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# Designing a public procurement strategy: lessons from local governments

**Andrea S. Patrucco, Davide Luzzini, Stefano Ronchi, Michael Essig, Markus Amann and Andreas H. Glas**

*Public sector procurement faces competing priorities, such as cost-efficiency, legal conformity, the advancement of environmental protection and the promotion of innovation. In addition, procurement departments are moving away from being mere organizational servants to having a strategic function. This paper looks at current public procurement strategy research, revealing neglected aspects. The authors propose a new analytical framework and suggest avenues for future research.*

**Keywords:** Local government; public procurement; strategy.

Procurement departments have been increasing in status in private sector organizations, often participating in corporate strategy planning and being perceived as an equal partner by other departments (Luzzini and Ronchi, 2016). Procurement can make a significant contribution to value creation and competitive advantage and therefore improve organizational performance (for example Carr and Smeltzer, 1997; Gonzalez-Benito, 2007; Zimmermann and Foerstl, 2014). However, this brings more challenges and requires greater maturity in managing the procurement process and tools and procurement department organization (Hartmann *et al.*, 2012; Kauppi *et al.*, 2013). One of the most crucial characteristics of a mature procurement department is the ability to formalize the procurement strategy, carefully considering several contingent factors as well as defining strategy components, content, and process (Alonso *et al.*, 2015; Hesping and Schiele, 2015).

Public procurement (PP), however, is different. PP traditionally had a tactical and administrative role, mainly taking care of meeting regulatory requirements (Matthews, 2005). However, PP is now moving towards a more strategic role, partly because it has been asked to achieve specific government objectives (Walker, 2015). Nevertheless, the concept of a procurement strategy in the context of the public sector has been relatively under-investigated; this is problematic, especially considering that this new role for PP should embrace more mature competencies and skills, especially for local government (Reis and Cabral, 2015).

## **Goal congruence in PP: the need for a procurement strategy in the public sector**

A great deal of strategy literature has been published on private sector procurement (for example Porter, 1996; Nag *et al.*, 2007). Public sector organizations are likely to have a mandated strategy (Andrews *et al.*, 2009) and, even when a strategy is not directly imposed on them, they are highly regulated by the political sponsors providing their funding (Hood and Peters, 2004), their planning systems and budgetary controls (Joubert, 1998; Ackroyd *et al.*, 2007). This is not only the case for overall organizational strategy, but also for second-level functional strategies in public sector organizations—individual departments providing public services (Stewart, 2004). Therefore, PP also covers ‘the service of acquiring goods and services in order to support internal customers in delivering public services to citizens’ (Telgen *et al.*, 2007). Despite the relevance of public spending for national economies and the potential to improve services to citizens, little attention has been paid to the strategic relevance of PP and, in particular, to the definition of PP strategies (Schiele and McCue, 2006).

A few studies have explored the broader concept of PP strategy, mainly investigating the goals that PP should pursue (for example Murray, 2001, 2009a, 2009b; McCrudden, 2004; Reis and Cabral, 2015). Erridge and McIlroy (2002) identify three sets of PP goals:

- *Regulatory*: compliance with European Union (EU) public procurement directives.
- *Commercial*: using market mechanisms to reduce

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costs and increased quality.

- *Socio-economic*: supporting government policy, including employment, social inclusion, the protection of minorities, economic development, and environmental policy.

Erridge (2005) proposed an analytical framework to assess the UK's PP policy against these three goals. Among these objectives, accountability and corruption prevention were significantly more important in public organizations than the classic goals of efficiency and profit maximization (Murray, 2001; Van Der Wal *et al.*, 2008; Patrucco *et al.*, 2016), and this is why governments (and the EU) have strict regulatory requirements surrounding the procurement process (Deng *et al.*, 2003). This, however, requires a large degree of formalization and bureaucracy and discourages small- and medium-sized enterprises (SMEs) from participating (Loader, 2007; 2011).

The study reported here had three main objectives: to develop a theoretical framework to define PP strategies; conduct a systematic review of the literature to assess current knowledge about PP strategies; and investigate how PP strategies are deployed in practice and to what extent this influences the status of public sector procurement departments.

