

Chapter 7

A TALE OF TWO CITIES IN THE SEARCH FOR THE PERFECT PROCUREMENT SYSTEM

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INTRODUCTION

Over the past decade, practitioner and academic interest in the evolving nature of procurement has been epitomised by the new initiatives emerging in both arenas. While professional institutions such as the Institute for Supply Management (ISM), Purchasing Management Association of Canada (PMAC), and the Chartered Institute of Purchasing and Supply (CIPS) have histories that extend as far back as 1915, it took until 1995 for the first worldwide symposium on purchasing and materials management to be held in Arizona, USA. However, this was a general forum that took limited account of procurement specializations such as public procurement. The defining moment for this area of practitioner and academic interest can be found at the meeting of senior public practitioners and academics, called the “International Research Study of Public Procurement,” in Budapest in April 2003. A common informal theme of these meetings centered upon the development of the procurement body of knowledge, in all its iterations, as a professional and strategic area of management praxis in government rather than a bureaucratic, clerical process (Giunipero, 2000; Giunipero & Handfield, 2004).

Moreover, influences of the predominating cost-minimization and efficiency ideologies of the early 1990s, seemingly in keeping with the Hammer and Champy notions (1993) of lower cost, better quality, faster time to market and customer service, drew the attention of many managers to the potential of their procurement activities to save public money. The search for the perfect procurement system began to focus on methodologies that achieve some of these outcomes. Public sectors were not immune from these pressures as the demands of neoclassical or New Public Management ideologies encouraged governments to reduce their investment in the public sector (Bell, 1997; 2002; Pollit, 1999; Pusey, 1991). However, while

precise estimates are impossible to achieve, there is evidence to suggest that public procurement in Australia accounts for almost thirty per cent of GDP (Commonwealth of Australia, 1994).

Furthermore, the influence of the complex relationships that exist between the Australian federal government and the governments of its constituent states, which is closely related to the evolution of each state from a separate colony of Great Britain, helps to explain the diversity of procurement approaches. Australia is a federation of states with some powers sitting with the national government and others reserved for the state governments (*Commonwealth of Australia Constitution Act of 1900*). At the national, or federal level, the deficiencies identified in the enquiry of 1994 (AGPS, 1994) have not markedly changed, especially in regard to tracking the specifics of federal government expenditure on procurement in a substantially devolved agency environment.

At the state, or regional, level, government financial actions are more immediately visible, and this, together with the influence of ratings agencies based upon the financial status of each government (Securities and Exchange Commission, 2004), demands more fiscal discipline than is apparent at the federal level. The major parameters of the environment provide a foundation for analysis of the approach of the two regions, centred upon the cities of Adelaide (South Australia) and Perth (Western Australia), in particular, the desire to adopt a strategic procurement methodology, to operate in an environment where the benefits of this methodology can be measured and comply with the legislative and policy frameworks of each jurisdiction. This paper, which explores two quite different approaches to the goal of the "perfect procurement system," adopts a model for analysis based on the South Australian Procurement Vision (McGuire, 2004). Briefly stated, these principles encompass the requirements for people development, leadership, governance, data and strategic intelligence gathering, effective buying processes and supplier development (McGuire, 2004). Against this background, the evolving objectives of government can be observed within the following case which provides a comparative outline of the development of the "perfect procurement system."

The South Australian Experience

South Australia (SA) is a mixed economy based on primary-production with a strong manufacturing base although in recent years an increasing focus on information technology and communications has developed. South Australia was founded in a 19th century social experiment based on the theory of 'systematic colonisation' that sought a solution to the economic and

social conditions of Britain at that time. The theory brought an entrepreneurial spirit together with a focus on societal development. In this sense South Australia's development was unlike any other of the early colonies, most of which were ostensibly founded by Great Britain as convict settlements (Clark, 1980). The state government, established by the *Constitution Act, 1934* has a bicameral Parliament which operates broadly along Westminster principles.

South Australia has been actively seeking the perfect procurement system for some time. In fact, there is evidence that the search for the perfect procurement system has been ongoing since the colony of South Australia was established in 1836 (Government of South Australia, 1988). From this starting point, where the state had a designated store's keeper, South Australia's approach to the management of procurement has evolved gradually in response to changing needs and the growing ability of the market to support these needs. From the outset, there was an underlying need to ensure the approach that the Government of South Australia (1988) applied to procurement policy and practice garnered public confidence.

