

Cross Sector Procurement: An Exploration of Differences in Strategy and Practice

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Introduction

A long standing challenge facing public administrators is balancing the demands of effectiveness and equality in American Government (Okun 1975). Nowhere is this conflict more evident than in public procurement, a field in which public administrators must balance the achievement of social goals and the need for fiscal efficiency. The performance of the public sector in procurement activities and provision of public services represents a significant part of this concern. The relative size of the public sector spending from tax revenue drives this concern. Pressures on the public sector for increased efficiency in the use of public resources have mounted in recent years. Tax payers expect public sector administrators to provide ‘a bigger bang for the buck’ to enable more efficient spending such that public administrators provide more with less. Public procurement is no longer a tactical endeavor.

In today's global economy of competition in the private sector and ever-shrinking budgets in the public sector, procurement strategy is becoming increasingly important. This is especially true given that over the last decade goods and service costs account for more than 60% of the total costs for most organizations (Degraeve, Roodhooft & van Doveren, 2005). In the public sector, over the same time span, the total financial activities are estimated to be may be as great as 10-20% of the gross national product (Mori & Doni, 2010). Consequently, the selection of effective procurement strategies can lead to, among other things, significant cost savings. Surprisingly, in both the public and private sectors, procurement has been an undervalued activity in terms of its contribution to organization performance improvement and value for money management (Degraeve, Roodhooft & van Doveren, 2005).

Though public procurement is a salient government function, it has historically been a neglected area of academic research (Thai, 2001). However, a trend has emerged as the study of public sector procurement has become more present in academic research. A number of authors proposed that the procurement strategies and purchasing management practices, in the private sector could be applied the public sector. (Johnson, Leenders & McCue, 2003; Murray, 2007 Thai, 2005). Nevertheless, cross sector application is not a “cut and paste” process given the fundamental differences between the private and public sector goals and purpose (McCue and Pitzer, 2005).

Differences in Public and Private Sector Procurement

Fundamental differences exist between the public and private sector in reporting structure, regulating bodies, funding sources and operating motives (Larson, 2009). First, the public sector is governed by legislative bodies, laws, and untold numbers of state and federal regulations. The private sector is guided by boards of directors, business plans and the organization's purchasing policies. Second, the public sector funding sources are drawn from taxes and fees and carry with them innate external regulations regarding their use. Private sector organizations generate revenue through sale of goods and services and face no external requirements for use. Third, the scope of public procurement is broader than simply procuring required goods and services. Public sector procurement considers aspects such as the development of its local economy and small business therein, job creation, promotion of open equitable markets and strict adherence to clear procedures, fair competition, and transparency (Telgen, Zomer & de Boer, 1997). In the public sector, transparency is critical to ensure appropriate accountability, minimize corruption in procurement and promote trust by allowing citizens to see and judge the quality of government actions and decisions (Arrowsmith, 1998; Smith-Deighton, 2004). The private sector is profit driven and though adherence to federal regulations is important in the private sector, public external transparency can be detrimental.

Finally, McCue and Pitzer (2005) acknowledged that the over-arching private sector purchasing strategy has been redefined as supply chain management (SCM).

Supply Chain management is a competitive strategy for integrating suppliers and customers with the objective of improving responsiveness and flexibility of manufacturing organizations (Gunasekaran, 2004). SCM strategy is grounded on a paradigm of management theory that emphasizes the development of “collaborative advantage” as opposed to “competitive advantage” (Dyer, 2000). Within the collaborative paradigm, the private sector is composed of a network of interdependent relationships built through strategic collaboration with the goal of mutual benefits (Ahuja, 2000). However, given the numerous constraints from rules and regulations as well as other differences previously discussed, the public sector seems faces considerable obstacles in its incorporation of supply chain management.

Despite these differences, the mission of the procurement function, in public and private sector organizations, is to efficiently manage the forecast, procurement and delivery of goods and services through the supply chain in a cost effective manner. Notwithstanding the great potential that private sector strategy and practices hold for public procurement, a careful exploration of the differences between public and private sector procurement is essential before cross sector implementation (Reed, Bowman & Knipper, 2005).

Proposed Research

This research will draw from the Supply Chain Management and Public Procurement streams of literature and will assesses the differences in procurement strategy, practices and principles in procurement activities between sectors. Data collection will be completed incorporating an online survey that incorporates questions from an existing survey (Larson, 2009) and questions developed by the current author. Respondents will include procurement professionals from a Fortune 500 company, and members of professional public procurement organizations in the United States. Invitations to participate in the survey will be emailed, with a link to the survey, to respondents within each of the organizations. The current study will investigate the following research questions:

- RQ1: Do public and private procurement professionals have different perceptions of their organizations’ approach to SCM?
- RQ2: Do public and private procurement professionals have different perspectives regarding the tactical and/or strategic scope of their jobs?
- RQ3: Are there differences in the formal education between public and private procurement professionals?
- RQ4: Is there a relationship between formal education and the perceptions of the tactical and/or strategic scope of their jobs?
- RQ5: Are there differences in the perceptions of the importance of various topics, tools and techniques for SCM between public and private procurement professionals?