### The PP strategy framework

Our conceptual framework was based on the work by Hespington and Schiele (2015), Essig *et al.* (2013), Essig and Wagner (2003) for PP strategies, and Wechsler and Backoff (1986) for public administration strategies. We combined them to produce our PP strategy model, which includes exogenous environmental factors, exogenous internal factors, and endogenous factors (see figure 1). Endogenous factors, or 'pillars' are:

- The 'make-or-buy strategy', defining how

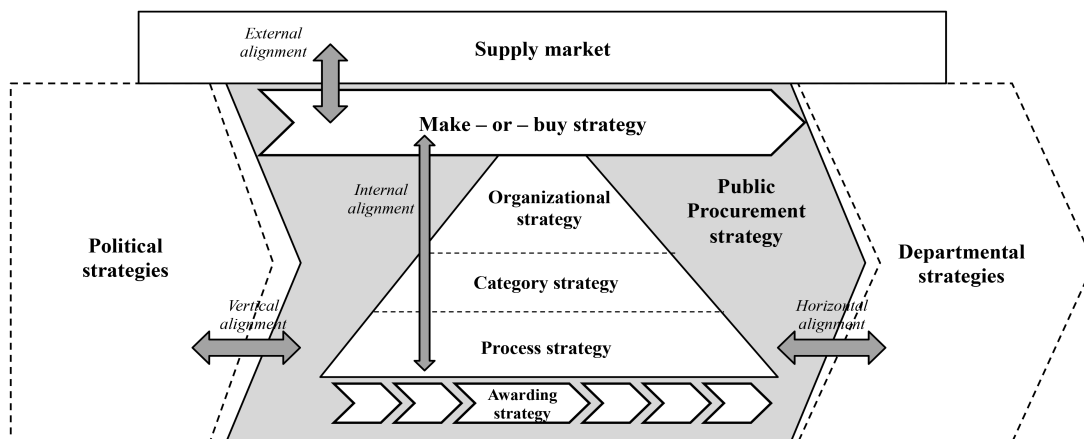
contracting authorities interact with supply markets (for example Weiss, 1993).

- The 'organizational strategy', defining how the supply chain (and procurement) is designed and organized in order to satisfy the needs of the contracting authority (for example Migiro and Ambe, 2008).
- 'Category strategies', which define how procurement decisions are adapted for different spend categories (for example Schiele and McCue, 2006).
- The 'process strategy', defining how procurement activities are executed (for example Crowder, 2015).
- The 'awarding strategy', defining how suppliers are selected and contracts awarded (Bergman and Lundberg, 2013).

These pillars have to be aligned to exogenous factors: vertically, with broader 'political strategies' and superordinate (political) goals (for example Rendon and Snider, 2010); horizontally, with 'departmental strategies', as PP should support the achievement of specific goals set for public administration departments (and vice versa—for example McGuffog, 2011); and externally, with the characteristics of the 'supply market', as the public procurement strategy needs to be adapted to supply market characteristics, given the low strength the public administration seems to have in driving market changes (for example Caldwell *et al.*, 2005)

Next we assessed the current state-of-the-art in PP strategy research. We also explored how PP strategies are actually deployed in public sector organizations. Traditionally, procurement in the public sector has been an 'administrative Cinderella', devoted to the execution of the operational activities of sourcing and delivering goods and services (Williams and Smellie, 1985). However, given that controlling public

Figure 1. Analytical framework.



expenditure is now considered critical, we wanted to investigate current PP strategies in relation to procurement department status.

### Theoretical exploration of PP strategy

As part of the source selection for our literature review, we used three keywords: 'strategy', 'procurement' and 'public administration'. We found 150 papers in total. Then we further selected the papers considering both content (title, abstract, and full text) and journal relevance. This produced 32 papers from 11 journals, four from the field of operations management and seven from the public administration field (see the reference list at the end of this paper—an \* at the end of a reference indicates it was part of our review). See table 1 for our empirical classification of the papers.

