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Public procurement as a policy tool: using procurement to reach desired outcomes in society

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Abstract

Purpose – The purpose of this paper is to introduce the special issue and outline its major themes and challenges, their relevance and the research opportunities the field presents.

Design/methodology/approach – The paper reviews prior literature and outlines the need to view public procurement as a policy tool to introduce the contributions to this special issue.

Findings – Public procurement has been consistently used to further public policies in a wide range of fields. The collection of articles in this special issue contributes to a broader understanding of the role and potential of public procurement in delivering desired policy outcomes in society. The articles show that public procurement largely has strategic aspirations, and its potential to deliver on wider societal issues is attractive to policy makers. The issues raised in this collection of articles, however, also demonstrate that public procurement often lacks strategic maturity and critical issues, notably around how to demonstrate and evaluate its impact and “success”.

Research limitations/implications – This paper aims to stimulate interdisciplinary research into the role of public procurement as a policy tool and its ability to achieve public value.

Originality/value – This paper discusses theoretical and empirical findings that highlight the importance of public procurement for achieving public value. The special issue examines the interdisciplinary literature on public procurement and shows how it is being used to achieve public value.

Keywords Public procurement, Policy instrument

Paper type Research paper

1. Introduction

In Europe, over 250,000 public organizations spend 14 per cent of the GDP on the procurement of goods and services (Grandia, in press). They procure these goods and services, ranging from stationery to fighter planes, cleaning services and public road works, for the execution of their policies, as well as for their own operations. In many of these public organizations the role of public procurement has changed significantly over the years. Being the biggest spender in the EU allows public organizations to use their procurement to apply leverage to certain key policy objectives (Grandia, in press). Therefore, where public procurement was first only about fulfilling a specific demand and providing what the users demand in the right quantity, at the right time and in the right place, it is now often also about making sure that procurement adds value to its environment (Telgen *et al.*, 2007). Public organizations nowadays use public procurement for a multitude of societal goals, such as minimizing long-term unemployment, improving working conditions throughout

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the (international) supply chain, stimulating innovation, providing opportunities for small- and medium-sized enterprises (SMEs) or local businesses, and stimulating the market for sustainable goods and services. This development means that public procurement is no longer just a means to an end, but also a policy tool that is used to achieve desired outcomes in society.

In the European Union the European Parliament and the Council of the European Union are trying to fuel this development with their new procurement directives. In 2014, they adopted new and updated EU directives on procurement. The EU member states had, until April 2016, to transpose these rules into national law, except with regard to the e-procurement rules for which the deadline is in 2018 (EU Commission, 2016). The new directives aim to diminish the administrative burden of public procurement, to create more opportunities for SMEs, and more importantly to expand the possibilities for public procurement authorities in the EU to use procurement as a policy tool (EU Commission, 2016).

However, despite the increased recognition of the potential of public procurement as a policy tool for reaching desired outcomes in society, it remains an understudied topic in public sector management. Little is known about how procurement is implemented, how successful it is, what factors and actors determine its effectiveness and successfulness, and how public procurers deal with the (often conflicting) goals that they have to combine in their procurement. This special issue tries to shed some light into the usage of public procurement as a policy tool by examining the concept from different angles.

The remainder of this introduction is structured as follows. Section 2 introduces the existing views on the relationship between public procurement and policy objectives. Section 3 presents the papers in the special issue. And Section 4 offers some reflections and presents an agenda for future research.

2. Public procurement as a policy tool

Public procurement has been consistently used to further public policies in a wide range of fields, such as the national industrial policy, reducing unemployment, improving employment conditions, support for small businesses, local development, employment of disabled workers, and equal pay for men and women (McCrudden, 2004).

Across Europe and the OECD, the procurement of innovation forms a central dimension of many public policy initiatives (Uyarra, 2016). The academic research on public procurement and innovation is surprisingly sparse, despite the plethora of public policies that see this as an effective goal (Edler and Yeow, 2016). The use of procurement as a public policy tool to stimulate innovation, alongside traditional approaches of providing research and development subsidies (Edler and Georghiou, 2007), is a common policy theme across Europe, USA, Brazil, and China (Lember *et al.*, 2015). Despite its strategic relevance, there remains a lack of alignment between policy and public procurement practice (Rolfstam, 2015), and academic debates still largely centre on defining public procurement innovation (Selviaridis, 2016). Typologies and definitions are rooted in innovation policy and theory and the specific role of procurement in limited (Selviaridis, 2016). The empirical literature on public procurement is generally focussed on specific policy drivers, e.g. sustainability (Brammer and Walker, 2011) or SMEs (Loader, 2015), rather than a broader consideration of how public procurement can be positioned as a strategic policy tool to drive and create markets to address societal needs. The capacity for procurement to deliver policy goals is brought into question as the current research is not fully representative of the bulk of public procurements and downplays procurement diversity. As such, procurement is often conceptualized as a singular process, masking its complexity and variety of potential roles throughout the innovation and policy landscape. Moreover, the extant literature is commonly set in specific regions and countries of the western world. These gaps are important to fill if procurement is to fulfil its policy ambitions.

