of internal customer ‘buy groups’ (Knight *et al.*, 2003).

The ability to share information constructively also affects performance measurement of suppliers. However there are exceptions; for example the US Federal government collects information about a contractor’s performance on every contract over \$100,000. Negative feedback is shared with the supplier (Drabkin & Thai, 2003).

One area where procurement practice can be innovative is in using coordinated purchasing (consortia) and framework agreements. Framework agreements allow the central negotiation of a contract, whilst permitting

devolved users to manage their spending. Problems arise where 'local' users do not abide by the framework agreement (in the UK NHS a figure of only approximately 50% adherence to framework agreements has been aired; Knight *et al.*, 2003). In line with emerging work on consortia purchasing (Aylesworth, 2003; Rozemeijer, 2000), it appears establishing framework agreements involves on-going commitment as well as innovative leadership to make them work.

Coordinated purchasing raises the need for communication and feedback mechanisms in promoting competitive markets. Having the authority to lead and mandate information requirements, and ensuring active participation by members are issues raised in previous studies. There appear real concerns about concentrating consortia demand with too few suppliers, with too little attention being paid to possible exclusion effects (Aylesworth 2003, Kivisto & Virolainen, 2003). "Consortia can encourage elitism, oligopoly, and the artificial creation of barriers to new entrants" (Knight *et al.* 2003). Broadly it appears that consortia need very specific management to ensure a competitive supply market is maintained.

Perhaps the most significant area of innovative practice has been in new forms of partnership and risk sharing between public and private sector organizations such as the Private Finance Initiative (PFI), one form of public private partnerships (PPP). Walker *et al.* (2002) discuss PFI in the context of outsourcing and suggest it represents a step change in the involvement of the private sector in healthcare provision and in outsourcing issues in the NHS, as PFI contracts are between 10-30 years, potentially leading to more established supplier dominance. In terms of value for money and risk, PFIs represent the largest outsourcing decisions made by NHS Trusts. The first wave of PFI Trusts has not met up and shared experiences (Grant & Dutton, 2001). There is a need to learn from the best and worst cases to optimize PFI performance.

With more markets opening to private sector firms (Simpkin, 2004), new organizations emerge and resources are shifted into these new areas. Harland *et al.* (1999) and Knight & Harland (2001) extensively analyzed the role of outsourcing in markets. Walker *et al.*, (2001) produced a comprehensive study of the impacts 'local' decision making in the NHS, specifically regarding outsourcing, can have in creating undesirable – and unintended – consequences for markets. Although work is now emerging on procurement risk (Zsidisin, 2003, Hallikas, Virolainen & Tuominen, 2002), and a variety of supply risks have been identified (Harland *et al.* 2003), understanding the risks inherent in managing for competitive markets is an under-researched area.

The need for purchasing to attract the best people has been a perennial concern of the literature. In terms of innovating the profession to work effectively in the 21st century environment, academics have placed a new emphasis on teamwork and other interpersonal skills, often at the expense of technical skills (van Weele & Rozemeijer, 1998, Giunipero, 2000).

The final area for innovative practice reviewed here is that of the ‘new information society’ and e-procurement. e-procurement is the use of web-enabled software systems to enable the purchasing of goods and services online (here taken to cover the whole purchase-to-pay process). It covers sourcing of suppliers, online tendering, e-collaboration, reverse auctions and electronic ordering. E-enabled business (McGuffog, 2002) will eventually provide cross-the-board data on buying organizations’ existing portfolio of bought-in products and services. However as is discussed below, there are other requirements that will not automatically be delivered. (e.g., market intelligence on potential new suppliers, or sourcing options in new markets).

Other Impediments to Competitive Markets

“It is a sweeping statement to talk of one ‘public sector’; government and the wider public sector comprises a large array of departments, agencies, quasi-autonomous non-governmental organizations, and executive organizations with very variable characteristics and spend portfolios”. (Knight *et al*, 2003). Here attention is on competence raising measures to promote market attractiveness; without such measures PPEs poor at procurement will pay for savings made by PPEs with more expertise.

