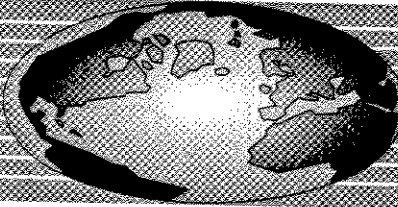


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Purchasing Practice in Dutch Municipalities



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INTRODUCTION

The purchasing function is of great importance for the business community as well as for governmental organizations. In industrial companies purchasing already accounts for 60 to 90 percent of total turnover. This share is expected to grow as companies tend to increasingly outsource their non-core activities.¹

In governmental organizations purchasing's role is also becoming increasingly significant, especially in light of the continuous pressure to cut public spending, both at the central and local levels. For example, the Dutch General Auditor's Office² concluded in 1991 that the Dutch government, in general, lacks sufficient price awareness and does not pay enough attention to quality in its purchasing practice. In addition, the European Community (EC) directives on public procurement play a significant role.

RESEARCH METHODOLOGY

In 1994 and 1995, the authors conducted two national surveys^{3,4} to gain insight into the purchasing practices of Dutch municipalities.

The first survey focused on the financial magnitude of purchasing expenditures, purchasing's status and perceived importance, and organizational issues. Out of a total of 636 municipalities, 83 municipalities were involved in the 1994 survey. In order to obtain a more detailed picture of the compliance with the EC directives, a follow-up survey took place in 1995. A number of questions from the 1994 survey were used again in 1995 and supplemented with specific questions concerning the compliance with EC directives. In the 1995 survey, 211 municipalities in The Netherlands were involved. More detailed information on the survey population can be found in Table I (see page 32).

Both surveys were conducted by telephone. Every interview started by asking for the head of purchasing. In some cases, the head of purchasing referred the researchers to one or more additional officials who were subsequently interviewed. Especially in the 1995 survey it was necessary to interview officials other than heads of purchasing because in many cases the latter were not familiar with the EC directives. In general, heads of

TABLE I
CLASSIFICATION OF MUNICIPALITIES WITH
RESPECT TO THE NUMBER OF INHABITANTS

Municipalities	Total Number	Number of Municipalities that Participated in the 1994 Survey	Number of Municipalities that Participated in the 1995 Survey
More than 100,000 Inhabitants	20	12	15
50,000 – 100,000	35	24	32
20,000 – 50,000	134	22	123
Less than 20,000	447	25	41
Total	636	83	211

purchasing were only slightly familiar with the directives and their insight in the number of "EC purchases"⁵ in their municipality was very limited. The officials who actually had most knowledge of the directives, in general, and the specific situation in their municipality were officials working in departments more frequently involved in EC purchases, such as departments of public works.

FINANCIAL IMPACT AND ORGANIZATION OF THE PURCHASING FUNCTION IN DUTCH MUNICIPALITIES

On average, the estimated total purchase volume⁶ accounts for 23 percent of the total municipal expenditures. This clearly illustrates the importance of professionalizing the purchasing function, especially since cutting down other municipal expenditures, such as salary and subsidy payments, is often much more difficult. In a vast majority of the municipalities (95 percent) the purchasing function is, to some extent, centrally organized. However, only in 15 percent of the municipalities is this done with a formal purchasing department. In most municipalities the central purchasing activities are coordinated by sub-departments that usually are part of an administrative department such as internal affairs or the sub-department responsible for facility management. These sub-departments typically purchase office supplies, small office machines, and furniture. Main municipal departments that may have their own purchasing department include: public works, green space, environmental department, fire department, social services, information and automation, and technical services. In general, larger municipalities tend to have more main departments with dedicated purchasing departments than do smaller municipalities. It is quite remarkable that in the municipalities with a formal central purchasing department, these departments, on average, accounted for only 9 percent of the total yearly purchase volume (see Table II on page 33).

Even if special purchases are taken into account (e.g., projects), this means that only a fraction of all purchases are carried out in a coordinated manner.

PURCHASING IN MUNICIPALITIES COMPARED TO PURCHASING IN THE PRIVATE SECTOR

Management of the purchasing function in Dutch municipalities is seldom based on an explicit policy. In general, the purchasing function is not considered a strategic priority in the overall municipal policy. Three quarters of the municipalities admitted they did not have a purchasing plan containing starting points and objectives. Over 50 percent of the municipalities do not periodically measure and evaluate purchasing performance, and two out of three municipalities do not use a standardized method for supplier evaluation.