Public procurement has an obligation to deliver value to its citizens, and procurers are held accountable through complying with regulation, responsible spending of the public purse, and ensuring the third-party delivery of contracted goods and services (Russell and Meehan, 2014). These obligations or efficacy of regulatory frameworks are rarely challenged in the literature, yet the performance and impact of procurement activity is an under-researched area, both in terms of immediate value performance, and wider societal impacts. In addition, numerous barriers prevent public organizations from delivering innovation and policy outcomes including lack of market engagement by procurement, poor tendering practice, low procurement competence and lack of risk management (Uyarra *et al.*, 2014). Procurement is a complex market transaction, and markets that contribute to broader societal goals and/or innovation may have novel or ill-defined needs making the need for strategic and mature procurement even greater (Edler and Yeow, 2016). Outcomes that deliver wider public benefit demand assessment beyond financial metrics and require a longer-term measurement of impact. These measures might themselves be new and innovative and will involve iterative network relationships between suppliers, service providers, public bodies, and communities. If public procurement lacks these capabilities, then its ability to reach desired outcomes in society is limited. The need to extend the evidence base of diverse public procurement contexts in delivering policy aims forms the basis of this special issue.

3. Introduction to the research articles

This special issue of *IJPSM* presents six articles on public procurement. Despite their common topic, they come from different disciplinary backgrounds (public administration, economics, international business), from different continents Europe, Africa, and Asia (and countries: the Netherlands, France, Finland, India, Sweden, and Ghana), and use both quantitative and qualitative research methods. More importantly these six papers examine different assumptions underlying the use of public procurement as a policy tool.

Public procurement can be used to achieve certain policy goals and thus create value for society. Using public procurement as a policy instrument often starts with choosing a tender design that awards a contract based on criteria other than price, for example, by awarding a contract to the economically most advantageous tender (EMAT or MEAT). EMAT is the weighted sum of different aspects of a product or service that provides value to the public procuring authority, such as quality, environmental, safety or social aspects. By including specific award criteria in an EMAT design governments can use their procurement to stimulate specific government policies. The article by Sofia Lundberg and Mats Bergman titled "Tendering design when price and quality is uncertain" shows that choosing a tendering design is not as black and white as choosing between price and quality. They state that uncertainty regarding the quality and quality standards can make it difficult to choose a tendering design. Lundberg and Bergman, therefore, seek to understand the authorities' perception of the relative importance of price and quality and the degree of uncertainty, and how this relates to revealed behaviour in the choice of supplier selection methods, scoring rules and shaping the decisions of the organization. On the basis of the normative theory, they hypothesize that EMAT ought to be more likely when the cost of quality is uncertain, when quality is difficult to verify, but not necessarily when quality is high on the buyer's priority ranking. These hypotheses were tested in a two-step survey conducted in 2009 and 2011. Results show that a high level of uncertainty concerning the cost of different levels of quality makes the use of lowest price for awarding the contract less likely. On the other hand, if the quality is non-verifiable (and thus highly uncertain) public procurement authorities were more likely to use high-quality weights. More importantly perhaps, the authors find that the authorities' selection criteria are relatively fixed. Although public authorities' are acting in accordance to rational choice

theory regarding tailoring their scoring rules, they also tend to be relatively inflexible in their choice. According to Lundberg and Bergman, public organizations that want to use their procurement as a policy tool need to gain more insight into how scoring rules can be used to achieve and sustain quality levels and focus more on the economic and commercial aspects of procurement, rather than on the avoidance of legal conflicts.

Shelena Keulemans and Steven Van De Walle's paper titled "Cost-effectiveness, domestic favoritism and sustainability in public procurement: a comparative study of public preferences" actually takes a step back from this and question whether citizens actually prefer their government to use public procurement as a policy tool? Do citizens actually want their government to consider the environment in their procurement, favour local suppliers, or do they merely want them to be cost-effective? Keulemans and Van De Walle use Eurobarometer public opinion data from 26,000 citizens in 27 EU countries to identify the public procurement preferences of citizens. They find that EU citizens actually want public authorities to use award contacts on more than price alone and evaluate multiple aspects in their procurement decisions. Interestingly, although EU citizens do still value cost-effectiveness and domestic favouritism, they are most supportive of the objectives of sustainable procurement.