Fragmentation and lack of coordination of PPE demand not only adds to transaction costs for customer and supplier (discussed below), but prevents learning from experience and the accumulation of procurement expertise. In the past public sector procurement has been perceived in some areas as cyclically influenced by the timing of departmental budget allocations – i.e. there is a period of relative feast when the budget is first allocated then a relative drought as spending is checked to prevent overspending, often followed by a final ‘splurge’ as budgets are spent before year end (see Baeyens & Martel, 2003). Smoothing of demand across government departments and across the financial year has made public markets more attractive to suppliers.

For a PPE an individual purchase can often be a one off, internal expertise cannot be built up (Erridge & Greer, 2002). Suppliers have to be extremely cautious of contravening competition legislation, and buyers of EU procurement legislation, both of which are focused on individual

transactions and seem to do little to cater for long-term, aggregate level needs (Nielsen, 2000).

Erridge & Nondi (1994) propose that extreme forms of competitive bidding are detrimental. These forms involve: rigid application of tendering procedures for low value items regardless of on-costs; too many suppliers; short-term contracts and the absence of cooperation from suppliers.

RESEARCH METHOD

Three case studies were investigated in this research, which assisted in identifying key themes in the role of public procurement in promoting competitive markets. The case study method is appropriate “when ‘how’ or ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within its real-life context” (Yin, 1984, p. 13).

In this research, case studies allowed us to learn from different situations; the Jarvis case highlights the importance of supplier relationship management, including the need for information; the Procure21 case contributes to our understanding of relationship management, and the prosthetics case portrays the effects of public procurement on competition over time. The cases draw on a review of primary and secondary data. Newspaper sources have been used in one of the cases, which examines contemporary events.

The speed of developments in this area mean that senior practitioners are addressing problems that are ahead of what the academic literature has covered. Here we present a brief case where the issues are still being played out.

JARVIS plc CASE STUDY

Case Description

Jarvis plc is only the second case of a major UK company specialising in public private partnerships experiencing financial problems. The company rose to prominence on the back of PFI contracts. According to its website, its mission is “innovative partnerships in education, transport, health, local government and industry”. Therefore its key markets (and contracts) cut across most of the major public sector spending departments. Further contractual complexity is added by the contractual requirements for consortia and the sheer scale of PFI deals. Jarvis has created another ‘web’

of private sector partnerships, again across all the market places in which it is involved.

Jarvis's recent financial problems have thrown the survival of the company into doubt. The Dow Jones news service (2004) commented "...Jarvis's problems ...[are]...because many projects appear to have been won through excessively low bidding, resulting in deals that generate returns way below expectations with little hope of recovering costs later on."

Key Issues from the Case

The example of Jarvis is used here not to discuss the problems of that particular organization, but to draw out key themes in promoting competitive markets. First, public-private partnerships, with their emphasis on consortia, can create myriad and cross-government relationships between the public sector and one organization. Additionally, contractual complexity compounds the problem of establishing what public money is being spent with which organisation.

The case also highlights the risks involved in assessing pricing in new markets, in managing the capacity of one supplier to deliver, in how these risks are spread to private sector consortia partners, and in public sector competence at managing intricate alliances with organizations at the level of the market. Finally, ensuring that suppliers are financially sound has always been an aspect of procurement. Different procurement skills are identified between letting initial contracts and managing the on-going relationship. Detailed knowledge of such a key supplier (not just its finances, but its business plan and capacity as well) is needed.

Procure21 was developed by NHS Estates as a response to the Egan Report 'Rethinking Construction' which recommended public sector clients improve performance through the adoption of best procurement practice from other industries.

PROCURE21 CASE STUDY

Case Description

The UK NHS spends over £3bn annually on construction. However common problems were recorded: the NHS being known for buying on price alone (and ignoring reliability); contractors using cheap materials to keep tender prices low, resulting in high repair and running costs; and the discouraging of innovation by the tendering process. Moreover there was concern that a major building programme in the health sector would be

competing for capacity with other major and concurrent government building programmes (such as schools).

