

## STRATEGIC PROCUREMENT IN THE PUBLIC SECTOR: A MASK FOR FINANCIAL AND ADMINISTRATIVE POLICY

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**ABSTRACT.** As government responds to demands to become more efficient and effective, procurement professionals are expected to focus primarily on the strategic aspects of procurement and less on routine transactions. In reality, public procurement masks the ability of government to transform taxes and other revenues into consumption by government institutions at federal, state and local levels, ostensibly for the public good. Public purchasers are told by their professional institutions and their private sector peers to be more proactive and less reactive in order to add greater value to their organization. However, tradition has decreed that procurement processes are managed by “unglamorous individuals” (Stewart, 1994) who are required, first and foremost, to satisfy the complex accountability processes of the government, an administrative principle, which is reinforced by recent failures of corporate financial governance. Furthermore, a search of contemporary literature shows little evidence that public procurement has penetrated the theoretical boundaries of public management or strategic management despite the profession’s efforts over more than a decade to develop its profile. This paper explores two contemporary dilemmas: the boundaries of public procurement within the context of public administration and the mask of public accountability, which impedes the integration of public procurement into public administration (PA) and strategic theory.

### INTRODUCTION

The field of public purchasing possesses a strong history in the United States from 1792 when the federal government authorized the

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Departments of War and Treasury to contract on behalf of the nation. While the intent of Congress was likely to prevent corruption in the letting of government contracts, the authorization also served as an acknowledgement of the profession (Callender & Matthews, 2000). Public sector purchasing, which progressed over the years, was viewed largely as a clerical function by many and a controlling gatekeeper by others (Grimm, 1999). It was not until the 1990s that the field took significant steps toward becoming a respectable profession. Much of this progress was due to the electronic technology boom, which prompted such efforts as e-procurement, e-business, and e-commerce. In a sense, this advancement in private and public business sectors forced public purchasers to step up and take on a strategic, leading role with their respective organizations or risk being left behind in obscurity. In 1994 the Federal Acquisition Streamlining Act (FASA) prompted further change in public purchasing ranks. Higher expenditure authorizations were given to federal agencies and alternative procurement processes were adopted. This act helped shape the next decade for public purchasers, as it placed them in a position to handle large, complex projects using new and value-added techniques. Activities such as best value purchasing, direct supplier negotiation, and strategic planning suddenly became commonplace. While best value purchasing had been utilized in the past by federal agencies in certain instances, FASA placed great emphasis on this approach to procurement.

#### **A RESPONSE TO PUBLIC SECTOR DEMAND**

With government purchasers accounting for over 20% of the gross domestic product (GDP) in the US (Carter & Grimm, 2001), the importance and potential impact of the profession is obvious. Because procurement professionals can control the destination of such a significant amount of the annual government spend, their activities must be closely examined. Both public and private organizations have witnessed the recent trend of increasingly responsible duties in procurement. A survey by *Purchasing* magazine notes that 84% of company managers are committed to maximizing strategic procurement functions (Milligan, 1999). Effectively, this result indicates that the daily functions of purchasers in leading organizations are indeed shifting from tactics to strategy. Duties like purchase order issuance and order tracking are being replaced by activities such as global sourcing and spend analysis. The value of spend analysis was demonstrated by the Air

Force Information Technology Commodity Council, which saved \$4 million in 2003 by analyzing and consolidating desktop and notebook computer purchases (Tiboni, 2004). While this progression may have well moved the profession from the back room to the boardroom (Baker, 1999), it places purchasers in a position of, according to Callender, “pushing around enormous amounts of money...without specialized education” (Curtin University, 2002, p. 2). Table 1 identifies some specific tasks related to the evolution of purchasing from a tactical function to one of a strategic nature.

