

## **A STATE'S SYSTEMATIC INNOVATIONS PROVIDE SOCIO-ECONOMIC OPPORTUNITIES**

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**ABSTRACT.** The design and management of a transparent, integrated, procurement system can provide opportunities to marginalized providers and clients outside of the global for-profit trade networks and support socially inclusive economies. The new public procurement system of the State of Oregon, USA, is a model for use by social policy entities. The Oregon system integrates: new statutes, rules and policies; web-based e-procurement technology; strategic sourcing, socio-economic programs for diversity, rehabilitation, inmates, client services, and sustainability; and delegated authority to designated procurement officers, the state's chief procurement officer, and their delegates, all of whom stay responsible. Integrated components support data-driven competition and monitoring for corruption. This flexible procurement system provides needed socio-economic opportunities and is adaptable for other users.<sup>1</sup>

### **INTRODUCTION**

#### **A Social Approach to a Procurement System**

“Procurement” means the act of acquiring supplies, services or construction, including functions to create and administer contracts. The etymology of the word, “procure,” is to bring about on behalf of others.<sup>2</sup>

A “system” for procurement means a set of related elements from an institutional viewpoint. From a system in action viewpoint, “system” also means the emergent process of the combined parts particularly

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assembled in a structured whole. A system includes its workforce and stakeholders with their attendant interests (Thai, 2001, pp. 16-17, 39). Unlike an individual making an isolated procurement decision, a system is a tool, defined by shared concepts to achieve socio-economic goals and influenced by internal and external environments (*Id.*, pp. 39-41).

A procurement system must have clear policies, which vary according to different economic, social and political environments. For examples, a procurement system within a government entity with an ailing economy, under-privileged groups, environmental degradation or corruption, may focus more on economic development or stabilization, procurement equity, sustainability, or transparency, respectively. All sound procurement systems have policies for: quality; timeliness; total cost; minimizing business, financial and technical risks; maximizing competition; and maintaining integrity (Thai, 2001, pp. 26-27).

#### **A Missing Link: Global Public Procurement**

This article identifies a gap between about 3 billion people, who do not receive the benefits of for-profit networks, and social policy entities that have resources, ideas and opportunities to help these people. Traditional, philanthropic, short-term grants to some of the people do not fill this gap.

Is a global public procurement system a missing link between these people and policy-directed organizations with resources and ideas? This article researches the above premises and considers this hypothesis.

#### **A Model: The Oregon Public Procurement System**

The Oregon public procurement system is reviewed as a model for a global procurement system to address international needs. This article does not assert that Oregon's system will change the world. It provides an example of a system for those with policies to effect global changes.

#### **Contents**

This Introduction and Methods are followed by the Results:

##### **I. The Global Environment**

- A. For-Profit Networks, which benefit about 3 billion people;
- B. People outside the For-Profit Networks, who lack the benefits;
- C. Influences of various environments, which affect the People;

- D. Social Policy Entities and their resources, which aid the People;
  - E. The link of global public procurement, which needs a model.
- II. The Oregon Public Procurement System as a Model
- A. Overview: the Oregon environment and procurement system
  - B. System Element 1: policy-making and management
  - C. System Element 2: rules and administrative policies
  - D. System Element 3: appropriations and authorities
  - E. System Element 4: procurement function in operations
  - F. System Element 5: feedback and compliance
- Discussion and concluding remarks will follow the Results.

## **METHODOLOGY**

The research methods used for this article include a systems approach (Thai, 2001, pp. 16-17), review of key public procurement publications and literature on the subject, interviews, observations, and related analysis. Sources are varied and include academic articles, website publications, newspaper articles, organizational reports, government documents, relevant legislation, administrative rules, policies and procedures. The interviews covered questions about program data, structural relationships with different stakeholders, areas of contribution and improvement, and comparisons between state and global systems.

## **RESULTS**

Parallels exist between the State of Oregon (State) and global environments. A procurement system developed by this State may address similar interests and needs of stakeholders at the global level. Systemic innovations provide opportunities while safeguarding policies.

### **I. The Global Environment**

Some people receive economic opportunities and benefit from two types of global, for-profit, trade networks (collectively, For-Profit

Networks). Others exist outside these For-Profit Networks (see Section I.B. below).