NHS Estate's Procure21 is a uniform approach to NHS construction based on long term relationships with twelve centrally evaluated, regionally based partners and their chains. It provides a framework for local health sector construction buyers. Critically the scheme complies with European procurement regulations. Because Procure21 provides National Audit Office recognition, individual tenders do not have to be advertised in OJEC, thereby saving between six to twelve months. Projects happen quicker and suppliers can be involved before construction.

Lead partner organizations had to pass a detailed audit. Post selection suppliers were given agreed margins for the next five years on NHS work, in return for transparency and open book accounting. The transparency and open book accounting extends through the chain down to supplier's suppliers. The NHS runs a shared database of projects and costings, allowing benchmarking across projects and sophisticated performance management (all partners and their supply chains have to agree to contribute data and to random audits of their work).

Key Issues from the Case

There are other benefits and details to Procure21 but essentially it is a series of voluntary National Framework agreements introducing consistency and transparency on both sides within a manageable number of core of suppliers.

The first key issue is that the inability to offer consistent work to suppliers has been acknowledged as a barrier to attracting the best suppliers. With regular work, knowledge and expertise can be built up as partners (and the NHS) specialize and build long term relationships. Suppliers can run their businesses confident of continuity and stable demand. Knowing that subject to satisfactory performance they will have further NHS work there is the incentive to invest in asset- or health-specific expertise. Agreed margins increase stability, commitment and the ability to plan ahead.

Second, re-using the same suppliers means the NHS will have access to new forms of standardization, variety reduction and modularization that will reduce costs. For example innovations and other opportunities are arising through the provision of standard hospital facilities as prefabricated modules. Opportunities for off-site pre-fabrication are especially valuable in the healthcare sector; less construction (and construction vehicle access) reduces risk and disruption in health care environments.

Third, a national database of performance coupled with transparency means Procure21 can be a mechanism for sharing good ideas, driving out poor performance and raising standards in part of an industry and in a public sector market. Accurate data means NHS Estates is able to ensure the supplier is not 'loss leading' or subsidizing other work, or over charging.

The case shows a move from a transaction-based to a relationship-based approach, which here involves more knowledge being shared. The inflexibility of public sector processes is a common supplier complaint. Here a major incentive to adopt Procure21 is the time saved (and ability to involve suppliers early), circumventing the requirement to publish a tender in OJEC.

Initially established to meet the needs of limbless ex-servicemen, the English prosthetics service has for many years largely been publicly funded. Until very recently, all prosthetists in England have been employees of commercial firms, which have contracts with each of the 34 (NHS) Disablement Service Centres (DSCs).

PROSTHETICS CASE STUDY

Case Description

In the early 1980s, the service was run centrally by the Department of Health and Social Services (DHSS). Nominally, there were four suppliers in the market providing limbs, remunerated on a limb-by-limb, cost-plus basis. Relations between suppliers and the DHSS were poor. One firm (Company A) was the parent company of two of the others, and collectively these three firms controlled 70% of the lower limb market.

In 1989 a Government commissioned review found that Company A had a monopoly and was conducting its business in a way which operated against the public interest. Technically, the fourth supplier (Company B) also had a monopoly but did not operate against the public interest.

As a direct result of such reviews, from the late 1980s onward Company A and its subsidiaries ceased supplying the NHS, and more than 10 new firms were established. In 1991, NHS Supplies (a national procurement agency for the NHS) was established and some of its buyers began to lead or support DSCs' annual tendering exercises. Concerted efforts to increase quality and reduce costs led to 'price wars' and many suppliers merging or going out of business.

By the mid-1990s, there were once again four main suppliers of prosthetic services in the English market, including Company B. All had

much lower margins than firms had previously enjoyed, to the point of affecting their ability to invest in product innovation and their long-term prospects. The level of spend by the NHS fell from £53.3 million in 1991/92 to £36.4 million in 1999/2000.