Only a few papers considered more than one pillar of the PP strategy. Make-or-buy decisions and alignment with political goals were the focus when PP strategy was the main topic of the paper; this mirrors reality where, due to financial constraints, political actions and guidelines are increasingly influencing procurement decisions, including an increase in outsourcing (Burnes and Anastasiadis, 2004; Khalfan *et al.*, 2007). None of the papers had strategy integration with other departments as their main topic. Some authors indirectly argued about the difficulties of integrating departmental and procurement objectives, with negative effects on the overall performance (Schiele and McCue, 2006; Breul, 2010). Organizational strategy (for the supply chain and the procurement department) was rarely discussed and, when it was, it was theoretical (for example Kamann, 2007). Only a few papers were on the implementation of category management, revealing a lack of connection between overall PP strategy and decisions at the category level (Erridge and Murray, 1998; Erridge and McIllroy, 2002; Kamann, 2007). Finally, as procurement legislation poses some constraints on contract awards, there was some

discussion about how public authorities are challenged to include coherent strategic guidelines (Stanton and Burkink, 2008; Murray, 2009a, 2009b; Nijaki and Worrel, 2012; Yeow and Edler, 2012). However, the influence of the supply market is an exogenous variable that was often included, especially for evaluating how its characteristics impact the public administration's decisions regarding supplier relationships (Kalfhan, 2007; Lonsdale *et al.*, 2010).

However, despite rarely being the main topic, at least all the dimensions of our analytical framework were explicitly mentioned in the papers.

### Empirical exploration of PP strategy

In order to test the framework for qualitative understanding, a case study methodology was selected (Meredith, 1998; Voss *et al.*, 2002). Considering the unit of analysis adopted by previous studies (for example Murray, 2001; McAdam *et al.*, 2011), we decided to focus on local authorities, as they seemed a convenient choice in terms of sample size, heterogeneity of spending, scope for comparing with other countries, and the potential relevance of results.

We targeted the UK because procurement in UK local government had been already explored in a number of studies (for example Murray, 2001; 2007). According to the Welsh government, local authority spending in Wales on goods, service and capital acquisition was around £4300M in 2014. Two workshops with academic and professional PP experts were organized, in order to identify which councils could give us an in-depth understanding of how PP strategies were being deployed in local government. Considering relevant statistical factors, such as population density, level of spending, and past procurement department rating, we looked at seven councils in depth.

Our interview protocol rationalized variables of procurement strategy and organization, making sure all the relevant elements in our

**Table 1. Findings from the systematic literature review (absolute values).**

Procurement strategy dimensions	Political strategies	Supply market	Make-or-buy strategy	Organizational strategy	Category strategy	Process strategy	Awarding strategy	Departmental strategies	Total
++ <sup>a</sup>	5	2	6	1	0	3	0	2	19
+ <sup>b</sup>	9	10	5	12	5	9	10	6	66
(+) <sup>c</sup>	4	8	2	7	4	7	8	1	41
- <sup>d</sup>	14	12	19	12	23	13	14	23	130
No. of papers on a specific strategy	18	20	13	20	9	19	18	9	126

<sup>a</sup> = the main topic of the paper; <sup>b</sup> = explicitly considered within the paper; <sup>c</sup> = almost implicitly considered within the paper; <sup>d</sup> = not considered within the paper

**Table 2. Case study numbers.**

<i>Name</i>	<i>No. of citizens</i>	<i>Spending (£M)</i>	<i>No. of procurement department staff</i>	<i>No. of interviews</i>	<i>Job title</i>
CCY (case 1)	180,000	150	18 FTE	2	Head of procurement, category manager
CRH (case 2)	250,000	180	24 FTE	2	Head of procurement, category manager
CNP (case 3)	150,000	200	9 FTE	2	Principal procurement officer Senior procurement officer
HCF (case 4)	350,000	300	18 FTE	1	Head of procurement
HSN (case 5)	250,000	200	20 FTE	1	Head of procurement
DCM (case 6)	200,000	180	7 FTE	1	Senior procurement officer
DVG (case 7)	120,000	100	2 FTE	1	Procurement policy officer

theoretical framework were covered. Interviews were conducted (by two researchers) for at least one day per case. Afterwards, we conducted within- and cross-case analyses, according to common guidelines for the case study method (Eisenhardt, 1989). Table 3 summarizes the characteristics of councils in the sample.