Public sector procurement in South Australia was given official recognition in 1887 when the first Supply and Tender Board was established. The Board was the result of an 1886 Commission of Inquiry that investigated the colony's stores function. The Commission found that the stores system "had grown up with the colony" was cumbersome, expensive and fragmented (State Supply Board, 1988). Furthermore, it was found that many contracts were going to high-cost, well-connected suppliers while poor payment practices were ruining small businesses. A key outcome of the Inquiry was the establishment of the Supply and Tender Board with centralisation as its goal to prevent poor public management practices bankrupting the developing firms of the fledgling state economy (State Supply Board, 1988).

This model continued for a quarter of a century, until dilution of authority rendered the system out of step with the needs of the State. Parliament was told that change was necessary to overcome a "rotten" system in which the Chief Storekeeper had "no say in the ordering of stores, and no power to refuse what had been ordered without his knowledge". A new arrangement was required to give the Chief Storekeeper the "controlling power that his office demanded" (State Supply Board, 1988). This led to a key corner stone in this process, the *Public Supply and Tenders Act, 1914* and recognition of the need to have a legislative framework around this area of government control. This model remained with few changes until the 1914 Act was replaced with the *State Supply Act* of 1985.

The *State Supply Act* created a Board responsible for controlling the supply operations of government, which, at that time, was primarily for goods. The structure was designed to operate at arms length from the government of the day reporting directly to Parliament. It was formulated to provide public and supplier confidence that decisions would not be made on a political basis but in a manner viewed as fair and equitable. The 1985 Act was a response to both the Richardson Report (1979) and the Guerin Report (1980) which cumulatively recommended that the authority of the Board be clearly restated, that its policies be simplified, its role expanded to incorporate the new types of agencies created since 1914, and that a specialist support body be established to assist agencies who would now fall within the Board's mandate (State Supply Board, 1988).

Despite this, it is worth noting that in June 1988 the then Chair of the State Supply Board described public procurement as "one of the largest and most complex functions in the public sector [it] takes place unnoticed; is usually poorly documented; inadequately staffed and yet is fundamental to effective and efficient government" (State Supply Board, 1988, p. iii).

In the 1990s, services procurement began to overtake goods procurement as the predominant portion of government procurement spend, yet it was not covered by the provisions of the *State Supply Act*. In 1997 it was decided to include services procurement within the Board's mandate, a development which was effected by government regulation rather than by amendment to the *State Supply Act*, although amendment of the Act did eventually occur. This period was also a key turning point for procurement in the South Australian Government, which up to that time, despite periodic shifts between being centralized and decentralized, had been primarily operating in a highly centralized fashion.

In 1997 a Government Purchasing Task Force was established and chaired by the then Under Treasurer of the South Australian Government. The Task Force was established following a review of procurement undertaken by the State Supply Board. The Board published its review findings in a position paper entitled "*Opportunities for Government*" in which concluded that "in the appropriate application of best practice procurement methodologies which link purchasing to the strategic planning outcomes of agencies, and incorporate processes for needs analysis, contract design and development etc., the South Australian Government [has] available to it a tool to facilitate its purchaser/provider reform agenda" (State Supply Board, 1996). The Board identified a need for Government to remedy:

- A fragmented legislative and policy framework for goods and services purchases;
- An administrative rather than strategic focus to most procurement processes in Government;
- A critical lack of procurement expertise particularly at the strategic level;
- A failure to implement effective coordinated supply of management strategies which enhance value for money outcomes; and
- A low level of information technology support for the procurement function and agencies.

This Government Purchasing Task Force, comprised of Chief Executives and senior management of key Government agencies, was established to oversee developments aimed at building on these “opportunities for Government” by initiating and championing reform. The Task Force reported to the State Cabinet and its work led to the South Australian Government Procurement Reform Strategy, titled *Purchasing Strategically – The Policy Framework for Reform*, formally released in May 1998. This reform program moved away from a centralized approach to procurement to a largely devolved model, with Chief Executives expected to lead and govern a profound shift in agency procurement performance to better support the objectives of those agencies, the State Supply Board and the Government of the day.

Chief Executives were expected to ensure that staff involved in any aspect of Government procurement complied with principles around: value for money in the expenditure of public funds, open and fair competition, professional integrity, probity, client service, management of risk and accountability, simplicity and local industry sourcing where local suppliers could demonstrate competitiveness and capability. As part of leading this change, it was expected that Chief Executives would create highly competent purchasing management committees, known as accredited purchasing units (APUs) within their agencies. The committees would oversee purchasing and tendering process and strategy at the agency level. The State Supply Board would be reoriented to:

- Focus on agency accreditation;
- Drive the formation of a specialist centre for purchasing within the key administrative agency, the Department for Administrative and Information Services;

- Quickly drive the implementation of best practice purchasing across the public sector; and
- Develop and manage strategic and complex across-government contracts and to formulate advice to government on strategic purchasing issues.