Buyers at NHS Supplies, some DSC Managers and suppliers became interested in generating improvements in efficiency and effectiveness through focusing on value for money, not just price, and through partnership working between DSCs and suppliers. Annual tendering exercises were replaced with 3 year contracts with an option to extend for two years and more in a few cases. Early on these longer-term contracts were seen as highly desirable for the firms and the centres. It was not long however before suppliers and NHS buyers started to recognise that the pattern of tendering across the 34 Centres made suppliers more vulnerable. Most centres would tender together in one year. If a firm did not do well, it could be a long time before it had another significant opportunity to win business, and it might not be able to survive long enough due to almost total dependence on the NHS for business. This increased firms' incentives to cut their bid price to win business, just to maintain turnover. It also increased incentive to cross-subsidise between different service contracts or between service and componentry sales, a practice NHS Supplies had worked hard to discourage.

DSCs might reduce the duration of their contracts, but nobody would seek a return to annual tendering. An NHS Finance Director dealing with severe budgetary constraints faced the choice of a lower cost contract or a higher-cost award which would have kept the market from technically becoming a monopoly, and not surprisingly he chose the former.

Key Issues from the Case

The case illustrates the tensions between local and/or short-term contracting decisions and what makes sense in the longer-term or at the sector level. It also shows that 'good practice' may not have 'good outcomes'. Whatever the benefits of partnership working and long-term arrangements at a local level, the net effect at a national level of 'good practice' was to jeopardise the long-term viability of suppliers and the competitiveness of the supply market. Though key actors in the network came to recognise this problem and widely appreciated the consequences of monopolies of the consequences of monopolies, there was no simple way to resolve it.

The case shows a public procurement intervention for competitiveness played out over time with unintended and unwelcome consequences. The

case suggests a need for procurement understanding of the dynamics of markets and market interventions, and illustrates how the structure of public tendering processes can have the unintended consequence of locking suppliers out of a market. The case also provides an example of public sector contracting encouraging suppliers to cross-subsidise

Finally the Financial Director in the case is shown to take a decision that saves money in the short term at the expense of creating a technical monopoly. Here market competitiveness collides with other important objectives such as achieving budgets.

DISCUSSION

Having acknowledged that competitiveness is only one objective of public procurement, this paper has examined literature and specific cases for key themes. In this section these themes are brought together under three main headings.

Managing Markets via Individual Contracts and Transactions

Procurement regulations provide a framework within which individual transactions and contracts can be managed. In the cases studied there are many examples of contractual or tendering conditions impeding competitive markets. These range from irregular tendering patterns locking suppliers out of markets (Prosthetics case) to disjointed contractual practices encouraging suppliers to over extend themselves (Jarvis).

Strategic procurement needs to be alert to the negative effect of such practices upon other potential suppliers. At best, under-bidding forces competing suppliers to narrow their margins, at worst they are encouraged to exit the market place altogether. The 'successful' supplier will then naturally seek to restore margins, for example by cutting corners, with the substitution of less experienced personnel for more expensive, experienced personnel - a common ruse. Personnel substitution is a sophisticated example of a contract-based approach encouraging cross-subsidization. The Procure21 case is one attempt to address the cross-subsidization issue that is also raised in the Prosthetics case.

The Procure21 case suggests that managing markets for competitiveness involves making the market as attractive to suppliers as possible, here through stability and continuity. The incentive for the customer is knowledge and process sharing for continuous improvement and innovation. It is a significant irony that one of the major attractions of Procure21 (for all parties) is that it permits participants in individual contracts to avoid the

delays and resources needed for compliance with European legislation designed to ensure competitive markets through advanced publication of tenders.

The long-term perspective of Procure21 (initial five year contracts) is intended to introduce innovation, which can then be embedded and shared by central performance measurement. The Procure21 approach contrasts with the appearance of a more fragmented approach to performance monitoring across contracts and across departments raised by the deterioration of Jarvis plc.