We used a quantitative coding approach to facilitate cross-case comparisons. A numeric scale from 0 to 100 was adopted for each item, and scores were assigned considering relevant subcomponents—see table 4.

For some items, coding and scoring were straightforward (for example the level of centralization was calculated as the ratio between spending centrally managed by the procurement department and total spending), while for others we went through several steps (for example assessing whether or not procurement was involved in operational sourcing activities, and/or strategic planning activities).

First, we characterized the components of the PP strategy framework, together with the authority's stated goals (Erridge and McIlroy, 2002). Operatively, the 'maturity' of the PP strategy was assessed by averaging the score given for each strategy dimension. Then, because a procurement departments' roles can vary (Murray, 2001; Telgen *et al.*, 2007), we used 'status' to describe the extent to which procurement can have a value-adding function. We measured procurement status as the average of several organizational characteristics reflecting

this concept: reporting level, level of centralization, span of control, and purchasing recognition (Gonzalez-Benito, 2007).

Finally, for comparison purposes, we also considered 'spending per citizen' as a relevant variable (for example Glock and Broens, 2013). Table 5 summarizes the calculations.

### Discussion

Cross-case analysis showed that when PP status was relatively high (i.e. cases 1, 2, 4, and 5), the PP strategy was explicitly defined and embraced most of its different components. This correlation—see table 4—can be interpreted in two ways. On the one hand, when a PP department has a high position and authority in a council's hierarchy, it will have a clear and formal strategy. On the other hand, when the PP department wants more recognition and status, designing a clear, formal strategy shows greater managerial maturity, which is likely to lead to an improvement in status.

The cases allowed us to test the validity of our framework. Our interviewees confirmed that the framework was accurately reflecting the different strategic decisions related to PP, even though the level of maturity in defining the PP strategy varied across councils in the sample. While a make-or-buy analysis is implemented with less frequency (every two or three years) and for specific types of supply (for example facility services, technical consulting), organizational design,

**Table 3. Quantitative evaluation of the cases included in the analysis.**

	<i>CCY</i>	<i>CRH</i>	<i>CNP</i>	<i>HCF</i>	<i>HSN</i>	<i>DCM</i>	<i>DVG</i>
Goals	100	100	30	60	100	30	30
Make-or-buy strategy	100	80	20	50	80	30	10
Organizational strategy	100	90	40	60	80	40	20
Category strategy	100	100	20	80	90	20	10
Awarding strategy	100	90	60	70	70	10	10
Process strategy	100	100	30	80	90	50	10
Horizontal alignment	80	100	30	50	70	80	30
Vertical alignment	50	50	50	50	50	50	50
External alignment	80	80	20	30	60	10	10
Reporting level	100	100	20	90	80	40	10
Level of centralization	95	90	90	65	80	20	0
Purchasing recognition	100	80	20	50	70	40	10
Span of control	100	80	40	80	70	30	10



category management, process management, and awarding strategy are recognized as theoretically relevant aspects to be discussed for an efficient and effective PP but with mixed 'practical' evidence.

Some institutions (cases 1, 2, 4, and 5) recognized organizational strategy as a driver for a category management approach. In these cases, the two dimensions were considered interconnected in the definition of the procurement strategy—category strategies were (re)defined if they were supported by the organization; reorganization initiatives may call actual category strategies into question. However, the possibility of focusing on these pillars was limited by budget constraints and the role of procurement in the institutions.

For case 6, a good procurement strategy should include all levels of the framework, but as long as procurement is considered a strategic weapon supporting single departments in achieving their objectives, only a few of the levels were being effectively addressed (i.e. process and awarding strategy). For case 3, procurement decisions were made by single departments (with operational activities centralized in the procurement department); thus, a structured strategy definition could not be made, and aspects of the framework were being addressed fragmentally. Finally, for case 7, procurement was simply considered an enabler for integrating departmental goals and service delivery to citizens; these activities were executed reactively with an unco-ordinated approach, and the strategy was not defined.