The general picture of the purchasing function in municipalities is rather similar to the picture of private sector organizations. In Table III (see page 33) the results of the surveys among the municipalities are compared to the results of a survey of over 800 private firms. With respect to the four dimensions of purchasing professionalism depicted in Table III, municipalities show a consistently lower performance than private firms. Therefore, municipalities seem to lag behind private companies in achieving structural professionalization of their purchasing function.

COMPLIANCE WITH EC DIRECTIVES BY DUTCH MUNICIPALITIES

The EC directives require municipalities to follow certain specified procedures and time frames for all purchases (goods, services, and works) above a certain threshold value. Summarized, these procedures include the following compulsory elements:

- The use of European standards in specifications
- Publishing an invitation to tender in the official EC journal, which implies that the invitation is open to all suppliers in the EU
- Applying the time frames set for receiving bids
- Deciding in advance on the method by which the bids are going to be evaluated. Purchasers must either accept the bid with the lowest price or choose the most "economically advantageous" bid. The latter consists of a decision based on several criteria, including delivery times, after sales, and quality. In any case, criteria should be clear, objective, prestated, and of an economic nature.⁷

The elements just described, constitute the "open" procedure and the invitation to tender is open to all suppliers within the EU. This may not always be practical and/or desirable (e.g., the number of bids

received may be very high). Therefore, two alternative procedures have been developed: the restricted procedure and the negotiated procedure. The restricted procedure consists of two stages. In the first stage, only a brief announcement (not a call for tenders) is published in the official journal. Interested suppliers may respond to this announcement. From these interested suppliers a shortlist of qualified suppliers is created, again based upon pre-stated, clear criteria. In the second stage, only the qualified suppliers are invited to tender. Apart from the publication of the call for tenders in the official journal, the second stage of the restricted procedure is similar to the open procedure. The negotiated procedure can only be used under specific circumstances, such as when no acceptable bids are received following the open or the restricted procedure or when special (emergency) circumstances require an immediate solution.

The compulsory elements of the directives are natural and obvious elements of any professional purchasing practice. First, the procedures clearly involve *planning* of the purchasing process, including setting time frames for the various phases and deciding in advance on how to evaluate suppliers and bids. Second, the procedures ensure a *complete and structured* purchasing process. The explicit formulation of the specification and the contract award criteria are especially important prerequisites for effective purchasing. Finally, the procedures ensure a *transparent* purchasing process which improves the quality of the justification and explanation of supplier qualification and contract award decisions and, hence, contributes to the quality of the decisions. Therefore, the difficulty that many municipalities apparently have with following the directives is an indicator of the current low level of purchasing professionalism in Dutch municipalities.

Adherence to EC directives is required according to Dutch law. Penalties for not following the directives may include the obligation to repeat the whole tender procedure and/or pay indemnification to the aggrieved supplier(s).

The main objective of the 1995 survey was to arrive at a fair estimate of the compliance with EC directives. To this end, the total number of municipal purchases in 1994 that, either mistakenly or wrongfully, were not carried out according to the EC directives was estimated. These purchases are referred to as "concealed EC purchases". Contrary to the municipal EC purchases published in official EC media (and thus easily traced), these concealed EC purchases are difficult to trace and have to be estimated from circumstantial evidence.

PUBLISHED EC PURCHASES

According to the EU databases, 82 out of the 636 Dutch municipalities reported at least one EC

TABLE II
ESTIMATED VOLUME OF CENTRAL/COORDINATED PURCHASES, EXPRESSED AS A PERCENTAGE OF THE TOTAL PURCHASE

Volume (n=42)			
Municipalities	Mean Percentage	Highest Percentage	Lowest Percentage
More than 100,000 Inhabitants	2%	4%	1%
50,000 – 100,000	22%	100%	1%
20,000 – 50,000	3%	7%	1%
Less than 20,000	2%	4%	1%
Overall	9%	100%	1%

TABLE III
PURCHASING IN MUNICIPALITIES COMPARED TO PURCHASING IN THE PRIVATE SECTOR

	Municipalities (n=83)	Private Companies (n=840)
Is purchasing considered a strategic priority?	43%	64%
Has a purchasing plan been formulated?	25%	34%
Is purchasing performance being measured and evaluated periodically?	45%	47%
Is there a standardized method for supplier evaluation?	34%	48%

purchase in 1994. The figures in Table IV (see page 34) show that EC purchases occur relatively often in larger municipalities whereas they seldom occur in smaller municipalities. In total, 220 EC purchases were reported in 1994, with 96 cases in the services category, 105 cases in the supplies category, and 19 cases in the works category. Services includes: transport, garbage collection, insurances, and cleaning services. Supplies includes such items as computers, wheelchairs, means of transport, telecommunication hardware, and office supplies. Works mainly consists of construction, buildings, installations, and roads.