The UK prosthetics industry case has the benefit of a longitudinal perspective on public procurement interventions. This case illustrates very well the tensions between local and/or short-term contracting decisions and what makes sense in the longer-term or at the collective level. It also shows that 'good practice' may not have 'good outcomes'.

The key finding of this section is that in order to manage for competitive markets, there is a need to incentivise suppliers to suit broader public sector requirements. Explicitly this suggests a challenge to public procurement contractual forms; that of being able to reward suppliers for *excellence* rather than for *volume*.

Managing Key Suppliers in Strategic Markets

The Prosthetics and Jarvis cases deal with industries at the opposite ends of the scale. Prosthetics has often been termed a Cinderella service; it is a relatively low-cost and low-profile service. Health sector construction is a billion pound sector where public sector spend is often high-profile.

The Prosthetics case is however much more significant than it might appear. It provides insights to the dynamics of a market where concerted (sometimes conflicting and sometimes complementary) efforts are made to influence competitiveness, where good practice has unexpected, detrimental results and, most importantly - given current Government initiatives - where commercial companies provide clinical services.

Both Procure21 and Jarvis cases involve construction, a reflection of that industry having been at the forefront and therefore a testing ground of public/private partnerships. PFI deals have offered an opportunity for fast growth in the facilities management (FM) sector, which offers higher margins (and more repeat business) than the traditional construction sector. The result has been a switching of resources from construction to FM. This has occurred at the same time as a series of UK government programmes are leading to a surge in public sector demand in the construction industry.

At a market level Procure21 is a response to capacity constraints in ‘traditional’ construction work. Resources put into new markets such as those Jarvis has pursued may create shortfalls or capacity constraints in other market sectors. PFI initiatives are by nature long-term, and whilst a supplier is effectively locked in for that term, significant problems may arise if the public sector finds the arrangement no longer satisfactory, in part because resources will have been reallocated and capacity taken out of certain markets.

The Jarvis case illustrates just how multi-layered and networked key supplier relationships can become, and the new challenge to procurement of unravelling such relationships when they become unsatisfactory. The Jarvis case also illustrates how public procurement can inadvertently create ‘key suppliers’ (see also the EDS case in Walker *et al*, 2001).

In the Jarvis case a shift in the delivery mechanism from the public to the private sector, and the letting of a number of contracts at roughly the same time created a key supplier. In some markets large suppliers may be inevitable (and preferable), for example where heavy asset specificity is compounded by long time scales (for example telecommunications and specifically the market for broadband in the UK discussed above). While large suppliers may be preferable in some cases, buyers need to recognize that asset specificity and long time scales can create lock-in, with power (potentially) shifting to suppliers post-contract award. IT/IS and consultancy services would be other examples of markets where large, key suppliers may be a commercial reality.

Supplier dominance in the PFI sector has not yet been thoroughly investigated; an initial study (Walker *et al*, 2002) found several interviewees thought the same big suppliers are part of PFI consortia across the UK (and in different public sectors). This tentative finding is not surprising and is supported by the construction and FM consortia suppliers named in the twelve regional supply chains selected in the Procure21 case. The issue becomes a critical procurement concern in markets such as PFI, where suppliers are likely to remain in a dominant position for a long time, due to service contracts of ten to thirty years. Participants in the Walker *et al* 2002 study commented that few suppliers are able to compete in the PFI market anyway, so supplier dominance may be unavoidable. They suggested that the best approach might be to manage relations with these big suppliers, rather than ‘fight the inevitable’ and attempt any interventions.

Managing public markets for competitiveness suggests a procurement responsibility specifically for managing these key supplier relationships (and for managing their emergence). The cases suggest dominant supplier

relationships cannot be managed serially, contract by contract. This paper has not addressed multi-contract, multi-national suppliers as a separate topic but they would be an extreme (yet common) example of such pressures. Once again a longer-term horizon is suggested for procurement thinking. Such an approach suggests a subtlety to public procurement beyond the approach of seeking 'the best supplier'. In one dimension the Jarvis case illustrates the problems that arise when the best supplier on an individual tender or series of individual tenders is adopted.