This Reform Program was implemented in 1998 and was expected to achieve an initial 3% savings target against the total Government goods and services spend which would return an estimated \$72 million per annum to agency and state budgets. Over the six years since the implementation of the reform program there have been significant successes including:

- Clear procurement process ownership and authorities within agencies including, importantly, the establishment of APUs;
- Some excellent transactional outcomes for agencies and for the State Supply Board;
- Clear improvement in competency levels across Government;
- Some good leadership practices amongst senior practitioners within the Government Agencies;
- A good focus on improving the quality of contract development work; and
- Significant savings.

Challenges that now exist associated with procurement reform include:

- A move of management focus away from the value that procurement can add to the Government. This is due to the dissipation of high levels of management focus previously exhibited during the launch of the Procurement Reform Program;
- The further work that is needed to effectively engage key executives across Government;
- The further development of competency to a much greater depth;
- Improved systems and tools to more accurately identify procurement profiles and assist agencies with efficient purchasing processes;
- Further work to clearly demonstrate the value delivered by procurement to Government; and

- Further work to provide a clearer focus on post contract management to ensure that the benefits and value identified at the time of contract awarding actually find their way into Government.

The South Australian Government annual spend on goods and services is approximately \$AUD1.9 billion (excluding construction) of which approximately 23 per cent is for goods and the remainder for services (State Supply Board, 2003). The South Australian Government is currently structured into thirteen super departments, each has its own accredited purchasing unit and for a number of these organisations the APU is also part of the normal Executive Management Team. Over the last twelve months the State Supply Board has undertaken significant work reviewing the present status of Procurement Reform and considering where the reform process should proceed.

In parallel to this, and in support of the South Australian Labour Government that was elected in 2002 and its policies, a new Act has been developed to replace the *State Supply Act*. Titled the *State Procurement Act, 2004* this new Act, in replacing the State Supply Board with a State Procurement Board, creates and strengthens the role of a the Board and shifts its primary focus from control to a primary focus on facilitating strategic procurement and strengthening the accountability of Chief Executives as "Principal Officers" within agencies. The State Government within South Australia has come to see that procurement can be a key enabler in the achievement of government objectives, including those relating to socio-economic outcomes.

The Western Australian Experience

Western Australia (WA) represents a resource-based economy that has gained much contemporary wealth from mining and related primary production. It was founded as a European settlement in 1829 for social and strategic reasons, the latter being to ensure that France did not occupy this part of the Australian mainland (Clark, 1980). The state government, established by the *Constitution Act* of 1889, has a bicameral Parliament which operates broadly along Westminster principles.

Until the last decade of the 20th Century, government contracting and procurement was controlled by the provisions of the *Public Works Act* of 1902 (infrastructure) and the *Treasury Regulations and Audit Act* of 1904 for contracting for goods and services (Review Group, 1999). The Tender Board and Government Stores undertook the majority of contracting for the WA government until a review conducted by the Legislative Assembly's Public Accounts Committee found that the centralized procurement had

become decentralized. Further attempts to control procurement occurred in 1980 and 1985, leading to the establishment of the Department of Services (1985) and the State Supply Policy Council (State Supply Commission, 2002).

In 1991, the *Supply Act* came into effect, establishing the State Supply Commission, supported by the resources of the Department of State Services (DOSS). However further reviews in 1993 (McCarrey Report) and a 1994 Auditor General review explored the potential for a conflict of interest between the Supply Commission and the DOSS (Review Group, 1999). The disaggregation of DOSS and the Supply Commission was completed in 1995, although in the following year DOSS and the Building Management Authority were merged to form the Department of Contract and Management Services (CAMS)(Review Group, 1999). The attempts to centralize procurement had resulted in a centralization of procurement policy formulation and a devolution of procurement operations, with a number of departments undertaking procurement responsibilities under delegated authority.

In 2000, the Department of Industry and Technology (DOIT) was created to merge policy and practice in relation to contracting procurement and industry development, a shift that continued the devolved model of procurement. Exceptions include small agencies and common-use contracting provisions. At the start of 2003, as a consequence of the Structural Efficiency Review, DOIT was divided along functional lines with Government Procurement being transferred to the Department of Treasury and Finance (Department of Treasury and Finance, 2003).

The reform process is now well advanced and the fine details of the reform are beyond the scope of this paper. However, some of the principles, policies and outcomes of procurement reform in WA have implications for the development of a "perfect procurement model" as well as provide some significant examples of the concept of the extended organization. In 2001/2002 the government expenditure was slightly less than \$AUD6 billion of which over half was spent on goods and services (State Supply Commission, 2002). Through the reform process the government aims to save \$AUD380 million over the five years 2003 to 2008 (Department of Treasury and Finance, 2004). The description, which follows, will focus on the procurement of goods and services.