CONCEALED EC PURCHASES

The respondents of the 221 municipalities that participated in the 1995 survey spontaneously mentioned 29 cases of concealed EC purchases, that is, purchases that required public procurement according to the EC directives but in fact were not treated as such. The typical explanation for this was that municipalities at the time of the purchase were not aware of their requirement to follow the EC directives. However, in addition to this explanation the survey revealed cases in which municipalities

TABLE IV

EC PURCHASES IN 1994

Group	Number	Municipalities with EC Purchases		Maximum Number of EC Purchases/Municipality
		Number	Percentage	
More than 100,000 Inhabitants	20	20	100%	16
50,000-100,000	35	23	66%	12
30,000 - 50,000	59	15	25%	4
20,000 - 30,000	75	10	13%	3
Less than 20,000	447	14	3%	1
Total	636	82		

consciously refrained from using EC directives. Some rationales for not using the directives were:

- Splitting a purchase into several partial purchases in such a way that the partial purchases do not exceed the threshold sum.
- Some municipalities did not consider renewal of a contract as a purchase.
- Some municipalities had a private company build a new building. Subsequently, the municipality would rent this building from the private company for municipal purposes.
- A number of municipalities withdrew from cooperating with other municipalities in municipal purchasing cooperatives to ensure that the combined purchases would not exceed the threshold sums.
- Knowing the threshold sum, a number of municipalities consciously ensured purchases would not exceed the threshold.

ESTIMATION OF CONCEALED EC PURCHASES

In order to arrive at an estimate of the number of concealed EC purchases, it was assumed that municipalities of comparable size carried out approximately the same number of EC purchases. Taking this assumption as a starting point, municipalities with the highest number of EC purchases in a given size category were used as benchmarks for the other municipalities of approximately the same size.

Of course this number can vary each year due to numerous incidental factors such as additional works, expiration of contracts, and so fourth. To eliminate the possible impact of these factors, the actual norm for each group was lowered to 75 percent or 50 percent of the highest number of EC purchases for that particular group. Subsequently, in order to assess the robustness of the data, a norm of 50 percent of the highest number of EC purchases was used. These analyses result in an estimate of

concealed EC purchases that varies between 77 and 83 percent. Because of the potential significant impact of the many small municipalities, the analyses were repeated without the data from the 229 municipalities that have less than 10,000 inhabitants. Without these small municipalities, the estimate of concealed EC purchases ranges from 69 to 80 percent (see Table V on page 35).

The analyses were repeated using different size categories for the municipalities. However, this did not have a significant impact on the range of concealed EC purchases.

Finally, it should be noted that all analyses were based on the internal benchmarking concept, that is, the best-in-class sets the norm for the whole group. However, it may very well be the case that even the municipality that shows the highest number of EC purchases in its class had one or more concealed EC purchases. This implies that the real percentage of concealed EC purchases may exceed the above estimates.

REGIONAL DIFFERENCES

The Netherlands consist of 12 provinces. Again, using the internal benchmarking concept, the number of EC purchases that may be expected in each province was determined. This number follows from multiplying the number of municipalities by the class-norm and subsequently adding up the results of the classes. The total number of expected EC purchases in each province, less the number of EC purchases that was reported, yields the total number of concealed EC purchases for that province. From all the provinces, Friesland ranks the highest in terms of concealed EC purchases (97.7 percent). The province of Limburg shows the lowest percentage (66.7 percent) of concealed EC purchases. However, this percentage of concealed EC purchases still is a very high figure for a best-in-class province. Further professionalization of the municipal purchasing function appears necessary in all Dutch provinces.

PREFERENCE FOR LOCAL SUPPLIERS

The 1995 survey showed that in a majority (57 percent) of the municipalities that participated, to varying degrees local suppliers were preferred over non-local suppliers. In practice this often means that in case of equal performance on price and quality, the local supplier is offered the business. Additionally, below some threshold purchase amount only local suppliers are approached. In over a quarter of the municipalities that expressed preference for local suppliers this preference was formally confirmed by the local council and laid down in an official council order. Naturally, such quasi-protectionistic actions are in clear conflict

with one of the basic ideas behind the EC directives, that is, improving the effectiveness of the market mechanism within the European Union. In such cases even though the purchasers themselves may be professionals, the total purchasing function of the local government can hardly be labeled professional when it ignores market opportunities and in some cases violates the law. Twenty-three percent of the municipalities had done business with foreign suppliers at least once. For municipalities with more than 100,000 inhabitants the figure is 40 percent. However, in only six cases did an EC purchase actually result in a contract with a foreign supplier. In some cases a foreign supplier asked for an EC purchase specification, but afterward it appeared that this was merely done out of curiosity. Very rarely did a foreign supplier send in a quotation

Normally, Dutch municipalities do not conduct business directly with foreign suppliers. In general, an intermediate (Dutch) supplier or representative is used to deal with foreign suppliers. Therefore, it seems there is still a long way to go toward one European market for municipal procurement.