Although citizens are supportive of the use of public procurement as a policy tool, the number of different policy goals that procurers have to incorporate in their procurement is increasing. Public procurement has been consistently used to further public policies in a wide range of fields, such as the national industrial policy, reducing unemployment, improving employment conditions, support for small businesses, local development, employment of disabled workers, and equal pay for men and women (McCrudden, 2004) making it more and more complex for procurers to meet these often conflicting goals (Grandia, 2015). In their article titled "Public procurement for innovation and civil preparedness: a policy-practice gap" Isabell Storsjö and Hlekiwe Kachali examine if and how the goals of two separate policies, innovation and civil preparedness, are met via public procurement in Finland. They conducted semi-structured interviews with more than 90 respondents in the healthcare, energy and water services sector in Finland and found that procurers may include aspects of innovation and preparedness in what they are buying, but mainly as an add-on feature for specific items or in specific types of procurement (such as in R&D projects). Factors such as market realities, uncertainties of outcomes or responsibility for achieving policy outcomes affect the degree to which procurers are able to achieve the policy goals through public procurement, also due to the sometimes limited knowledge and resources of the procurers. They, therefore, conclude that it seems to be difficult to incorporate both policy goals in public procurement in a strategic way, to achieve innovation and preparedness. However, given the limited financial resources of public organizations, and the fact that they are also responsible for ensuring effective public service, innovation, and civil preparedness, it only makes sense to try to deal with these elements in an integrated manner. This will, however, require, according to Storsjö and Kachali, a holistic approach, changes in behaviour and investments in procurer's capabilities.

The article by Olivier Mamavi, Olivier Meier, and Romain Zerbib titled "How do strategic networks influence awarding contracts? Evidence from French public procurement" also examines the procurement practice and its influencing factors. The authors start from the premise that although public procurement decisions in France are governed by a very strict regulatory framework (Public Procurement Contracts Code, 2012), they may be influenced by the market structure and the relative position of suppliers in this market, along with the networks to which the firms belong. The article examines whether networks influence contract awarding by analysing award notices to consortia of firms, published in the French official journals for the year 2008. The French state encourages co-contracting in which

businesses form a group and propose a collective offer that is more advantageous than their individual offers. In the award notices Mamavi *et al.* identified 4,242 strategic alliances with over 10,000 ties between the actors in the network. Based on network theory they hypothesize that the awarding of public contracts is influenced by the strength of the ties in strategic networks and that in an alliance the lead partner moderates tie strength. Their findings partially support these expectations. The authors find that the strength of inter-organizational ties has a significant effect on the public buyer's decision to award a contract. For a company, having weak ties in a strategic network, regardless whether it is a representative of an alliance or not, increases the awarding of public contracts. Having strong ties in the network only affects awarding of the contract if they are without control of the alliance. Mamavi *et al.* thus identify inter-organizational relations as a new determinant of public decisions supplier selection in France.

Many studies into public procurement focus on European or western countries. We are, therefore, very pleased to include two articles in the special issue that examine findings and assumptions from western public procurement studies in a different context. The article by Mohammed Ibrahim, Justice Nyigmah Bawole, Theresa Obuobisa-Darko, Abdul-Bassit Abubakar, and Anthony Sumnaya Kumasey titled "The Legal Regime and the Compliance Façade in Public Procurement in Ghana" examines the procurement practice in Ghana. Using public procurement as a policy tool is about using procurement to achieve the most value for money. Ibrahim *et al.* start on this premise by stating that although procurement studies often claim that procurement laws can help to ensure that value for money is achieved in public procurement, it is unclear how effective regulatory frameworks are in a developing country context. They therefore conducted a qualitative case study into three metropolitan, municipal and district assemblies in Ghana to examine the degree of compliance with the public procurement act, what factors explain (non-)compliance, and what the implications of (non-)compliance in terms of accountability and value for money are. Ibrahim *et al.* show that the mere presence of a legal and regulatory framework does not guarantee compliance or value for money. A good legal regime, however, if complied with, can help in promoting accountability and value for money. The authors also find, however, that in Ghana, a developing country, there are several challenges such as political pressure, lack of political will, corruption, weak institutions or weak enforcement mechanisms that threaten compliance with the procurement law. Moreover, they state that even when there is evidence of compliance, caution is needed, as the procurement management process is often fraught with various covert attempts to "window-dress" non-compliance, thereby indicating the importance of country context.