Organizations with this new supplier management role are emerging, with the creation of the Office of Government Commerce (OGC) in UK, and the reformation and refocusing of the PWGSC [Public Work and Government Services Canada]. The approach adopted in the UK has been to create a central unit (the OGC) with responsibility for a wide range of government and public sector procurement.

The key finding of this section is to look beyond choosing the 'best supplier', and instead to examine how to manage suppliers within a portfolio of market relationships.

Changing Capability Requirements for Purchasing Personnel

The three cases share a common theme of the need for post-contract management. In the Procure21 case there are explicit mechanisms (transparency, fixed and agreed margins) which reduce the subsequent need for contractual negotiation and a database for performance measurement. In the prosthetics case post contract management appears as a delayed response to the limitations apparent in contracting. Both the literature reviewed earlier and the Procure21 approach suggest ongoing contract management is important.

The traditional arms-length management of suppliers seems to be moving towards closer supplier relationships, and suggests new skills for purchasers. The cases have illustrated different types of relationships at different stages in markets with different dynamics. Procurement professionals will need the competencies and institutional support necessary to assess and take highly contingent approaches. Teamwork and dissemination skills rather than technical skills are highlighted here. The 'one size fits all' solutions that may be easier for corporate-style training to deliver will not be appropriate. This is a challenge for those charged with developing public procurement professionals.

Developing the theme of contingency, various procurement risks are raised in the cases and the literature (e.g. locking a market into a few

existing suppliers; over-reliance on one supplier, itself heavily networked with other suppliers). Beyond the need to avoid sub-optimisation of outcomes through unconnected 'local' procurement decisions, it is suggested that managing for long-term competitive markets involves having a sector-level perspective, competence in understanding individual supplier's public sector business models and how they fit with achieving competitive markets. The central function at the heart of the Procure21 initiative is one method of achieving this. The continued rebalancing of public/private provision (Jarvis case) is another procurement risk for which new techniques and tools may be required. Not enough is known about the management of long-term PFI relationships.

Those charged with professional development could have an immediate impact where procurement needs new explicit knowledge. The common theme is that they take a market or network approach. For example the Jarvis case suggests a need to build upon existing financial appraisal skills by adding competencies at unravelling the interconnections between consortia. The Procure21 case extends traditional supplier performance measurement competence into market-level performance measurement, and how to present and disseminate such findings. The prosthetics case suggests the need for techniques of market appraisal that involve assessment of supply over time. Other specific, tangible skills suggested by the cases involve the need for IT/IS skills in relation to e-procurement, enterprise-wide resource planning tools etc. However the specific and contingent nature of the problems presented in the cases means this paper shies away from seeing 'e-' as a solution in itself; rather, it will be a critical new tool for managing the issues. For example in the prosthetics and Jarvis case full e-capability would be an important resource, but can not substitute for understanding market dynamics or suppliers' business models for the public sector.

The key finding of this section is that public procurement skills need to evolve to address more strategic issues, particularly post-contract award management.

CONCLUSIONS

The exploratory nature of this paper reflects the role of public procurement in promoting competitive markets being in its academic infancy. The themes drawn out in this paper make a contribution as there are few studies in this area, and yet exploration is an important, emerging role for practitioners. This paper seeks to highlight key issues that may support public procurement decision-making in managing complex markets.

We acknowledge the limitations of this study; it is a working paper setting out key issues that emerge from the literature and three cases, rather than attempting to further explore or empirically validate those themes. The nature of this field and its topicality mean that there is very little empirical work to draw upon.

The cases have been used to present managing for competitive markets as addressing impediments and improving understanding of strategic priorities. Academics have observed many competing policies in the wider public sector. Pursuing competitive markets is only one of many public procurement policies such as Value For Money, sustainability etc (Walker et al, 2004).