A feature of the reformed procurement system is the mix of centralized and delegated responsibility. The State Supply Commission retains its role as host of the Tender Board, as the regulator of procurement delegations and arbiter of complaints about procurement processes (Stokes, 2004).

Furthermore, the oversight of procurement also vests in the Strategic Management Council of Directors-General (the CEOs of government agencies)(Department of Treasury and Finance, 2004). This structure ensures that procurement policy and direction is brought to attention at and across the most senior levels of the public service and thus provides a level of transparency across the sector, as well as placing procurement at the level of strategic decision-making.

The theme of oversight continues in the way in which procurement responsibilities for goods and services are staffed and managed. All public sector staff who are designated "procurement specialists" will become staff of the Department of Treasury and Finance, even though they may remain in their distributed locations in agencies (Department of Treasury and Finance, 2004). This provides a form of centralization of policy, process and data management and allows a more extended career structure for those who are identified as procurement specialists. A broad-based training and education program is also being developed for procurement specialists to support the wider professionalization of procurement.

However, the entire process of procurement is not to be centralized. Agencies will retain delegated responsibility for procurement decisions subject to the policy and delegations approved through the State Supply Commission and CEOs will retain delegated responsibility for procurement decisions that are specific to their agency, although much greater use of "common-use" or "whole-of-government" contracts will also emerge (Stokes, 2004). Within the Department of Treasury and Finance, senior procurement managers will be responsible for coordination of clusters of agencies and there will greater emphasis on compliance with government procurement policies, a simplified framework for policy development, and simplified processing approaches (Stokes, 2004).

In summary, the reformed procurement system, which is now being implemented, is designed to create a "perfect procurement system" through an emphasis on a number of goals. It is expected that a more strategic approach to procurement in general will lead to more strategic approaches to sourcing of goods and services, that contracting processes will be simplified while contract planning and management can be expected to become more sophisticated. Greater centralization of procurement processing, including wider distribution of procurement staff, is designed to improve the reliability of procurement processes as well as ensure data management is more rigorous. The expectation is that procurement reform will support the policy aims of government through a more strategic approach to procurement while also permitting more reliable stewardship of government funds.

THE SEARCH

As noted earlier, this chapter explores two quite different approaches to the goal of the "perfect procurement system" by adopting a model for analysis, as outlined by McGuire (2004). This search for the "perfect procurement system" seeks to link the desire to adopt a strategic procurement methodology, to operate in an environment where the benefits of this methodology can be measured and comply with legislative and policy frameworks. The South Australian Procurement Vision principles encompass people development, leadership, governance, data and strategic intelligence gathering, effective buying processes and supplier development.

The relevance of each of these headings can be found in recently published research by Giunipero and Handfield (2004), which suggests that currently in the USA, the most important skills for purchasing include ethics, negotiation skills, decision-making, communication and common sense. However looking out to the end of the decade their research suggests that apart from ethics, communication skills, negotiation skills, strategic thinking, decision-making, influence and persuasion, cross-function team capabilities, decision making and leadership occupy the key rankings. Furthermore their research shows that activities such as leadership, strategic thinking, contract writing, managing change, managing the supply base, managing risk and planning will move up the list of skill requirements significantly.

These findings are also supported by some of the outcomes of the International Research Study into Public Procurement which has suggested that dominant immediate challenges include risk management, e-literacy, co-operative procurement, purchasing cards, supplier development, change management and an enhanced capability to manage the post-contract stage of procurement.

People Development

An examination of the nature of procurement reveals the presence of a large number of academic and professional disciplines, none of which are integral to the contemporary procurement discipline. This was not the case when procurement was perceived to be a bureaucratic function that merely implemented the decisions of other managers and largely managed the clerical processes that expedited the procurement decision. The list of disciplines reviewed in this case study is not exhaustive, but could include accounting, economics, engineering, environmental sciences, HRM, information technology, law, logistics, management development, management studies, marketing, materials management, project

management, organization behaviour, psychology, sociology and strategic management. While each of these individual areas has some cross-disciplinary inter-relationship, each can demonstrate that within their discipline area there is a body of knowledge that determines the general nature of practice.

