

## **TOWARDS A COMMON UNDERSTANDING OF THE DIFFERENCES BETWEEN PURCHASING, PROCUREMENT AND COMMISSIONING IN THE PUBLIC SECTOR<sup>1</sup>**

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**ABSTRACT.** This paper recognises that commissioning has now become an important term in the lexicon of UK public policy but asks is commissioning just a further stage of the evolution from ‘purchasing’ to ‘procurement’ – are ‘commissioning’ and ‘procurement’ synonymous. Anecdotal evidence suggests that practitioners are confused in answering this question. Therefore the academic community needs to help practitioners understand the answer and its implications. A document analysis of various UK Central Government departments’ commissioning frameworks was used to establish the key themes and compare commissioning, procurement and purchasing. This paper discusses the similarities and differences, and argues that commissioning is different from procurement, but that commissioning offers major opportunities for Procurement practitioners to make a strategic contribution.

### **INTRODUCTION**

This paper is concerned with the commissioning, procurement and purchasing processes as opposed to Commissioning and Procurement functions or professionals although the paper suggests implications for Procurement practitioners. Its major contribution is in helping to differentiate between commissioning, procurement and purchasing processes.

van Weele (2007, pp. 204-205), contributing to a debate on research methods in purchasing and supply management, stated:

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Academic research in purchasing and supply management is needed since, as an academic community, we feel the need to contribute to insight into and describe patterns of human behavior in organisations or networks against different contextual backgrounds. We need to contribute and build theories through which we can better understand purchasing and supply chain management phenomena. ... to provide managers with some clear guidelines to make better decisions in these areas.

Against that background, this paper recognises that commissioning has now become an important term in the lexicon of UK public policy (for example, Cabinet Office, 2006; Communities and Local Government, 2006) but asks is commissioning just a further stage of the evolution from 'purchasing' to 'procurement' – are 'commissioning' and 'procurement' synonymous. Anecdotal evidence suggests that practitioners are confused in answering this question (for example, Davies, 2007) and this was supported by a focus group research completed by the author during the summer of 2008 which suggested that 36% of those participating felt procurement and commissioning were synonymous. Indeed the potential detrimental impact on public policy and the need for a common understanding was highlighted by the UK Public Administration Select Committee of the House of Commons:

If there is no common understanding of what commissioning means, that can only be a barrier to effective relationships. Government and the private and third sector need to come to a commonly accepted definition of commissioning if it is to continue to be the State's preferred method of interacting with the sector. In particular, Government needs to convince the third sector that commissioning is something distinct from procurement. (Public Administration Select Committee, 2008, para. 38)

Seeking Procurement practitioners' interpretations may not be the most rigorous approach (Sayer, 2000; Murray, *forthcoming*), therefore the academic community needs to help practitioners understand the answer and its implications. A document analysis (Hussey and Hussey, 1997, pp. 149-150) of various UK Central Government departments' commissioning frameworks was used to establish the key themes and compare commissioning with procurement. This paper discusses the similarities and differences, and argues that commissioning is different from procurement, that commissioning encompasses procurement, which

in turn encompasses purchasing. The paper also suggests that commissioning offers major opportunities for Procurement practitioners to make a strategic contribution.

### **WHAT ARE COMMISSIONING AND THE COMMISSIONING CYCLE?**

The commissioning process is defined in Partnership in Public Services (Cabinet Office, 2006, p.4) as: “The cycle of assessing the needs of people in an area, designing and then securing appropriate service”.

Various UK Central Government departments have set out their commissioning frameworks (Communities and Local Government, 2006; Department for Education and Skills and Department of Health, 2006; Department of Health, 2006 and 2007; Department of Work and Pensions, 2007; Home Office, 2007). A document analysis (Hussey and Hussey, 1997, pp. 149-150) was used to establish the key themes of those frameworks. From the document analysis the commissioning cycle can be generalised as:

- A strategic needs assessment;
- Deciding priorities and outcomes;
- Planning and designing services;
- Options appraisal;
- Sourcing;
- Delivery; and
- Monitoring and review.