The last article, by Kapil Patil and Venni V. Krishna titled "Government Procurement Policy for Small & Medium Enterprises in Developing Countries: Evidence from India", examines public procurement in another developing country and also contributes to a better understanding of the implementation of SME-oriented procurement practices. SMEs run into a wide range of barriers in public procurement, which often leads to a relatively small percentage of public contracts being awarded to SMEs by public organizations. To facilitate the participation of SMEs in public tenders a host of support policies that prescribe a number of organizational, attitudinal, and institutional changes, affirmative action schemes such as quotas, or price-preferences that should increase the share of SMEs in public procurement (Graells, 2016). The Indian Government, like many countries, enacted a preferential public procurement policy in 2012 that sought to leverage the large procurement spending for the benefit of SMEs. Little is however known, according to Patil and Krishna, about the effectiveness of the policy in enhancing SME participation, or whether the central ministry, the department, and the Public Sector Enterprises (CPSE) actually meet the SME targets stipulated in the policy, and what could explain their under- or overachievement of these targets. Patil and Krishna therefore

conducted interviews with officers responsible for the implementation of the procurement policy from ten CPSE's that met the SME targets and ten CPSE's that failed to meet it. The findings from this study identify organization-level barriers that prevent SMEs from participating, such as unfair qualification criteria, large contract sizes, under-staffed procurement divisions, or efficiency concerns among procurers. These barriers are not that different from barriers the SMEs in developed countries, however the context of a developing country adds to these barriers, for example, through widespread uncertainty about the implementation of SME support policies due to a lack of administrative capacity, risk-aversion of public procurers due to low supplier and technological incompetence, and anti-competition practices such as bid rigging and corruption. Consequently, the policymakers in the developing countries must find ways to enact even more robust policies that allow SMEs to improve their share in public sector markets.

4. Reflection

The collection of articles in this special issue contributes to a broader understanding of the role and potential of public procurement in delivering desired policy outcomes in society. Keulemans and Van De Walle provide insight into the rarely explored area of citizens' preferences, and show that citizens want public procurement authorities to choose quality over price, recognising the wider societal "value" of these decisions. A challenge arising in how procurement choices are made is demonstrated by Lundberg and Bergman, who show that uncertainty of the quality of goods and services affects the relationship between price and quality weightings in tenders. As authorities' selection criteria tend to be relatively fixed, and wider policy goals increase outcome uncertainty, public procurers need to explore how they can increase the flexibility of how they use the regulatory processes. The role of regulation is further explored in Ibrahim *et al.* in the context of Ghana. The authors provide evidence that legal and regulatory frameworks do not necessarily guarantee compliance and value for money, but, if complied with, could help in promoting accountability and value. Similarly, Storsjö *et al.* expose gaps between policy and practice in Finland. Their article shows that despite the policy on using public procurement to achieve goals regarding civil preparedness this does not mean that it is fully implemented. Patil and Krishna show that a developing country context increases the barriers to implementing public procurement policy, and in this case to the implementation of a policy on enhancing the participation of SMEs. Network relationships are another important issue identified by Mamavi *et al.* who find evidence that the strength of ties affects the chances that a company is awarded a contract.

A theme running through all the articles in this special issue is that public procurement largely has strategic aspirations, and its potential to deliver on wider societal issues is attractive to policy makers. Conflating spend with influence, however, is perhaps a danger, and the issues raised in this collection of articles demonstrate that public procurement lacks strategic maturity and critical issues, notably around how to demonstrate and evaluate its impact and "success". The question whether public procurement is an effective policy tool therefore remains largely unanswered.

The special issue highlights the diversity and reach of public procurement, but it has merely examined some of the assumptions that underlie the use of public procurement as a policy tool. We therefore invite other researchers to build on these findings and move forward to a greater understanding of this subject. The current positioning of public procurement in the literature, and by policy makers, tends towards one-dimensional approaches. The field therefore still lacks diversity of evidence from across the globe, and of various spend categories. The significant gaps between policy and practice support a need for further research into public procurement – its potential, and its current use. A comprehensive review of the field and (international) comparative studies into the

effectiveness of public procurement as a policy tool are critical gaps in the research landscape and key to understanding the full potential and effectiveness of public procurement as a policy tool.

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Further reading

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