The existing procurement discipline, as reflected in a sample of procurement textbooks (Baily, Farmer, Jessop & Jones, 1994; Saunders, 1997; Lysons, 2002; Monczka, Trent & Handfield, 2002; van Wheelee, 2002), possesses a limited view of its purpose. The cross-disciplinary nature of procurement is not well recognized in the management literature, and the absence of a defined body of knowledge remains an impediment to professional recognition. It has been considered that measurably successful procurement outcomes rely on people who have the capacity to manage and implement public procurement strategies and processes. There is evidence from both state jurisdictions that, historically, procurement capacity could be achieved in both states through training and there are several examples of inquiries which commented on the paucity of training for procurement personnel.

However there is evidence that training is only part of the requirement for creating an effective procurement person, particularly when it is found that many of the most effective operatives have the blend of the basic competencies, experience, authority, confidence, status within their organization, good relationship management and communication skills and an ability to think laterally. These attributes compare favourably with the attributes identified by Giunipero (2000) and is extended by his notion of the 'world class purchaser' who operates in the so-called knowledge economy and manages the procurement professional body of knowledge.

There is also anecdotal evidence that the predominant level of procurement training occurs through staff development programs which are usually regarded as having been successfully completed through the actual attendance of the participant. Kellie (1999) has found that there is an overwhelming lack of evaluation of staff development programs in Australia, a problem that is likely to affect the impact of procurement staff development activities. While there is evidence of widespread training at the community college level, the academic and professional standing of this material places it in the lower half of national education standards (Australian Qualifications Framework, 2004) and much of this occurs through privately registered trainers, whose standards are not subject to further scrutiny once they have successfully been registered. Despite the availability of suitable programs, low levels of enrolments continue to be

experienced in community college and university procurement award programs.

In the near future development programs will be required that assist people with all aspects of procurement, not only with the contract development focus but also in the areas of contract and asset management. As part of these developments, at least within the South Australian government, there will be issues regarding levels of remuneration and the classification of procurement operational staff and managers. The need for the creation of standard procurement job descriptions across government, to ensure the attraction and retention of the best possible staff, is important in both jurisdictions.

While the issue of professionalization is being widely discussed within both states, the precise mechanisms for supporting the development of procurement professionals is also linked to the creation of a viable procurement professional body of the stature of the ISM, PMAC or CIPS. Strategies around people also need to consider how graduates and trainees can be attracted into the procurement arena from other fields and disciplines. Experientially, public procurement staff also needs to be able to understand the supplier perspective, and in the near future, the implications of international agreements such as the USA-Australia Free Trade Agreement.

It is apparent that a two-tiered approach to procurement skills and knowledge development is rapidly emerging. This dual tiering can be found in a number of professional areas where those with technical skills are able to support those with professional skills. Thus the need for procurement processing staff will not disappear, whether these individuals undertake basic purchasing activities or maintain records for control purposes. However, the pool of practitioners with strategic procurement capabilities is rapidly enlarging. This group, the procurement professionals, will need an interdisciplinary capability that is a complex requirement for a profession, which normally controls a very specific body of knowledge. However, there is a professional precedent in the form of the general practitioner in the medical profession, the large group of individuals who possess a wide-ranging professional knowledge with perhaps limited areas of medical specialization.

Professions, have been loosely described by Abbott (1988, p. 8) as "exclusive occupational groups applying somewhat abstract knowledge to particular cases" and functionally defined by Pugh (1989, pp 2-3) as "a cast of mind ... a corpus of theory and knowledge ... a social ideal ... ethical standards ... a formal organisation of its members ... a hall of fame, gallery of luminaries ... and [possessing] a code of ethics".

The functional model of a profession therefore provides a procedural path to designate a particular body of knowledge within new and existing professions. From this model it can be concluded that the principal attributes will include the identification and stewardship of a body of knowledge, a widely supported code of behaviour, social and organizational recognition, a formal organization to manage the interests of members and their clients, a code of ethics and, preferably, the existence of past and present heroes and heroines to champion the emergence of the new professional group. In addition, there is a requirement that members will have to prove the existence of specialist knowledge that they, rather than other professional groups, have the capacity to manage.

Professions exercise a profound influence upon a society (Havrilesky, 1993; Perkin, 1996). They do this through the power that arises from their capacity to control and regulate the application of a body of knowledge by the particular group of individuals who are qualified to claim membership of that profession (Abbott, 1988, Pugh, 1989) and the status ascribed to members by a particular society (Brante, 1988).

