
The Importance of Standards in Public Procurement and the Fallacies of the Quick Fix

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When embarking on the journey of procuring the work of contractors, it is reasonable to expect a time of arrival – that is the time which one can expect for the procurement process to be completed. Imagine how frustrating it must be (as a program officer or a procurement specialist) to see the amount of time the procurement process takes to continually increase. Based on the handful of times the Program Officer has had to go through the procurement process, a set of standards as to how long the process should take has developed. The Program Office may have one set standard in mind, i.e. last time this took three months so it should take three months this time as well. Then, the Program Officer realizes that the process may take six months or longer. An obvious reaction is to point fingers and push for a “quick-fix” solution such as a faster process. Pursuing a time reduction strategy, however may not actually increase the overall value of the procurement process. In the following article, the importance of standards will be discussed along with a warning to managers of implementing a “quick-fix” solution to the problem.

The existence of standards in a supply chain process, such as public procurement, has been well espoused (see Anderson, Daly, and Johnson 1999). Standards are used to act as a signal of quality and as a tool to benchmark between ideal progress and actual progress. From the perspective of a producer, standards allow an organization to examine the different stages of the process and determine where discrepancies may exist between the ideal (the standard) and the actual, then make changes in order to move towards the ideal. The importance of maintaining and meeting consistent standards can not be understated. Having a standard and then working towards it can create both efficiency within the process and greater overall benefit in terms of output produced.

In an exploratory study done for this article, the author found the presence of both explicit and implicit procurement standards for Federal Departments and Agencies. Explicit standards are those that are formalized within departments while implicit standards are those that are estimated based on previous experience or on perceptions as to how long the process should take. For example, even if the Program Officer has gone through the procurement process before, he/she may extrapolate that because his/her project is a priority the procurement process could be expedited. This author found that implicit standards are much more prevalent within procurement area groups within Federal Departments and Agencies than explicit standards and thus the discussion within this article will focus on those standards which are implicit.

It should be noted that in the following paper the discussion of standards reflects actual performance as well. The argument is that standards (implicit) are based on performance thus, if performance is good, standards will be high. For example, if it had taken three months to complete a procurement process in one fiscal year then the standard for the next fiscal year would be three months as well.

The average public procurement process can involve numerous stages, such as the development of a Statement of Work, the development of evaluation criteria, publishing the RFP, evaluating bids, and so forth until the contract is established. Delays at any number of stages will undoubtedly impact the entire process, and following the findings of the Gomery Inquiry and the subsequent Way Forward Initiative designed to ensure greater transparency in Public Sector Procurement within the Canadian Federal Government, the public procurement process continues to evolve in complexity more than any set of standards can keep pace with. As a result of increased

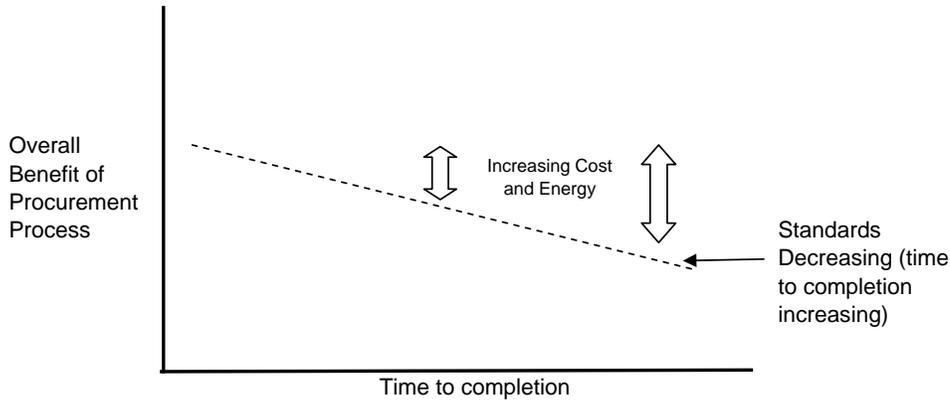
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transparency and accountability, the procurement process has become more complex. What this has led to, is a set of standards that continues to decrease, as the time needed to complete the process increases. This translates into the inevitable conflict between cost and time. To resolve this conflict, pressure is placed on the staff to decrease the process time hence, resulting in the use of “quick fix” solution such as less scrutiny when reviewing materials. However, as will be demonstrated, a faster process may not actually provide greater overall value.

In the following section, the author displays a simple model illustrating the cost of failing to maintain consistent standards and proposes solutions to maintain consistency in standards relating to the procurement process based on the work of Hart, Shleifer, & Vishnay (1997).

Decreasing standards indicates that more time and effort is being put into the procurement process, which then creates lower overall value (the concept of having to do more to achieve the same product you had achieved earlier). Let’s say that the initial cost of the procurement is represented by $C(1)$ – this is fixed cost of operating any type of procurement process. The variable cost of the procurement process is represented by $C(e)$, where $C(e)$ equals the costs associated with each different procurement request (such as the amount of money allocated and the energies of procurement resources, as well as program resources). As the need for greater transparency increases, the complexity of the procurement process also increases and ultimately the variable cost of procurement, by adding more procedures and increasing the amount of cost and energy expelled by resources. This relationship will be represented by $Tr * C(e)$. For the sake of simplicity $B(1)$ will be used to indicate the aggregate benefits of the procurement process and OB will be used

Figure 1 - Decreasing Standards



to indicate overall benefits.

