

THE INTEGRATED APPROACH OF PUBLIC PROCUREMENT

Sonny Sumarsono*

ABSTRACT. Procurement contains long processes by various functions in an organization. Establishing effective and efficient procurement is extremely challenging if the procurement function remains segmented into silos that focus primarily on regulatory compliance. The current segregation of duties and procurement procedures create administrative savvy activities, therefore the procurement function becomes narrowly focused on transactions and considered as bottlenecking factor in an organization. An integrated procurement approach aims to establish a procurement value chain. The word “value” brings a new mindset that every single process in procurement should create value for the greater procuring entity. The word “chain” is intentionally used to craft the bigger picture of the interconnection between procurement processes. The chain demands good coordination and collaboration in works. The adoption of a value chain approach is an important step toward breaking down the tendencies of public procurement toward disintegration in separate silo-oriented steps and inefficient processes. Moreover, the value chain approach aligns an organization’s vision, goals, and strategy with the procurement function, leveraging the procurement role as a key component of realizing organizational objectives.

INTRODUCTION

Background

Government offices are usually characterized by highly structured organizations with clear rules and procedures and staff that adhere to specific roles. The roles in such organization tend to be dominated by specialists who work in compartmentalized units.

Public procurement rules generally force buyers to act in a certain way, for example, by requiring purchases over a certain value to be put out to competitive tendering and by preventing post-tender

* Sonny Sumarsono, PMP, CSCM, is fellow member of Indonesia Procurement Professional Association (IAPI) and Managing Partner of ADW Consulting.

negotiation. Complying with rigid rules to satisfy public organizations often place a significant administrative burden on buyers thus limiting market solutions and raising prices.

Common procurement process includes define requirements and budgeting, selection processes, as well as contract management and payment processes. Each process is performed by different persons and functions in an organization that focus on following the specific rules and regulations specific to their single function. This condition encourages a process disintegration that leads to inefficiency and isolated silos working within the procurement function.

Applying a value chain process to public procurement requires that the quality of downstream processes be influenced by and linked with the quality deliverables of the upstream activities. Customer definition in the quality management context is the essential step in the process chain. The procurement planning activities and plan itself then become a foundation for anchoring the chain of activities in the procurement cycle. As noted in the quote “failing to plan means planning to fail.” If the procurement plan is just the output of a single unit focused only on the compliance-oriented responsibilities of its silo, then the procurement function as a whole is likely to fail.

Objectives

The integrated approach of public procurement is designed to streamline the procurement processes, secure value added processes in procurement chain, and focus on customer satisfaction. Considering the growing number of procurement packages as well as value of goods and services to be purchased, we need to treat procurement in a more strategic manner as essential to the success of our public institutions, and not merely as an administrative task focused on regulatory compliance. The strategic impact of procurement is best achieved through the establishment of a *procurement value chain approach*.

FRAMEWORK THINKING

Supply Chain Management

Supply chain management is a set of approaches utilized to efficiently integrate suppliers, manufacturers, warehouses, and stores, so that merchandise is produced and distributed at the right

quantities, to the right locations, and at the right time, in order to minimize system-wide costs while satisfying service level requirements. (Supply Chain Council)

The approach to purchasing & supply has evolved in recent years, as management philosophy has moved towards greater and greater integration of corporate functions and closer linkages within the supply chain. This has meant that the traditional approach to having purchasing as part of materials management (with physical distribution as the outbound counterpart) has moved towards linking it to integrated logistics (covering both inbound and outbound processes) and, finally, to supply chain management. (ITC-MLS M1 Corporate Environment)

An organization can improve the cost effectiveness of its supply chain by better understanding and managing its own upstream and downstream supply chain operations and by providing information needed by all stakeholders throughout the supply chain.

Value Chain

Supply chain management focuses on the ultimate consumer as the starting and ending point for all intra and inter-organization activities. If the end product or service offered to the consumer does not have the right features, the right quality, the right price and the right timing of delivery, then the supply chain will have failed in its mission.

The value chain concept drives us to create value in every single activity. In the area of procurement, value could be created through quality improvement, service level improvement, cost reduction and faster processes.

Recent years witnessed a gradual change on how to evaluate successful procurement, in both the private and the public sector. Indeed from a price-only criterion for measuring success, decisions shifted to a multi-criteria approach where various dimensions of quality, as well as price, are considered. The most common way to express such shift is to say that procurement should deliver “value for money” (VfM).

According to one of the public management theories, achieving VfM requires a balance between the following 3E’s framework:

- *Economy* – careful use of resources to minimize expenses, time and effort required
- *Efficiency* – delivery of better results for a certain factor, or minimizing a certain factor for the delivery of the same results, without reducing the quality
- *Effectiveness* – delivery of better results or generation of a better return for the same level of expenses, time and efforts.