**TABLE 1**  
**Specific Tasks Related to the Evolution of Purchasing**

<b>Tactical (Historic)</b>	<b>Strategic (Leading)</b>
Purchase order issuance	Supplier alliances
Vendor file maintenance	Cost management
Excess inventory	Global sourcing
Order tracking	Life cycle costing
Unit cost focus	Procurement planning
Local vendors	Spend management

During the 1980s and 1990s the familiar call in government was to “do more with less”. From the federal government to state and local governments, the public sector experienced an era of downsizing and outsourcing. Due in large part to shrinking budgets and waning public sentiment, government agencies got smaller, but they expected to continue providing the needed services and core functions, if not more. Public administrators at all levels, including those in purchasing and supply management functions, were looking at creative means to attain such services. Traditional and routine activities gave way to empowerment and delegation. In order to accomplish the mission of purchasing goods and services, other business areas within the organization were relied upon more than ever. This often included the use of procurement cards for small dollar, routine purchases, a use which exemplifies the increased service benefits agency managers realize through great flexibility in purchasing (McCue & Gianakis, 2001). Professional purchasers were left to take on challenging, high dollar procurements. Additional responsibilities were laid out of necessity at the door of others, and while certainly accountable for their own actions,

these agency users operated under the auspices of the purchasing department. The transition from a process-based approach for procurement to one focused on results is noted in the Report on Competencies for the Federal Acquisition Workforce. In acknowledging the changing nature of public contracting, several core capabilities are identified, including the ability to communicate effectively, manage and lead change, and build relationships across the organization (FAI, 2003b).

Like other areas of administrative reform, procurement has experienced an attempt to alter the existing structures of power and influence (Rosenbloom, 1993). These reforms are driven by federal and state legislators, elected by their constituents to effect change in a government often viewed by the general public as bloated and inefficient. Professional legislators utilize their program and staff resources to improve administration of the procurement function. By understanding traditional procurement models and comprehending the needed reform, they hopefully possess the capacity to effect the needed change and provide the necessary oversight (Rosenthal, 1996). According to Gianakas and Wang (2000), many states, particularly those perceived as wealthy, are able to successfully implement procurement reforms such as deregulation and decentralization.

### **BOUNDARIES OF PUBLIC PROCUREMENT**

While much is made about the extent of public procurement's broad range of power in expending the public's money, certain boundaries exist that often go unnoticed. Each public agency has stringent policies and guidelines on how procurement will be handled. Many of these policies mirror the structure and content of the American Bar Association's Model Procurement Code (NIGP, 2001b). Thirteen sections, or articles, clearly and concisely lay out the range of duties and parameters for all activities. Procedures are mapped for such functions as solicitation development, contract structure, and proposal evaluation. Within the Federal ranks, procurement and contracting activities are guided by the Federal Acquisition Regulation (FAR), an exhaustive set of directives for the Department of Defense as well as civilian agencies. With such apparent marching orders staking out the boundaries of procurement activities, one must ask, "what decision making responsibility does the purchasing agent actually have?" Further, if billions of dollars being spent are done so in a routine and regimented fashion, then one can

easily see why the procurement profession has not advanced like other PA disciplines. Even though significant strides have been made, public sector purchasing often lacks the credibility of such traditional PA fields as financial accounting and public policy.

It must also be noted that procurement did not establish itself within the academic ranks until recent years. A survey by the Oregon Public Purchasing Association (OPPA, 1997) found that nearly 40% of purchasing practitioners within their government ranks did not possess college degrees. Granted, the percentage of procurement officers and managers does tend to be higher. But recent research noted that, still, 12% of those in the managerial ranks held only a high school diploma (Johnson, Leenders & McCue, 2003). A 2002 report from the Federal Acquisition Institute indicates that, among the internal hires within the Federal government, only 64% were college graduates (FAI, 2003a; 2003b).

With such a large share of purchasers practicing without a degree, and apparently without the need for one, it should not be surprising that college-level programs in procurement are somewhat limited. There are reputable colleges and universities offering purchasing and supply management courses as part of undergraduate and graduate programs. Such institutions as Portland State University and Arizona State University even have formidable degree programs in purchasing (Institute for Supply Management, 2005). However, it was not until 2002 that serious efforts were made to focus such a program specifically on public procurement. A partnership was formed in the late 1990s between Florida Atlantic University and the National Institute of Governmental Purchasing (2001c), which has led to college level texts being developed for training the profession. Even this training leads to professional designations, it will also lead to a bachelor's degree program in public purchasing. Such efforts are admirable but certainly a bit delinquent in their formation. When today's purchasers cringe at being referred to as "glorified clerks" (Grimm, 1999), they need only look to their own profession and lack of educational alignment to assign blame.