Expected Findings

In response to research question one, “Do public and private procurement professionals have different perceptions of their organizations’ approach to SCM?” Evidence exists in the literature that suggests that supply chain management will be viewed by public procurement professionals as narrow in the functional sense as a single component of the overall procurement process. Private sector procurement professionals in contrast view supply chain management as broad in scope encompassing multiple functional areas and requiring deliberate and strategic co-ordination (Larson, 2009) between departments. Thus it is expected that the private sector respondents will view supply chain management as a strategic purchasing perspective that requires the coordination of cross functional areas, while public sector procurement professionals will view supply chain management as a narrow function within purchasing.

In response to research question two, “Do public and private procurement professionals have different perspectives regarding the tactical and/or strategic scope of their jobs?” As public procurement has a reputation, both in the public and private sectors, of being tactical, even clerical with strict adherence to stringent policies and guidelines (Matthews, 2005), it is expected that public sector procurement professionals will report that the nature of their work and job scope as more tactical than strategic while private procurement professionals will view their work as more strategic.

Research question three addresses the formal education differences between public and private procurement professionals.

“Are there differences in the formal education between public and private procurement professionals?” There have been mixed findings in the literature. Johnson, Lenders and McCue (2003) found that upper level management in public sector procurement was more likely to hold graduate degrees than their private sector counterparts. However, Larson (2009) found that in terms of education levels between the two groups, there was very little difference. Despite these differences, Baily, Farmer, Jessop, and Jones (2005) argued that, professional training and education is needed in the public sector. It seems that public procurement training and education has not received appropriate attention in American Universities. In 2001, no member schools of the National Association of Schools of Public Affairs and Administration offered a public procurement program. In contrast, more than 103 colleges and universities offered courses, certificate programs, bachelor, master and Ph.D programs in business with emphases in purchasing, materials management, logistics, supply management, or related areas (Thai, 2001, 2005). Thus, it is expected that statistically significant differences will exist in formal education between public and private procurement professionals.

In response to research question four, “Is there a relationship between formal education and the perceptions of the tactical and/or strategic scope of their jobs?” In the public sector, the requirements of the purchasing function are being redirected from a primarily clerical function within organizations to a strategic role (Matthews, 2005). While supply chain management programs in business schools have facilitated the development of this strategic focus for private sector procurement professionals, public administration programs have been slower to incorporate strategic procurement programs. Therefore, a positive statistically significant relation between education and the strategic perception of the organization is expected.

Finally, in response to research question five, “Are there differences in the perceptions of the importance of various topics, tools and techniques for SCM between public and private procurement professionals?” Larson (2009) reported significant differences from analyses from research that incorporated a similar list of topics, tools and techniques. He concluded that the lack of emphasis public procurement professionals placed on several strategic topics, tools, and techniques confirmed their lack of involvement in certain supply chain management functional areas. Thus, it is expected that there will be statistically significant differences in the perceptions of topic, tools and techniques.

Conclusion

Public procurement is an extremely complicated function of government. The scope of the public procurement system is very broad and influenced by a number of variables that make public procurement especially difficult to manage. As a result it is one of the least understood and most vulnerable areas of public administration. Some have argued that effective public procurement requires procurement managers to understand various aspects of private sector supply chain management theory and adeptly incorporate private sector supply chain strategies into public procurement. This is most effectively done if public procurement managers understand and successfully navigate the many variables that complicate the adoption of private sector procurement strategies and practices.

Study Significance and Future Research

The research proposed here is important for several reasons and to and is applicable to several groups. First, public procurement is a big business with significant impact to local, state, national and international economies. Considering the recent and persistent global economic struggles, the efficient handling of this amount of spending has been a policy and management concern as well as a challenge for public procurement professionals (Thai, 2005). Greater emphasis is being placed on ‘how’ in addition to ‘how much’ money is being spent. Public procurement professionals are beginning to adopt best known methods from SCM strategy. Larson (2009) reported that Canadian procurement professionals are streamlining offerings available to procurement agencies, considering quality and other total cost factors beyond purchase price examining order cycle time for reduction opportunities and eliminating waste in negotiation by using electronic tools. Results of this research will help to identify the requisite expanded skill sets for public procurement professionals to achieve greater efficiency in public procurement. This research will help public procurement professionals to move beyond purchasing and into strategic SCM. However, to make this move, public purchasing professionals must understand and apply the tools, techniques and strategies that are included in SCM strategy (Larson, 2009).

Second, as an exploratory study, the information generated here not only breaks new ground by examining the reasonableness of prevailing wisdom in the field, but can be used to identify new questions for further research.

The findings of this research will present the differences in procurement perceptions between public and private sector purchasing professionals and will discuss some of the considerations related to the differences. This study will provide direction for future inquiry into the specific skills and strategies from the private sector that can be adopted by the public sector as it shifts to strategic SCM. It would also be interesting to investigate differences in perceptions and SCM perspectives across municipal governments of varying size and across the US Armed Forces. This research could address questions such as: Do public procurement professionals in municipalities of varying sizes or in the Armed Forces share perceptions and perspectives for SCM? Are their perspectives on procurement strategy similar to those of private sector procurement professionals?

Finally, this research will help to determine the differences in the education and training of public and private sector purchasing professionals. Colleges and universities globally are building new programs in supply chain management. These programs are almost exclusively found in business schools that target the private sector. Research indicates that procurement and SCM courses and specializations are largely absent from Public Administration programs in the United States. This research will help to surface differences in education and training between public and private procurement professionals. As a result, educators in public administration can incorporate procurement and SCM education into their programs to ensure public administration students receive the education required to enable public sector procurement reform and strengthen the push for more strategic purchasing.

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