For the public sector, in particular, effective procurement should be a fundamental pillar supporting the pursuit of fiscal, industrial and innovation policies, by best employing the limited financial resources available. In addition, effective procurement investments could be a fundamental driver for the socio-economic development and growth of a state.

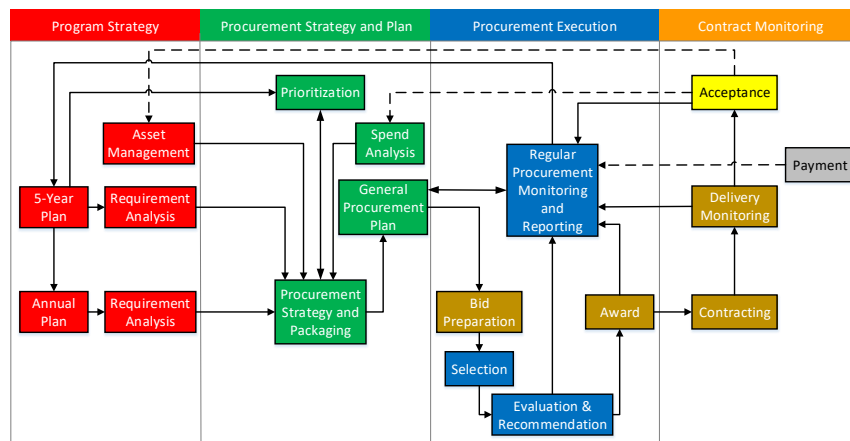
Procurement Value Chain

Using the above concepts of supply chain management and value chain, let us define how the procurement value chain can become the base for integrating the procurement function in a government office. The procurement value chain in a government office starts with demand side, where users define the required goods and services necessary to successfully implement their work program. This requirement should be approved and budgeted before it can then be processed by procurement organization to find the best vendor from the supply side. Once the purchase requirement is defined and budgeted, it will be processed strategically by the buyers to get the best offer from the supply market. This selection process could be done based on an analysis of the different benefits provided by various methods of procurement, such as open bid, catalog buying, etc. The next processes after vendor award is contract management and payment.

Using the government of Indonesia's procurement process mapping, we can see the overall procurement processes in Figure 1. The figure shows that the procurement function is designed to support the work program of the organization. The red zone consists of the Program Strategy which includes program planning and asset management that become the upstream or demand side of procurement activities. The other 3 zones show how the procurement cycle includes procurement strategy and plan (green zone),

procurement execution (blue zone) and contract monitoring (orange zone).

FIGURE 1
Indonesia's Procurement Process Mapping



The box color defines the accountable persons of respective activities, where budget owner is accountable for the green boxes, the contract manager is accountable for the brown boxes, the buyer is accountable for the blue boxes, whilst the quality control team owns the acceptance process in the yellow box and the finance guys take care of the payment process in the grey box.

Pursuing VfM requires careful procurement design and planning, as well as monitoring, in all three main procurement phases: that is “before” selection process, “at” the selection process and “after” the selection process.

This paper will explore an integrated approach of procurement function as compared with a traditional government procurement function which tends to be fragmented in process and administrative focus. The analysis will include the procurement process itself, the mindset of person who owned the process as well as the technology aspect in the area of procurement.

ANALYSIS

Regulatory Focus Procurement Process

Like other governments from all over the world, the government organizational structures in Indonesia are considered hierarchical with silos thinking and consist of fragmented processes and cultures. Each division in the government organization has specific regulations that drives people to focus on their roles as stated in the respected regulation.

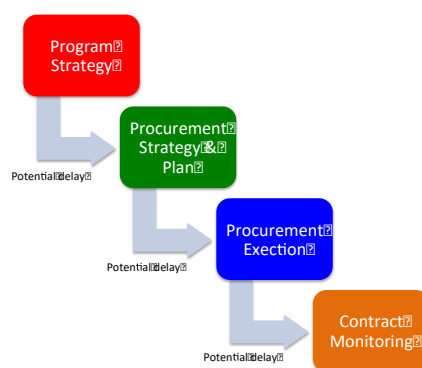
Therefore, when people in each division are driven by a compliance focus, they prioritize taking care of their own responsibility, and focus less on taking care the processes outside their boundaries. The boundaries that exist in organizations today – between managers and staff, buyers and suppliers, and across functions and geographies – are still difficult to breach, despite all of our communications tools.

The fragmented procurement processes as shown on Figure 2 identifies potential time delay when the process moves from one division to the other division. Procurement processes may be well managed within the division but there is a lack of oversight procurement function as a whole in the organization.