However, the notion of a profession has undergone a metamorphosis from a few learned professions comprising law, theology and medicine (Friedson, 1983) to a model which shows that new professions can emerge to gain some of the benefits attached to professional status and influence (Perkin, 1996). Anecdotal evidence of the ease with which this transformation has occurred comes from the 2001 Census in Australia, which shows the number of persons claiming professional status has risen from around fifteen per cent (14.8%) in 1991 to over eighteen per cent (18.2%) in 2001 (Marris, 2002). These "new" professions, hopefully including some members of the procurement profession, have emerged from processes related to the aspirations of the middle classes to share some of the social standing enjoyed by the "gentlemanly status of the traditional learned professionals" (Friedson, 1983, p. 22). Professionals have the potential to challenge the role of management through their wider organisational influence and the capacity of their specialist knowledge to influence management decisions (Havrilesky, 1993; Saul, 1993; Bell, 2002). In defining standards of behaviour and controlling the access and application of professional knowledge, the professions create their own standards of professional behaviour by their regulatory and monopolistic nature.

In summary, the development of people in the procurement profession requires an overall increase in sophistication, with a focus on the process and the strategic qualities, requiring two different types of training, education, mentoring and knowledge development. It is apparent that the

procurement profession also needs to enunciate more specifically the body of knowledge that form the central professional capabilities of those claiming professional standing.

Leadership

Leadership has been described by Bryman (1996) as "a process by which the leader identifies for subordinates (staff) a sense of what is important - defining organization reality for others". There are a number of procurement contexts in which the notion of leadership is relevant to the development and implementation of the "perfect procurement system". At the macro-level, there is a leadership requirement that is relevant to global, national and regional procurement considerations. For example, Gregersen, Morrison and Black (1998) have proposed a general model for explaining the requirements of an effective leader in a global environment. This model suggests that three traits are most relevant to evaluating a global leader: personal integrity, the ability to handle duality and a capacity to resource their organization so that it can seize opportunities. These characteristics broadly match the imperatives of the model of procurement discussed in this paper.

The issue of personal integrity is one of the fundamental features of a profession and its desire to ensure that members meet standards of practice which preserve the status of the profession. In terms of government procurement, the requirements of accountability and probity are not only requirements at the personal level, they are also implicit in the operational requirements of the public sector. The capacity to handle duality presents a more complex set of expectations. Duality presupposes that situations contain the seeds of radically opposite alternatives that demand some level of reconciliation or choice. Because of the demands of transparency and accountability, public procurement decisions inherently contain the dilemmas emerging from a clash of policies such as "buy local" policies designed to support small, local businesses compared to the enticement of lower total cost propositions offers by larger, national or multi-national suppliers.

The key goals in relation to leadership need to reflect the fact that leadership resides at many levels within complex networks such as government. On one level is the South Australian experience where the State Procurement Board is expected to have a strategic focus in understanding and setting vision, strategies and performance measures and monitoring performance against its strategic plan and identifying the key

interventions that it could undertake to encourage the achievement of its strategic plan.

This is a fundamental shift from earlier South Australian State Supply Board approaches. Previously, a significant amount of time had been tied up in the monitoring of procurement transactions, as remains the position in Western Australia. In furthering procurement reform across government, it is seen that there needs to be an understanding and drive from Ministers of the South Australian Government singularly, State Cabinet as a collective and, importantly, Chief Executives, are together the key responsible and accountable bodies of people. It is this understanding and drive that will lead the agency executives to appreciate the value that procurement can add in the achievement of their organizational success and to work to develop strategies that leverage procurement to their best possible benefit.

Executive Directors and particularly Corporate Directors within the South Australian Government also form a significant group and again need to drive procurement reform for it to be successful. Senior Practitioners are also a key leadership group in connecting the procurement strategy within agencies to the business strategy and of course the practitioners themselves are vital in ensuring that excellent procurement outcomes are achieved.

Governance

The emerging directions of procurement in both South Australia and Western Australia demonstrate the operation of public governance at both the corporate and political level. The notion of governance can be interpreted in a number of ways. Johnston, (2003, 3) has defined strategic public governance' as a term "to denote the total set of high level public policy decisions that governments make and attempt to implement in the interests of the polity". This definition provides a useful starting point for reviewing the varying levels that public procurement affects all varying groups within a society as well as suggesting a method of evaluating success, namely the extent to which the outcomes of policy decisions meet the "interest of the polity".

In the case of public procurement, the "polity" is multi-faceted, just as the professional content of procurement is multi-disciplinary. Thus the governance structures that are created to implement policy must operate successfully, if the governance responsibilities of the state are to be met. Structures are therefore a building block of governance, at the top of which the governance policies must be robust enough to satisfy the demands of the entire society (a very challenging prospect) and at the bottom of the structures, the systems which implement policy must support the intent of

the policy. This may sound like a truism, but when considered against the pursuit of a "perfect procurement system" the dilemmas are clear.