This was well articulated by the Minister for the Third Sector:

Commissioning takes a local authority or commissioner in Central Government too, through a process where it starts of with the needs of the users. It says, what are the user’s needs, what are the needs of the families in our area, what are the problems that we need to address?

... it then asks what are the kind of services that might address those needs and do we have the people that are good enough and

qualified enough, ourselves, [or] others to provide those needs and to meet those services, if not, should we invest in building to provide the base, whoever that might be? [Options appraisal: including the strategic make or buy decision].

...It then moves to a process of contracting where people are invited to bid. Then there's the process of choosing and selecting ...[the purchasing cycle](Phil Hope MP, Evidence to Public Administration Select Committee, 20<sup>th</sup> November 2007).

Although the Minister refers to 'contracting', 'choosing and selecting', he appears to be referring to van Weele's (2002, p. 15) purchasing process (which appears to have been endorsed by the International Research Study on Public Procurement (Caldwell, *et al.*, (2007)), of determining (specifying) the buying need, supplier selection, contracting, ordering, expediting and follow-up/evaluation – a 'purchasing cycle'. It therefore appears that purchasing is a discrete stage of commissioning, but how does this relate to procurement?

## **A COMPARISON OF COMMISSIONING AND PROCUREMENT**

The Cabinet Office define the procurement process as “the specific aspects of the commissioning cycle that focus on the process of buying services, from initial advertising through to appropriate contract arrangement (2006, p. 4)”. That definition appears very narrow as, starting with the advertisement of a contract and ending with putting a contract in place, it implies that procurement actually sits within purchasing, which is contrary to practitioner use of the term and also the definition within the National Procurement Strategy (NPS) (Office of the Deputy Prime Minister/Local Government Association, 2003, p. 17), namely,

'procurement' is the process of acquiring goods, works and services, covering both acquisition from third parties and from in-house providers. This process spans the whole cycle from identification of the needs, through to the end of a services contracts or the end of the useful life of an asset. It involves options appraisal and the critical 'make or buy' decision which may result in the provision of services in-house in appropriate circumstances.

The NPS definition appears to link with the view of strategic procurement put forward by Cox (1997), Cox and Lamming (1997), and Ramsay (2001). While they fall short of providing a definition, it could be inferred from their discussion that strategic procurement relates to those senior executive ‘strategic’ decisions which determine the ‘make or buy’ option. Yet the make or buy decision is presented as something that the Purchasing function should contribute to as part of a cross-functional team, but is pre-purchasing (Saunders, 1994, pp. 128-134; van Weele, 2002, McIlvor, 2005). It is therefore argued that the significant difference between the purchasing and procurement processes is that procurement encompasses the make or buy decision, whereas purchasing does not.

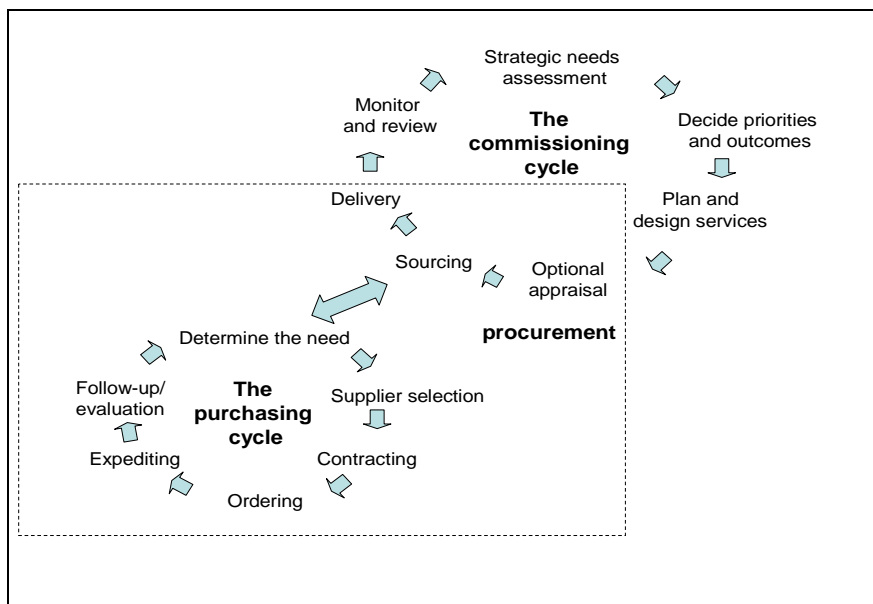
Accepting that procurement encompasses the purchasing cycle and make or buy options appraisal, the crux of the confusion as to whether or not commissioning and procurement are synonymous appears to be, ‘does procurement include assessing the needs of people in an area, and, in the light of those needs, deciding priorities and outcomes, and, designing and then securing appropriate service?’