While the Center for Advanced Purchasing Studies has identified education as a critical area for world-class purchasers (Guinipero, 1998), there are still many within the purchasing ranks that function contently without educational credentials. It is this void that often prevents

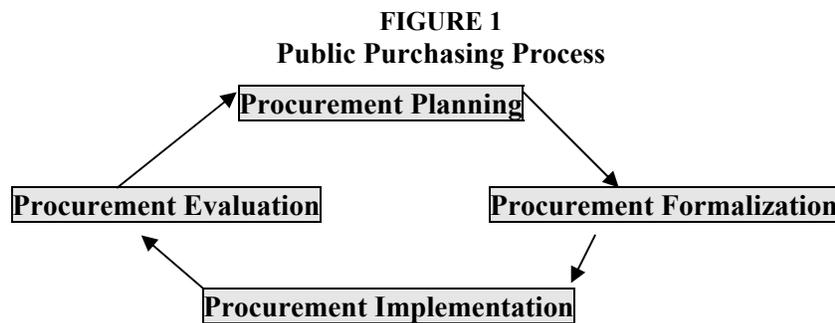
advancement and respect. It would appear that boundaries and limitations have manifested themselves in this field due to the lack of formal education by its members.

Ethical boundaries also surround the public purchaser. Perhaps more so than other administrative disciplines, purchasing is expected to operate within rigid guidelines. As the expenders of public funds, purchasers pledge to be above reproach and influence. Codes of conduct are common within the field of public and private procurement. Both the National Institute of Governmental Purchasing (NIGP, 2001b) and the Institute for Supply Management (ISM) require their members to accept and follow a published code of ethics. Doing what is honest, forthright, and in the best interest of their respective organization, and seeking no personal gain are common elements of these codes. Unfortunately, public officials do not always operate within these parameters, and when these boundaries are crossed, there is tremendous public scrutiny and even dire consequences. Case in point: an official with the New Jersey Transit Authority recently came under investigation for seeking and accepting gifts from agency contractors (Sforza, 2003). These gifts were valued at several thousand dollars and included baseball tickets to the World Series, a stay at a posh London hotel, and passes to various musical shows and concerts. When such activity comes to light, there is, unfortunately, no way to mask one's accountability. This official may face several years in prison and significant fines. Therefore, the boundaries for public purchasers are not limited to the acquisition process itself, but also include standards for personal conduct.

#### **PUBLIC ACCOUNTABILITY MASKED**

Members of the general public and private business community routinely pass judgment on the government. Perhaps this is done in reaction to a personal experience with a local entity, or based upon information garnered through the local newspaper or television network. Governments at all levels are facing increased scrutiny which, according to Cogburn (2003), is warranted. It is such performance that is spotlighted by reinvention of government supporters as a prime area for reform (Gore, 1993). The important questions seem to be "what is the role of the public purchaser in today's government?" and "how ultimately accountable is this purchaser?"

It is imperative to first examine the role of the public purchaser. McCue and Gianakis (2001) offer an intriguing process model. The public purchasing process is divided into four different activities, or phases: planning, formalization, implementation, and evaluation, as shown in Figure 1. All activities support service delivery needs of using departments and managers.



Procurement planning calls for early involvement of the purchasing office so that options and alternatives can be explored with the requesting user. Issues such as purchase estimates, product specifications, make or buy decisions, and outsourcing opportunities may very well be on the agenda. While the purchaser can offer input and advice based on past experience (NIGP, 2001a), it is most often the using department that is considered the project owner who therefore, would likely make the ultimate decision to proceed with the purchase. After all, the expenditure would be coming from the operating budget that the project owner is charged with managing. So when a member of the general public questions the appropriateness of a purchase, the requesting program manager is the one to answer questions and offer justification. For instance, if the fleet manager determines that a sport utility vehicle, fully loaded with stereo and moon roof, is appropriate for purchase, it is his or her signature that initiates action. Purchasers may question the validity of such a request, but when an established manager approves the expenditure, it will happen more often than not. Certainly the fleet manager must be prepared to answer for the decision, as he/she realizes that the purchasing officer actually has little say in the matter. The latter carries out the purchase, and possibly even signs the purchase order but faces nominal accountability.