OTHER EXPERIENCES WITH EC PURCHASES

In this section, other experiences with EC purchases expressed by Dutch municipalities are summed up:

- In many cases, small municipalities called in external consultancy firms or larger neighboring municipalities for assistance; many smaller municipalities perceive the EC directives as complex, especially when it comes to the interpretation of the terms and definitions in the directives.
- A number of municipalities reported difficulties with the publication of their EC purchases. For example, due to unclear specifications in the original publication, some municipalities had to publish an improved version of the publication.
- In some cases, municipalities stated they had to inform local suppliers, as these suppliers were not aware of the public procurement publications.
- Some municipalities explicitly indicated that their policy was to await jurisprudence and the related sanctions.
- Municipalities that had been involved in several EC purchases, however, stated they had no problems incorporating the EC directives in their purchasing practice.

In the 1995 survey, the advantages of complying with EC directives were reported mostly by municipalities that had the most experience applying these directives. The less-experienced municipalities focused on the disadvantages. The reported advantages of complying with EC directives are:

TABLE V
CONCEALED EC PURCHASES IN MUNICIPALITIES
WITH OVER 10,000 INHABITANTS

Norm	Actual	EC Purchases Calculated	Percentage Concealed EC Purchases
100% of maximum number	216	1059	80
75% of maximum number	216	834	74
50% of maximum number	216	708	69

- Suppliers are forced to send in quotations that are based on realistic, competitive prices. In this way, municipalities can often realize significant savings.
- Municipalities are forced to formulate clear and explicit specifications.
- The directives appear to be an effective means to avoid corruption.
- Municipalities contact new suppliers. These contacts would normally not have been established.

The reported disadvantages are:

- Strict compliance with EC directives requires extra time, paperwork, and other administrative resources.
- The opportunities for negotiation — on price as well as other issues — are perceived to be rather limited.
- Foreign languages create problems when formulating specifications.
- Some criteria (e.g., architectonic creativity) are difficult to formulate in a request for quotation.
- Joint investments with suppliers are difficult to realize because continuity in the relationship cannot be guaranteed by the municipality.
- Some municipalities oppose small suppliers being excluded because of their inability to meet certain requirements, such as sales volume or experience.
- Allocating business to non-local suppliers will have a negative impact on local employment.
- Some municipalities indicate that they expect problems when conducting business with foreign suppliers due to cultural differences and/or practical difficulties. For example, if a municipality wishes to purchase wheelchairs from a foreign supplier this will create a problem when the wheelchairs have to be adapted to the specific requirements of the final customers.

Most of these reported disadvantages stem from the municipalities' incorrect interpretation or incorrect application of the EC directives. As such, they are more indicative of a lack of purchasing professionalism than of the quality of the EC directives. However, some municipalities argue that purchasing according to EC directives is a waste of resources because municipalities almost always end up with the suppliers they would have initially chosen.

CONCLUSIONS AND RECOMMENDATIONS

The surveys clearly suggest that, in general, Dutch municipalities lack a professional approach toward the purchasing function. In addition, local administrations do not appear to have a strategic view on the purchasing activities in their municipalities. A large majority of the municipalities has not formulated a purchasing plan. Only a limited number of larger municipalities assigns strategic importance to the purchasing function. However, over 50 percent of these municipalities have not formulated a purchasing plan and almost 75 percent of these municipalities do not have a formal central purchasing department.

The 1995 survey clearly suggests that in Dutch municipalities the proper use of EC directives in public procurement is not common practice. The estimate of all purchases that should have been treated in accordance with the directives, but in fact were not, ranges from 77 percent to 83 percent. The main reason for not adopting the directives is not ignorance of the directives, but rather the expected administrative burden associated with an EC purchase. Municipalities fear complicated and time-consuming procedures in combination with much paperwork. The underlying goal of the directives — to create a more open and competitive European market for municipal purchases — has therefore not been achieved. Despite the regulations, a majority of the municipalities maintain explicit preferences for local suppliers. In addition, foreign suppliers only rarely conduct business with Dutch municipalities. It is the authors' view that a more strict and thorough monitoring of the municipalities for compliance with the directives is not the most effective way to realize the EU's ultimate goals in this respect. Rather, a structural professionalization of the municipal purchasing function is the key to more transparent — and therefore more accessible — purchasing practices and, ultimately, improved purchasing performance.

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