Moreover, each function usually has its own policy and procedures to be followed, so each process owner from a function becomes narrow focused on compliance to regulation. Conditions worsen when we find a lack of alignment among policies in all functions that link with procurement processes.

Recently, the information technology application has been used by most of the procurement function but still as island of application. For example, in Indonesia, we have procurement planning software (SIRUP), electronic tendering application (SPSE), eCatalog / ePurchasing application, vendor management (SIKAP) and monitoring system (eMoney). Outside the procurement function there are some other modules such as eBudgeting system and payment system. Each of these software applications is designed to automate some part of the process to secure governance and compliance and has its own database. In many cases, information technology, when not done in an integrated manner on an enterprise basis, creates islands of technology applications which further strengthen the walls of

FIGURE 2
Fragmented Procurement Processes



division in each step of the procurement function. As a result, the procurement function becomes more and more oriented toward compliance and less focused on improving the quality, quantity, and cost of services and infrastructure provided to citizens.

Customer Focus Procurement Process

In general, the procurement function is designed to facilitate the user department obtaining the goods and services it needs to achieve their work program. On the other side, the procurement function is designed to seek the best offers from the marketplace which can fulfill the goods and service requirements and aligned with the organization's objectives. Therefore, the procurement function acts as a bridge between user departments and vendors. We can see here that user department and vendors are the customers of procurement department.

From a quality management context, the procurement function should focus more on serving its customers rather than satisfying its own function. Then, if we aim to deliver value for money in government procurement, the mission of the procurement function

needs to evolve from an administrative process focused on compliance to a strategy for service delivery based on customer needs (quality, timing, cost). Performance measurement and management is a critical launching point to make the transition to focusing the organization on achieving VfM. Through the use of performance measurement and management frameworks, we can directly link good procurement outcomes to good organizational outcomes (VfM), and break down silo-oriented thinking in the procurement function.

Overall procurement performance in an organization could be measured from aggregated individual procurement process performance. That is why it is important to establish an integrated procurement process when performance becomes key. How can we design an integrated procurement process? Figure 3 shows the integrated procurement process model, using the case of Indonesia government procurement.

Figure 3 of procurement process model shows the procurement value chain from demand management, procurement preparation, procurement execution and contract management processes. To have a smooth transition between processes we design coordination and planning task, so the flow of procurement processes is optimized (better, faster, cheaper). We have goods & services purchase plan, solicitation plan and contract plan that bridge two processes. Finally, to make all planning tasks aligned we set a strategic procurement planning. The strategic procurement planning task will look after the entire procurement value chain to have an effective and efficient procurement program in an organization.

Figure 3 also defines the deliverable of each process. The General procurement plan (GPP) is the output of demand management process. Demand management process may include defining the requirements and cost budgeting.

The bid plan document is the output of procurement preparation. The procurement preparation key activities include defining specifications, authorizing bid document and owner estimate as well as providing bid schedule. For large organization with many buyer teams, the solicitation plan may include also the resource planning of the procurement execution.

FIGURE 3
Integrated Procurement Process Model



The purchase order / contract document is the output of procurement execution process. It is the result of selection and bidding activities as well as negotiation processes. The procurement execution may consist of various type of procurement such as direct purchase through ecatalog, direct selection to registered vendors as well as open bid process.

The goods and service acceptance document is the output of contract monitoring process. The contract monitoring may include quality assurance and quality control activities to the delivery of goods and services required by the contract.

With this integrated procurement process model we can have better managed procurement performance and high-level customer satisfaction, both internal and external customers. In addition, the model will help you to do analysis for performance improvement. This procurement process model shows the need for collaboration in procurement function.

Should you and others in your organization struggle to get everyone on the same page, Jack Welch recommends special meeting that gets people in the same room, at the same time, and following a structured conversation, might be a solution. The meeting should focus on a critical business issue that needs to be resolved, identify stakeholders who can contribute, and find a senior executive who has sufficient clout to make real-time decisions. Then watch how a boundary-less organization starts to become a reality.