One of the most difficult decisions for a government is the definition of its stakeholders. As Olson (1982) has noted, as a society becomes more sophisticated, its interest groups become more diverse and more powerful. Procurement policy must meet the social policy expectations of local citizens through the allocation of funding to suppliers and projects in a way that is seen to be in the public interest. Yet the same policy framework must also support a government's need to balance its budget to satisfy the requirements of the ratings agencies who monitor government economic performance, and which represents a supra-national requirement beyond the immediate control of a state government (Stiglitz, 2002). Furthermore, the dominant ideology of "small" government forces government to find the most financially economic outcomes to deliver its governance obligations to its citizens and its wider stakeholders – who include local, national and multi-national suppliers whose demands are closely related to procurement outcomes.

It is against these macro-governance issues that the procurement policies makers in each state must design and implement policies and procedures which give effect to these demands. Agencies have a broad governance requirement to achieve the business outcomes necessary for their success whilst at the same time being able to reassure key stakeholders such as the Parliament and the people of the State of South Australia that procurement processes and decisions are made in a way that will withstand public scrutiny.

The strategy currently being examined within the South Australian Government looks to further delegate procurement responsibility to Chief Executives. In turn, they will be expected to determine their capability to meet the procurement challenge and to seek commensurate delegations from the State Procurement Board. As part of this proposal, the State Procurement Board can review the effective agency performance and report on this performance to Parliament as part of its annual report.

With this process there is also a move away from the Board requiring approvals at both the acquisition plan and purchase recommendation stage to one of just seeking acquisition plan approvals. Exceptions would be cases that are either high risk or where procurement varies materially from the approved acquisition plan.

Data and Strategic Intelligence

A core issue in effective procurement reform is product or market knowledge and understanding of what you buy for your clients. This will enable development of strategic sourcing strategies to better pursue opportunities and manage the risks presented by this profile. Figure 1 outlines the conceptual structure of a system that places global procurement intelligence at the forefront of system design. This approach is predicated on a re-design of the procurement function and separates strategic procurement from procurement systems, that is, it forces a distinction between activities such as strategic procurement and data management and ensures that the new demands of procurement are separated from the traditional clerical and bureaucratic approaches. Strategic procurement activities include global sourcing, contract planning, evaluation, negotiation, agreement, implementation and management. This approach also recognizes some other critical procurement issues.

First, by placing global intelligence at the top of the model, the authors are highlighting the future dilemmas of global sourcing in resolving the combined dilemmas of cost minimization balanced by policy imperatives placed upon governments in the form of local industry development, skills maintenance and other special interest demands from citizens and regional businesses. Second, the model identifies e-Management as an emerging field that enhances the separation between traditional management activities and those that will evolve around e-procurement.

Third, the model recognizes the importance of data management of both procurement decisions (data systems required to calculate total cost of ownership, budget savings in a current fiscal period, the supply chain performance of individual suppliers, and a data mining capacity to assist the intelligence processes. Fourth, the approach recognizes, without being prescriptive, the influence upon procurement of shifting government priorities and public policy ideologies.

The possibility of a shift to a strategic intelligence for procurement faces a number of barriers. For example, in the South Australian Government, as in many other public and private sector organizations, there are many data management systems that are not well integrated and do not readily support compilation of procurement profiles within an agency or across government. Clear strategies to enable the interrogation of the contents of these systems will facilitate more sophisticated sourcing strategies for goods and services being identified and implemented. In a small number of agencies a procurement profile has been established which has enabled much more

FIGURE 1
Conceptual Structure of a Global Procurement Intelligence System

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Source: Callender (2003).

effective engagement with those agencies' executive and development of strategies leading to benefits for those agencies.

Secondly, skills in gathering, evaluating and synthesizing global sourcing data requires individuals with specialised skills in data management, systems that are suitably linked, and an ability to develop a sophisticated interpretation and dissemination of data for procurement users. The data gathering and analysis requires adequate specification on the part of end-users so that a precise picture of global sources, where required, can be reliably established. Once this specification is broadly agreed, the data mining from a variety of sources can be undertaken, at the end point of which the data investigator will need to be able to provide some analysis for end-users. This is an intuitive rather than a quantitative skill and requires lateral, interpretive skills among procurement staff which are not easily transferred by training.

Buying Process and Supplier Development

The buying process is not a central focus of this paper, although it is significant to the overall procurement goals of government. As buying

processes for both local and international products and services become more sophisticated, the need for both buyers and sellers to engage themselves in the buying process will become more significant. This requirement has become obvious with the emergence of on-line reverse auctions at the micro-level of contracting and in the negotiation of expensive and complex public-private sector partnerships where both risk and financial investments are high (Callender & Johnston, 2001).