### **A. For-Profit Networks**

#### **1. The Global Managed Trade Network**

Markets become more globalized through regional and international trade agreements and treaties (Thai, 2001, p.34), and management of these agreements and treaties creates the for-profit “free” trade. This Network relies on the theory of open economies, where barriers to trade or investment should be as few and as low as possible. Rules of trade are known in advance, transparent, coherent, and uniformly enforced. Government interventions are bounded (e.g., few or no prices are set by the government), and the state’s economic weight is reduced by balanced budgets and shedding of state-owned enterprises. Promoting exports and open trade is valued over protecting local industry with limitations on imports. (Naím, 2005, pp. 17-18.)

#### **2. The Global Illicit Trade Network**

Unlike traditional criminal organizations that were structured, disciplined and hierarchical, the Global Illicit Trade Network involves independent cell-like networks of individuals owing no allegiance to nation or clear hierarchy and empowered by what globalization can do.

Moises Naím describes how this Network has newly expanded since the 1990s, distinct from traditional crime and commercial side effects. The causes of this expansion include: weakened national borders; amplified rewards for those who break the rules through a technology-enlarged market; new international products that once were hard or impossible to acquire, transport or hold in inventory; governmental deregulation of foreign access, trade, and investment; and expanded money laundering in the international financial system. (Naím, 2005, pp. 3-5.)

Stateless traders are transforming the international system, upending the rules, creating new players, and reconfiguring power in international politics and economics. In addition to this growth in volume and complexity, the Global Illicit Trade Network is no longer just somewhere else, e.g., offshore or clearly limited to dirty money. While a thief is a thief, engagement by destitute and wealthy people of various classes and

the mainstream creates contradictions, double standards, and paradoxes. (Naím, 2005, pp. 5-7.)

### **B. People Outside the For-Profit Networks**

Approximately half of the world's population, 3 billion people, do not benefit from the For-Profit Networks. They are not in any cycle of more education, health, profit, rule of law, and wealth (Friedman, 2005, pp. 378-379). These 3 billion people have been described as: disposable; too sick, disempowered, frustrated by deprivations, or humiliated to be in the Networks or cycles (Friedman, 2005, 375-406); threats (Friedman, 2005, pp. 419-420; Perkins, 2006, pp. 81-86); or challenging consumers (Friedman, 2005, pp. 389-391). In 2001, 2.74 billion people lived on less than \$2.15 per day in East and South Asia, Latin America and Caribbean, Middle East and North Africa, and Eastern Europe and Central Asia alone (UN Millennium Project, 2005, p. 9). In the remainder of this article, the term, "people," means these 3 billion people, described in this Section.

Some people have disabilities from preventable diseases, e.g., trachoma, a neglected disease that blinds people unless prevented by a 15-minute procedure by minimally trained health workers and materials costing \$10 (Dugger, 2006, p. 1). Thousands of people die every day because they are unable to obtain life-sustaining food (United Nations World Food Programme, 2006).<sup>3</sup> Over 13 million households in the United States worry about their next meal, and over 4 million households are hungry (Food Research and Action Center, 2006). The people are the public of every government entity and not to be disregarded as remote foreigners.

A dual tragedy exists: for the individual facing suffering, limitation, and an unnecessarily shortened life; and for the world because of the incredible lost contribution these people could be making, including their knowledge to science, education, and the humanities; and their innovations and collaborations (Friedman, 2005, pp. 381-382).

These people are potential clients, providers, and participants if given the socio-economic opportunities through socio-economic reforms. The opportunities may arise from resources outside or inside the For-Profit Networks. Instead of profit-making through make, break, and remake activities, policies could direct opportunities to providers, clients, and participants to contribute to a better future for their environments.

Socio-economic opportunities are a key part of a cycle of sustainable prosperity that evolves with enough food and health to leave subsistence living, trained and educated labor, work in services and industry, innovation, higher education, expanding markets, growth in economics and infrastructure, fewer diseases, and slower population growth. This cycle currently arises from the opportunities of the For-Profit Networks.

From an institutional system's viewpoint, these people could be placed into procurement categories that are fixed in time, e.g., people unable to sustain their lives without intervention (clients); people able to provide supplies, services or construction work but are deprived of the knowledge, resources or mobility to respond to opportunities; and people who are able in every way but lack opportunities (providers).