This paper has aimed to set out the parameters and context of an under-researched area. Future research suggested by this paper includes exploring how public procurement can function at a market level. Specifically this paper has identified a need for research on supplier incentives at a market level, on the post-contract management of suppliers and (as an important sub-set) key supplier relationship management, along with professional development.

REFERENCES

- Atkinson, A. (2004, July). *Measurement Of Government Output And Productivity For The National Accounts* (Atkinson Review: Interim Report). London, UK: HMSO.
- Aylesworth, M. (2003, April 10-12). "Consortia Purchasing for Higher Education in Canada, US, UK and Australia." *Proceedings of the International Research Study of Public Procurement workshop* (pp. 1-17) Budapest, Hungary.
- Badenhorst, J.A., & Hugo, W.M.J. (2001). The economic Empowerment of Black Business Through Corporate Disadvantaged Purchasing Programmes. *Proceedings of the 10th International Annual IPSERA Conference*, Jönköping, Sweden.
- Baeyens, B., & Martel, M. (2003, April 10-12). "Budget and Organization reform: Impact on Public Procurement in Belgium." *Proceedings of the International Research Study of Public Procurement Workshop* (pp. 18-27). Budapest, Hungary.
- Dooley, K., Tonkin, C. (2003). The development of procurement education in Australia. *Proceedings of the International Research Study of Public Procurement workshop*, pp 62-90

- Department of Trade and Industry (1998) '*Our Competitive Future: Building the Knowledge Driven Economy*', 16 December 1998, HMSO, London, UK
- Department of Trade and Industry Report (2000, December) '*A new future for communications*'. HMSO, London, UK.
- Down Jones Newswires, (2004) Jarvis may test the resilience of Public-private Deals, <http://sg.biz.yahoo.com/040707/15/3ljej.html>, 6/07/20
- Drabkin, D. and Thai, K. (2003). US Federal Government Procurement: structure process and current issues. *Proceedings of the International Research Study of Public Procurement workshop*, Budapest, Hungary, 10-12 April, 91-120.
- Eden, C., Cropper, S. (1992) "Coherence and Balance in Strategies for the Management of Public Services" *Public Money and Management*, July & September, 43-51.
- Egan, J. Report (1998) '*Rethinking Construction*', The report of the Construction Task Force to the Deputy Prime Minister, HMSO, London, UK
- Erridge, A., & Greer, J. (2002) "Partnerships and Public Procurement: Building Social Capital through Supply Relations." *Public Administration*, 80 (3) 503-522.
- Erridge, A., & Nondi, R. (1994) "Public Procurement, Competition and Partnership." *European Journal of Purchasing and Supply Management*, 1 (3) 169-179.
- Formby, D. (2004) Supplier Management, Presentation by Mrs Diane Formby, Supplier Relations Group, DPA, *DPA Industry Conference*, 19th February, London, UK.
- Galbraith, J. K. (1980/1952) *American Capitalism: the concept of countervailing power*, Blackwell, Oxford, UK, 2nd Edition
- Grant, J. & Dutton, A. (2001) The Private Finance Initiative: Panacea for all procurement or a recipe for disaster? *Proceedings of the 10th IPSERA Conference*, Jonkoping, Sweden.
- Giunipero, L. (2000). *A Skills-Based Analysis of the World Class Purchaser*: CAPS Research. Arizona
- Hallikas, J., Virolainen, V-M., Tuominen, M. (2002) "Understanding risk and uncertainty in supplier networks – a transaction cost approach" *International Journal of Production Research*, 40(15) 3519-3531.