The equation for the line indicating the variability of procurement standards is as follows, with the relationship between variables illustrated in Figure 1:

$$\text{Equation 1: } OB = B(1) - C1 - TR * C(e)$$

At first glance, there would appear to be a number of solutions to increasing the overall benefit of the procurement process.

One common fallacy is for practitioners to apply a “quick-fix”, which entails some type of measure to speed up the process in order to adhere to the standards. In the following section, the present paper will discuss the costs of pursuing a strategy that focuses solely on decreasing the amount of time the process takes.

An inherent problem with pursuing a time focused strategy is the subsequent trade-off in quality that may result.

Decreases in quality within the procurement process may lead to a solicitation that does not receive any bids, or the selection of a less than optimal bidder, a CITT challenge, or worse. All of the consequences of neglecting quality within the process have the potential to offset any benefits a faster process would provide. To illustrate, consider the following:

$$\begin{aligned} \text{Benefit} &= B(1) - b(e) + \beta(i) \\ \text{Cost} &= C(1) - c(e) \end{aligned}$$

where e & i denote effort devoted to the cost innovation and quality innovation, respectively, $c(e) \geq 0$ is the reduction in cost corresponding to the cost innovation; $b(e) \geq 0$ is the reduction in quality corresponding to the cost innovation; and $\beta(i) \geq 0$ is the quality increase net of costs from the quality innovation. Thus, if one were to follow the strategy of increasing standards by focusing on reducing times, only the linear equation would be as follows:

$$\text{Equation 2: Overall Benefit} = B(1) - b(e) + \beta(i) - C(1) - TR * C(e)$$

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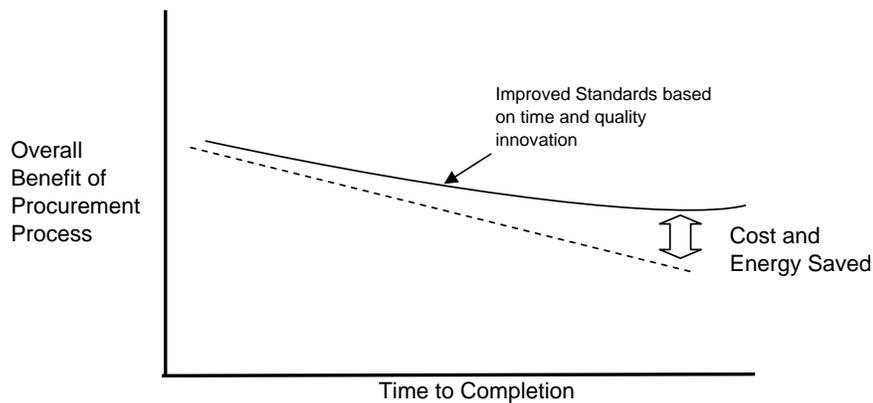


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Figure 2 - Decreasing Comparison of Standards



Notice that the reduction in quality $b(e)$ negatively impacts the Overall Benefit and thus may actually reduce any benefits to the procurement that they set forth to achieve. A more optimal alternative would be to focus on achieving time improvement while maintaining quality improvements, as opposed to sacrificing one for the other. If a time reduction can be achieved along with a quality improvement, the revised equation would be as follows:

Equation 3: Overall Benefit = $B(1) + b(e) + \beta(i) - C(1) - TR \cdot C(e)$

It is worth noting that $b(e)$ is now indicated as an improvement in quality, including the benefits that can be accrued from the innovation. Under Equation 3 above, the standards have the potential to be less variable and create a higher overall benefit than under the current situation illustrated in Figure 1. A comparison of the two scenarios is illustrated in Figure 2 above.

By focusing on improving both time and quality, the standards have less variance and

this ultimately improves the overall benefit of the procurement process.

A detailed discussion of the methods by which one could achieve both improvement in terms of time and in terms of quality in the public procurement process are beyond the scope of this article, but may include a standardization of the elements within the process and the amalgamation of procedures. However, if one is looking for methods by which to decrease the time standards while maintaining consistent standards of quality in a supply chain then one need not look further than the evolution of mass production supply chain, arrangements. Mass production supply chain arrangements are built on standardization, which ensures a consistent product in as short a time as possible. It would be naïve to believe that the public procurement process can become a mass production supply chain similar to computer hardware or automobile assembly; however, it would be equally naïve to ignore the lessons of standardization that the examples provide. Standardizing certain procedures

would allow the contracting authority a strong reference point as to the length of time by which those processes would take and thus produce less variability. The standardization of procedures would also enable the procurement process to maintain certain levels of consistency and hence, quality and overall value. Again, a detailed discussion is beyond the scope of this article, but this author hopes to stimulate further discussion on the topic of standards within the public procurement process. To this end, the author invites readers for comments or feedback which may advance the work of this article.

In summary, the present article has examined the importance of standards and explored the costs of declining standards as well as the perils of focusing on a quick fix solution such as emphasizing a reduction in time. It is vitally important that managers set standards that are both attainable and have little variance so that optimal benefits can be realized. Upon setting attainable standards, managers and administrators alike would be wise to focus on improving the quality of the output as well as decreasing the time of the process if they are to enhance the overall benefit of the procurement process. ✪

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