For example, buyers may increasingly be expected to manage suppliers and supply chains including making choices about the sourcing of goods and services, outsourcing activities and production previously undertaken in-house. Moreover, buyers are expected to obtain a prescribed level of savings from suppliers. These are typical elements of procurement that demonstrate the profession's claim to the achievement of greater efficiency from what is ostensibly the same procurement process (Monczka, Trent & Handfield, 2002). For example, greater efficiency is seen to be achieved through the generation of competitive actions between suppliers to arrive at some notional 'best value' (Halachmi & Montgomery, 2000).

Similarly, the use of the competitive tendering process is closely linked to the assumption that efficiency is enhanced by competition (Independent Committee of Inquiry, 1993) and is therefore widely used by private and public organisations to demonstrate that competing contracting parties have an equal chance of winning contracts. Yet this process is one of the operating functions that hold procurement to its clerical past. It has a number of significant weaknesses which many procurement professionals have been unable to discard. In particular, the high cost of tendering represents a significant investment for those organisations seeking contracts using this technique. The detailed requirements of the tender are usually contained in a specification which represents the apparent needs of the end-users, which may not take into account the full range of available solutions unless the product end-users have been involved from the time the specification first began development.

Recent developments in tendering include the preselection of potential suppliers on the basis of a general *due diligence*, including a risk assessment, followed by an invitation for approved suppliers to participate in an electronic bidding process. The pre-selection process suggests a collaborative, open interpersonal relationship approach to the tendering process, while the closed electronic marketplace creates the reverse environment. The results can be a continuation of domination and suppression in a marketplace, veiled in models of friendship and trust (Cox, 2001).

Although the electronic reverse auction is designed to enhance price competition in a marketplace, it also has the potential to reduce *efficiency* through the unwitting creation of opportunities for market failure through the cartelisation of the market. This can arise because registered bidders can collude on price during the conduct of a dynamic electronic auction, by telephone, or by sitting at different computer terminals in the same room, perhaps more easily than as they can during a static, written tender process (Unobtrusive observation of an electronic auction training session, May 2002).

At a more strategic level, suppliers are increasingly granted long-term contracts on the basis of a guarantee that they can reduce the cost of their goods or services to the buyer on an annual basis (Laseter, 2001). Buyers and suppliers have pursued cost minimizing models in the areas of material sources, inventory management, production methods, single and global sourcing (Arnold, 1999) and financial assessment (Ellram & Feitzinger, 1997). The focus on transactions and transaction costs (Williamson, 1985) has been widely applied by procurement practitioners to notions of improving reliability of supply, enhanced quality of product or service and cost-minimisation, each of which is deemed to contribute to market efficiency. In some circumstances, suppliers became involved in product specification and design in conjunction with the user, to ensure that the product delivered matched the required needs of users.

The net effect of these influences is a requirement for an increasing level of buyer sophistication (Giunipero, 2000; Giunipero & Handfield, 2004), to match the developments in supplier markets. However, supplier development also involves government as it attempts to balance the efficiencies of buying from larger national and multinational suppliers against the need to preserve parochial markets and skills levels.

In South Australian and Western Australia, governments have seen a need to encourage suppliers to increase their level of operational sophistication, so that they can participate successfully in global and local marketplaces. As part of the implementation of the *Purchasing Strategically* reform program the State Supply Board developed and issued a series of policies. Agencies were then required to develop their own buying guidelines to support these particular policies and in the course of this have developed, both at the Board level and at the agency level, a series of templates and approaches to support the achievement of the Board's policies. In Western Australia, as in other jurisdictions, significant moves towards the development of an electronic marketplace for buyers in government have advanced significantly, with, arguably the most

comprehensive being the policy and systems developed for information and communications technology.

CONCLUSION

The search for a “perfect procurement system” remains tantalising. There is a growing appreciation of the need for procurement as a discipline to be highly integrated into other parts of public procurement management and into public policy in a wider sense. The success of this endeavour might be measured by the contribution of procurement to the achievement of a Government’s objectives rather than in purchasing outcomes. However, the dilemmas inherent in this complex journey have been succinctly recognized described by Dickens (1970, p. 1): “It was the best of times, it was the worst of times, it was an age of wisdom, it was an age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair.”

Opportunities now exist in both jurisdictions to achieve procurement systems that demonstrate the value of procurement, albeit, in quite different ways. As the chapter demonstrates, while a "perfect procurement system" might be developed in a variety of ways, the evolution of the models applied in each jurisdiction add to the body of knowledge of procurement and to much wider areas of organisational theory and practice.

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