Assessing the needs of a nation or area is not something that Procurement professionals have the ‘know how’ to do, for example, ‘is a new prison required or crime reduction strategy required, or a new care package required for individuals; no more than the Procurement function can take on the technical role of an architect in designing a major construction or take on the role of an engineer in building a major piece of machinery. Equally, making the strategic corporate decision regarding the allocation of budget and priorities and outcomes, is pre-procurement. Deciding priorities and outcomes, within the commissioning cycle, differs from purchasing’s ‘defining/determining the need’ (van Weele, 2002, p.15; Caldwell, *et al.*, 2007, pp. 149-150) in that the purchasing cycle is concerned with translating and articulating desired outcomes into a specification, ‘the means’, whereas the commissioning role is stating the change that is sought, ‘the end’. Traditionally others make those strategic decisions – Procurement’s ‘internal customers’ (van Weele, 2002) - prior to engaging with the Procurement function, who then assist in “*securing the appropriate service*” – the purchasing cycle. These steps feed from the commissioning cycle in to the purchasing cycle. But accepting the NPS definition, procurement includes the make or buy decision and that therefore proceeds the purchasing cycle. We therefore appear to have

interlinking cycles, of which procurement is a part of the commissioning cycle's options appraisal which decides, among other choices, whether a grant, investment or contract are the appropriate funding route (Unwin, 2004). Given that logic, it is clear that commissioning and procurement are different, that the procurement is wider than the purchasing cycle, yet procurement sits within commissioning driven and fed by the commissioning cycle (Figure 1).

Yet all too often common parlance uses phrases such as, “a local authority commissioning a new leisure centre ” (CIPS 2007) or “a consultant was commissioned” – that use of the term ‘commissioning’, although widely understood and appears synonymous with ‘purchasing’, but at variance with commissioning, as referred to in UK public policy. Would strategic and operational commissioning be more appropriate, with operational commissioning equating with purchasing?

**FIGURE 1**  
**The Commissioning and Purchasing Cycles, and Procurement**



A further difference between commissioning and procurement relates to 'monitoring and review'. Monitoring and review, within the purchasing cycle, is a 'closed relationship' between the two parties of a contract; it is part of contract management and closing down a contract (Caldwell, *et al.*, 2007, p.156). However, monitoring and review, within the commissioning cycle, isn't confined to a closed contractual relationship discussion, on the contrary, it relates to an open debate with stakeholders (including commissioners, providers and recipients of services) to determine whether the service delivered has achieved the community outcomes. This is review concerned whether the commissioning process (cycle) was effective in meeting local needs, and could include questions such as, was the needs assessment accurate, were the priorities correct, was the most appropriate funding strategy used, has the commissioning approach led to improved efficiency or effectiveness in delivery of outcomes, was the service 'fit for purpose', are markets being sufficiently developed to ensure sustainable contestability, are the community and 'hard to reach' in a better position now than previously – this is significantly wider than the purchasing cycle's follow-up/evaluation, which has a focus on was the specification delivered and the providers performance.