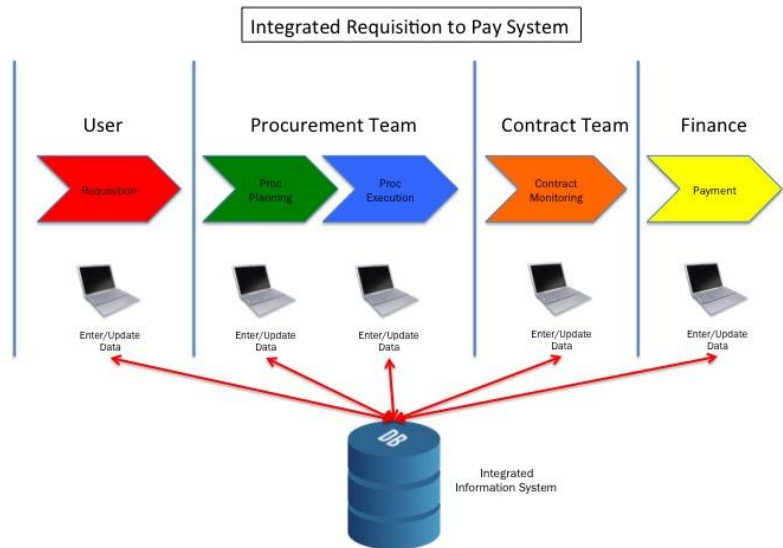
To establish an integrated approach to procurement we need a paradigm shift within each of the stakeholders involved in the processes. They need to have a broader view of the value added procurement function in organization rather than a narrow focus as an administrative task within its division. The persons involved in procurement need to be equipped with communication and managerial skills as well as technical procurement skills.

From the Denali Group procurement innovation findings 2011, it found that the key to creating value in procurement was becoming much more proactive and accelerating service. The proactive procurement opportunities will be achieved by focused on “getting involved earlier, earlier, earlier”. Therefore, the upstream procurement process becomes incredibly important.

To facilitate integrated procurement processes with a proactive procurement team, we need an enterprise level information system infrastructure. With single integrated database system, the procurement information system is not only automate the processes but also provide you with more analytic and visibility information for critical decision-making. As shown in Figure 4, there is a sample illustration of integrated procurement system.

In the next coming years, more advanced procurement journeys are likely to include a range of technologies to help tackle strategic areas like value engineering, demand management, inventory, commodity management, integrated demand/ supply planning, risk management, quality/service level management, etc. The government procurement needs to adopt and adapt those technologies with an eye toward integrated processes in order to leverage their full value and to achieve procurement outcomes in more strategic ways.

FIGURE 4
Integrated Procurement System with Single Repository



SUMMARY AND RECOMMENDATION

The process of procurement is usually detailed and thorough and ranges from the preparation work involved with the demand process, options and planning, approvals, monitoring, payment and record keeping as well as management of the external resources that an organization needs or may need to fulfill its strategic objectives. In pursuit of value for money (VfM) spending, the procurement function needs to adopt an integrated approach and organization-wide processes that include procurement strategy and plan, procurement execution and contract monitoring. Moreover, the procurement function needs to extend the upstream chain to align with program strategy to ensure that there are direct connections between procurement outcomes and organizational goals, objectives and targets.

Traditional government procurement consists of lengthy procedures that are operated by administrative minded and regulatory focused officers and supported by several islands of

departmental software applications. Although this governance was originally designed to provide good process control and compliance procedure, in many cases, procurement is considered a bottleneck process in the organization's ability to deliver timely, quality, and cost effective outcomes.

One innovative idea for procurement debottlenecking initiatives is establishing integrated approach of procurement processes. The integrated approach is started by defining the procurement value chain in organization and designing the procurement process which resolve the currently silo-oriented steps and unchained processes. This integrated procurement process also has to be managed by procurement professionals who have broader view of procurement function, result oriented, and skillful in establishing collaborative relationships among departments. Moreover, effective integration of the procurement function needs a technology infrastructure that facilitate process collaboration and shared data analysis as well as reduce task redundancy. To this end, standardization becomes an important theme throughout the integrated approach of procurement.

The integrated approach of public procurement may create journey to realizing value for money for government spending and may become a way of doing public procurement reform and creating a high performance culture in procurement function. However, organization change towards integrated public procurement is a challenging program that needs champion from the top leader in the organization.

REFERENCES

- Sumarsono, Sonny (2015). "Proses Pengadaan Terintegrasi – Upaya Menjalinkan Rantai yang Putus", *Procurement Indonesia Magazine* April 2015: 11-12 (in Bahasa Indonesia)
- Ashkenas, Ron (2015). *Harvard Business Review* Sept 2015. "Jack Welch's Approach to Breaking Down Silos Still Works". [On-line]. Available at www.hbr.org. [Retrieved Mar 15, 2016]
- "The Procurement Innovation Imperative." (2011, June), Denali Group Procurement Innovation Research – 2011 Findings: 4.
- "DFID's Approach to Value for Money (VfM)." (2011, July), Department for International Development: 4.

“Understanding Corporate Environment.” (2010, September), International Trade Center, MLS – Coursebook module1, Unit1: 3-6.

“The Definition of Procurement and Supply Chain Management.” (2013). CIPS Knowledge Australasia: 2-9.