For all the cases, even when PP had a low status, alignment between PP decisions and other departments' strategies is essential. In some cases, PP should be supporting departments in achieving their goals; in others, departments should collaborate with procurement resources in order to improve PP performance. Surprisingly, the impacts of political goals and strategies and the characteristics of the supply market were only marginally included in the PP strategy definitions, even if correlated (for example local economic development may limit supplier selection to local partners; or budget cuts forcing the selection of low-cost suppliers).

Finally, most of the councils associated the definition of a clear PP strategy with the statement of explicit goals (commercial, regulatory, and/or socio-economic; for example Erridge and McIlroy, 2002). Because different levels of PP strategy exist, decision-makers can link specific goals to each pillar in order to evaluate if the goals are well defined and to

**Table 4. Dimensions used for positioning the cases.**

	<i>PP strategy maturity</i>	<i>PP status</i>	<i>Spending per citizen (£)</i>
CCY	90,00	98,75	814.6
CRH	87,78	87,50	760.7
CNP	33,33	42,50	1407.2
HCF	58,89	71,25	1014.5
HSN	76,67	75,00	1046.0
DCM	35,56	32,50	924.0
DVG	20,00	7,50	868.2

drive future changes.

#### **A new research agenda on PP strategy**

We have proposed a new analytical framework for the study of public sector procurement, which distinguishes between a make-or-buy strategy, an organizational strategy, a category strategy, a process strategy, and an awarding strategy. These 'pillars' can be aligned to internal (i.e. political and other departments' goals) and external factors (i.e. supply market characteristics).

After a comprehensive review of the academic literature, we found that the focus of PP research is on these dimensions, with a fragmented approach and a misalignment in terms of relative importance (for example while extremely important in practice, purchasing category strategies and awarding strategy were rarely discussed in the academic research literature). Furthermore, the alignment of procurement with other departments was rarely considered—normative and political settings dominated published research on PP strategy (for example Kahlenborn, 2011).

PP needs to become more supportive of social responsibility, environmental sustainability, and the promotion of innovations (Edquist *et al.*, 2015). Therefore, from a theoretical perspective, future research should delve more deeply into these under-explored dimensions, which are significant in private sector management theories (Carter and Narasimhan, 1996; Luzzini and Ronchi, 2011).

Our empirical case study evidence confirmed the relevance of our proposed framework. However, even when highly mature in defining their strategy, case study organizations recognized that not all of the dimensions were being implemented. For example the possibility of establishing appropriate category strategies was clearly a concern for PP managers, because it is essential for certain types of purchases (for example social care services, public works, technical services). However, practical implementation was sometimes prevented by organizational reasons (lack of competencies in the PP department and integration with other technical departments) and/or budget

restrictions. Also, the awarding strategy assumes a central role in PP (more than in the private sector): even if regulated, buyers can choose the most suitable solution according to category, process, and organizational strategy (for example direct awarding, competitive tender, negotiated procedure, most economic advantageous criteria, multiparameter evaluation), and this decision should be planned in advance, not reactively (for example Breul, 2010).

The second objective of this paper was to identify a connection between PP maturity and PP strategy definition. Our case studies showed that higher procurement department status corresponded to an increase in the number of dimensions included in the strategy process definition (i.e. strategy content). So the more a procurement department plays an active and strategic role in a local authority, the more complex its responsibilities and objectives (Harland *et al.*, 2013). Of course, the connection is two-sided: a procurement department may try to improve its status within its local authority by promoting the need to define a structured strategy definition process in the first place, thus being recognized as an equal partner by the other departments. In some case, improving PP status was prevented by organizational or budget reasons.

Future research should enlarge the scope of our study, for example testing the proposed framework with other types of public institutions (for instance central government, universities, healthcare), as well how procurement varies at the national and the international levels.

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### IMPACT

This paper offers some important lessons for policy-makers and practitioners:

- The low maturity level of strategic management in public procurement (PP) practice is not only a practical problem of strategy implementation—practice needs to be aware that there is a lack of solid and comprehensive theoretical understanding.
- Strategy implementation is the key challenge for public procurement when faced with a lack of organizational, technical and budgetary resources.
- Practice should lever organizational capabilities (competencies in the PP department), increase the use of technical support (software assistance/data access), and increase resources for strategic tasks.
- Practitioners need to raise awareness about strategy content, strategy process and strategy structures.