### **EIGHT PRINCIPLES OF GOOD COMMISSIONING**

The UK government, in parallel with the development of commissioning frameworks, have adopted eight principles of good commissioning (Cabinet Office, 2006, para. 30), namely,

1. Understand the needs of users and other communities by ensuring that, alongside other consultees, they engage with the third sector organisations, as advocates, to access their specialist knowledge;
2. Consult potential provider organisations, including those from the third sector and local experts, well in advance of commissioning new services, working with them to set priority outcomes for that service;
3. Outcomes for users are at the heart of the strategic planning process;

4. Map the fullest practical range of providers with a view to understanding the contribution they could make to delivering those outcomes;
5. Consider investing in the capacity of the provider base, particularly those working with hard-to-reach groups;
6. Ensure contracting processes are transparent and fair, facilitating the involvement of the broadest range of suppliers, including considering sub-contracting and consortia building, where appropriate;
7. Seek to ensure long-term contracts and risk sharing, wherever appropriate, as ways of achieving efficiency and effectiveness; and
8. Seek feedback from service users, communities and providers in order to review the effectiveness of the commissioning process in meeting local needs.

It appears that a number of those principles directly relate, or could relate, to procurement in its widest sense of embracing purchasing, namely, principles, 4, 5, 6 and 7; whereas the others are beyond the Procurement function's remit. Therefore, that provides further support for the argument that procurement is a discrete part of commissioning. However, does that mean that Procurement professionals cannot make a strategic contribution to more effective commissioning?

### **CONCLUSIONS AND IMPLICATIONS**

The argument set out above highlights that there is confusion how the terms, commissioning, procurement and purchasing are used. It also argues that commissioning encompasses procurement, and that commissioning and procurement are not synonymous. Therefore, as commissioning becomes a strategic approach to public management, Procurement professionals would do well to position themselves 'within the tent' as opposed to pursuing an argument that appears already lost, namely, that procurement and commissioning are synonymous. However, commissioning provides major opportunities for procurement to make a strategic contribution, not only to the strategic process but also to impact on the lives of communities.



For many years it has been argued that Procurement should be an active participant on cross-functional teams (Fitzpatrick, 1996; van Weele and Rozemeijer, 1996) and that Procurement can make significant impact prior to competitive bidding (Axelsson and Hakansson, 1984); in both respects, commissioning provides scope for Procurement professionals to play to their strengths.

Procurement professionals could:

1. Help their organisations map their commissioning cycles and contribute to the discussion as to the allocation of the most appropriate roles, remits, responsibilities and relationships;
2. Assist in interpreting the public procurement legislative framework and understanding the commercial sensitivities relating to engagement with the market;
3. Assist with mapping the market, market development and engagement;
4. Contribute to the commissioning options appraisal, for example, assist in appraising the appropriate pros and cons of grants, investment and contracts;
5. Assist in translating outcomes into specifications;
6. Develop procurement strategies which support wider commissioning priorities through, for example, determining optimum contract bundles;
7. Contribute to collecting lessons learned.

Surely, if Procurement took on those roles, it would represent ‘meaningful involvement’, namely, “*an ultimate state of perfection and integration with all other functions and activities in the organisation*” (Johnson and Leenders, 2003).

What are the implications for research? The rise in prominence of commissioning presents new opportunities and needs, not only for Procurement practitioners, but also for public procurement research, for example, through determining the answers to the following research questions:

1. How robust are the definitions of commissioning, procurement and purchasing processes?

2. Does the rise in prominence of commissioning increase or displace P/procurement's strategic contribution?
3. How do commissioning and procurement optimise their interfaces?
4. What skills should Procurement practitioners engaged in commissioning develop?
5. How does procurement strategy best reflect commissioning outcomes?
6. How are outcomes best translated into specifications?
7. Are different approaches to bid evaluation required as a result of the shift to commissioning outcomes?

Commissioning is strategic; it is also different from, but encompasses, procurement. That difference and encompassing provide opportunities for Procurement as a profession and as a research discipline.

The paper acknowledges that there is confusion though, sometimes fueled by commissioning being referred to at an organisational level setting priorities and delivering those prioritised outcomes, and yet also in the operational sense of what is generally accepted as purchasing. It would therefore be helpful if the academic community could reach a consensus on the differences between commissioning, procurement and purchasing processes.

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#### **NOTES**

1. The views expressed in this paper are those of the author and not necessarily those of IDeA.

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