- Harland, C., Brenchley, R. & Walker, H. (2003) "Risk in Supply Networks", *Journal of Purchasing and Supply Management*, 9(2). 51-62.
- Harland, C., Lamming, R. and Knight, L. (1999) "*Returning to Core or Creating a Hollow: A Strategic Study of Outsourcing and its Implications*". Computer Sciences Corporation.
- Kickert, W. Klijn, E, & Koppenjan, J. (1997) *Managing Complex Networks: Strategies for the public sector*. London: Sage.
- Kivisto, T., Virolainen, V-M. (2003) *Consortia purchasing and logistics in Kuopio area – lessons learned from a four-year project, Finland*. Proceedings of the International Research Study of Public Procurement workshop, Budapest, Hungary, 10-12 April, pp176-186
- Knight, L., Caldwell, N.D., Harland, C., Telgen, J. (2003) *Academic report from the first International Research Study on Public Procurement*. Bath, UK: Centre for Research in Strategic Purchasing and Supply, University of Bath.
- Knight, L.A, & Harland, C.M. (2001) "Outsourcing: A national and sector level perspective on policy and practice". In: A. Erridge, R. Fee & J. McIlroy (Eds.), *Best practice procurement: Public and private sector perspectives*, pp. 55-62. Aldershot: Gower.
- Lamming, R.C. (2002) "Purchasing and Organizational Design". In Day. M. (Ed) *Handbook of Purchasing Management*, Aldershot: Gower.
- Lindblom, C.E. (1959) The science of 'Muddling Through', *Public Administration Review*, 19, 2. 79-88
- McCue, C.P., Buffington, K.W., Howell, A.D. (2003) *The Fraud/Red Tape Dilemma in Public Procurement: a Study of U.S. State and Local Governments*. Proceedings of the International Research Study of Public Procurement workshop, pp187-210
- McGuffog, T. (2002) *B.e.e. Business enabled electronically: The future for e.business*. London: UKPeb, Office of the e-Envoy.
- Nielsen, R. (2000). The Politics of Long-Term Corruption Reform: A Combined Social Movement and Action-Learning Approach. *Business Ethics Quarterly*, 10(1), 305-317.
- Quayle, M. (1998) The impact of strategic procurement in the UK government sector. *The International Journal of Public Sector Management*, Vol. 11, No 5, 397-413.

- Rozemeijer, F.A. (2000) How to manage corporate purchasing synergy in a decentralised company? Towards design rules for managing and organising purchasing synergy in decentralised companies. *European Journal of Purchasing & Supply Management*, 6, 5-12.
- Simpkin, E. (2004) Serco profits from crime, *Sunday Telegraph*, 11th July.
- Thai, K.V. (2001) "Public Procurement Re-Examined". *Journal of Public Procurement*, 1(1) 9-50.
- van Vuuren, K. and Badenhorst-Weiss, J.A. (2003). South African Provincial Government Reform: using a shared services model to transform 'Back-Office' support. *Proceedings of the International Research Study of Public Procurement workshop*, Budapest, Hungary, 10-12 April, 296-329.
- van Weele, A.J. and Rozemeijer, F.A. (1998) Professionalising purchasing in organizations: towards a purchasing development model. In: *Proceedings of the 7th Annual IPSEERA Conference*, 5 – 7 April, London, UK pp 515-523.
- Walker, H., Knight, L., & Harland, C. (2001). "‘Imbalanced’ Supply Markets: A Sector-Level Perspective of the Case of Outsourced Services". In: *Proceedings of the 10th International Annual IPSEERA Conference*, Jönköping, Sweden.
- Walker, H., Knight, L., Harland, C., & Sutton, R. (2002) *Outsourcing and the NHS: a Sector Level Perspective*. Outsourcing Project Report, April 2002. Bath: University of Bath.
- Walker, H. Harland, C., Knight, L. & McBain, D. (2004) Sustainability, public procurement and supply. *Proceedings of the Corporate Social Responsibility and Environmental Management Conference*, 28-29 June 2004, Nottingham, U.K.
- White, L. (2000) Changing the "whole system" in the public sector, *Journal of Organizational Management*, 13(2), 167-177.
- Yin, R. K. (1984). *Case study research: design and methods*. CA: Sage.
- Zsidisin, G.A. (2003) "A grounded definition of supply risk", *European Journal of Purchasing and Supply Management*, 9 (5/6), 217-224.