The next phases include formalization and implementation of the procurement action. Essentially these entail adapting the request for a formal solicitation, either an invitation for bids (IFB) or request for proposals (RFP) and issuing it to the private supplier community for consideration of offers. In most organizations, this would also include a public notice of bid letting, followed by a sealed envelope process where offers are opened and read aloud at a public opening. Such procedures are generally accepted by federal, state, and local agencies alike, with only the dollar threshold for a formal tendering process varying. As mentioned earlier in this paper, many agencies follow the processes and procedures of the American Bar Association Model Procurement Code. Examples of this trend are seen in Arizona and Oregon, both of which operate under procurement statutes based on the ABA's structure. Of course, federal agencies are bound by the rules and regulations contained in the FAR. There may be much benefit in such uniformity and consistency among governments, but simply following a generally accepted code in carrying out one's mission can hardly be considered innovative, let alone something to be held individually accountable for. It is this type of regimented and autocratic procurement process that essentially allows the public purchaser to carry out orders without consequence. After all, if questioned on the outcome he or she can merely acknowledge, "Just doing my job."

Procurement evaluation is the final step of the process model. Not only does this phase serve to evaluate the effectiveness of the process just conducted, but it also serves as an improvement tool for future actions. The intriguing aspect of evaluation is that, again, others are heavily relied upon to contribute and answer for the effort. As an example, either senior financial officials or supply chain consultants often lead re-engineering efforts. When procurement practices are viewed by these groups as inefficient, the processes can be both re-examined and re-engineered as part of an overall system evaluation. Case in point is the local school district of Portland, Oregon, that retained Carerra-Maximus to conduct an extensive review of its purchasing and supply management systems. Proposed improvements included the revision of long-standing practices of carrying excess inventory and operating redundant distribution systems. The resulting business process review report was well received by the district's board of directors and senior management (Portland Public Schools, 1999). In this case and others, it is the purchasing officer who carries out the recommendations

for revised and streamlined processes. In that respect, purchasing can take the credit for visible process improvements, such as reduced bidding timelines, but when confronted with resistance or complaints the purchasers can always lay the blame on the consultant. When this environment exists in government procurement circles, the purchaser is insulated from accountability and therefore wears a mask of non-responsibility.

The annual spend in government is quite staggering. For the US alone, a total of \$1670 billion was expended in 1999 (Thai & Grimm, 2000). Of course, to expend such large amounts of public funds requires an incoming flow of like revenue. Whether public agencies obtain funding from pure taxation (i.e. property, sales tax) or from enterprise-type fees (i.e. parking, permit fees), it is the general public that is shouldering the financial burden. Because of this, government is expected to operate with a sense of efficiency as well as accountability. While this may not always be the end result, it is certainly the underlying assumption.

The public purchaser steps into the arena whenever these public monies are slated to be spent. Purchasers will finalize the expenditure of operating and capital budget dollars upon request, so perhaps they still somewhat play the role of a gatekeeper for their entity. The transformation of taxation into expenditure may have been planned, authorized, and appropriated by another administrator, but the purchasing officer essentially serves as the final processor of the acquisition at hand. When supplies or equipment are purchased by an agency, the revenue by which they operate is literally consumed. This consumption may be considered by some to be fully justified, because appropriate steps and protocol have been followed. However, if the good or services acquired are not of good value or quality, or heaven forbid, are unneeded by the agency, then the purchasing officer may have masked the very accountability that government should stand for.

### CONCLUSION

The public sector has responded in recent years to the public's expectation to become more efficient and effective. Spending such a significant portion of an agency's publicly funded budget, the purchasing professional has no choice but to heighten his or her performance. Much is said these days about the strategic aspects of procurement. The

research shows that purchasers are focusing more on front end planning and less on routine, tactical functions. Despite the history of government purchasing and its evolution over the last three centuries, it has still not been completely embraced by the academic community as a formidable player within public administration. Certainly contributing to this dilemma is the lack of educational alignment by the field, as well as a deficiency in formalized training and credentials by its practitioners.

Many boundaries exist for today's public purchasers. Innovation and possibly creativity tend to be limited when government agencies follow uniform and routine standards. Though consistent methodologies do have their benefits, they can also aid in masking the accountability for those employing them. Ethical boundaries also exist for the field and must be carefully adhered to. As government purchasing officers expend public funds that have been requested and approved, their activity is the last step in transforming of taxes into expenditure. Caution must be employed by purchasers, however, as their activities are masked at times from public accountability. Finally, this field must evaluate its past and present standing to fully comprehend its omission from mainstream PA. Hopefully, this will help explain the current state of the public procurement profession and assist with the planning of future strategies.

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