From the system in action viewpoint, however, clients receiving benefits from a procurement system may also become providers to many others. Providers may require support and then become independent and support others. Changes in these categories may happen fairly quickly, because very little money makes a big difference to people in deprivation. The terms, "client" or "provider," in fact will vary by time and function.

### **C. Influences of Various Environments**

The ability of a procurement system to accomplish its procurement policies is influenced by market, legal, political, social, economic, internal, natural resources, foreign, and other environments. In turn, it influences these environments, e.g., it can improve the socio-economic environment (Thai, 2001, pp. 32-39). The circumstances of the people cannot be isolated from these environments.

Many countries are struggling after experiencing both substantial environmental degradation and rising levels of pollution over the past decade. This degradation and pollution could very well worsen as a result of long-term, human-made, global climate change. The degradation includes loss of cleared forests, increases in vector-borne disease, declines in quantity and quality of water, and more floods, landslides and local climate changes (UN Millennium Project, 2005, p. 11). Plundering and waste creation are implicated (Hawken, 1993, pp. 37-54), e.g., more polluting vehicles (Friedman, 2005, pp. 407-413).

Changes in environments will affect the people and future generations. Concerns over environmental degradation and

environmental sustainability in recent years have resulted in environmentally preferable purchasing, an approach gaining in popularity among the federal and state governments. (Coggburn & Rahm, 2005, pp. 23-53).

#### **D. Social Policy Entities and Their Resources.**

##### **1. Social Policy Entities**

“Social Policy Entities” means those organizations whose predominant purposes and actions advance socially beneficial, public-oriented policy rather than profit making. These Entities, defined by purposeful actions, may include: governmental organizations (Governments), nongovernmental organizations (NGOs), and social entrepreneurs that are organized for profit to fund social objectives (Friedman, 2005, pp. 363-367; OPB, 2005). Social entrepreneurs range from individuals to philanthropy divisions of multinational corporations, if profit generates funds for social policy.

The resources of Social Policy Entities include at least: current appropriations for procurement activities, international aid spending, private philanthropic giving where the goals overlap social policies of public procurement, and potential resources, as summarized below.

##### **2. Governments**

Regarding governments in all countries in the world, estimates of the financial activities of government procurement managers were 10% to 30% of the GNP (Thai, 2001, p. 24).

The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development is an authoritative source of government international aid spending and has reported amounts of Official Development Assistance (ODA) of its member countries. In 2004, government international aid spending totaled \$78.6 billion.

The DAC has been the standard for comparing assistance provided by the world's major aid donors. It has generated data about private aid from individuals and other Social Policy Entities (CRS Report for Congress, 2005, pp.2-4; see Section I.D.3. below).

In addition to current government spending levels, socio-economic policy changes could result in the availability of more resources. The United States' cost of conducting a war in Iraq exceeds \$292 billion and

is set to reach \$315 billion in September 2006, including past Congressional appropriations and supplemental requests in 2006 (National Priorities Project, 2006). In contrast, the United Nations estimated in 1998 that for \$40 billion, we could provide clean water and sanitation, cover reproductive health services, give enough food and basic health care, and provide basic education to every person on the planet. \$40 billion is less than 15% of the cost of this war and only one fifth as much as the \$200 billion contract to build new F-35 Joint Strike Fighter jets (Robbins, 2001; for other comparisons to costs for health, housing and education, see National Priorities Project, 2006).

Some decry that the United States spends just \$15 billion to address the world's poorest, of whom over eight million die each year, unable to sustain themselves in societies that lack economic opportunities (Sachs, 2005). For the first time in history, one nation, the United States, has the ability, the money, and the power to change this (Perkins, 2006, p. vii).

### **3. Other Social Policy Entities**

The United Nations Procurement Services procures supplies through the Global Managed Trade Network, using competitive methods with prospective corporate providers. These corporations may voluntarily participate in a corporate citizenship network for information sharing and partnerships with UN agencies. Its procurement has increased each year, amounting to \$1,619,940,000 in 2005 (UN Procurement Services, 2006). Clearly, this level of expenditure signifies great financial benefit to the recipients and enormous potential opportunity for those typically outside of the For-Profit environment.

Most resources of other Social Policy Entities appear within philanthropy, rather than procurement. The United Nations Fund for International Partnerships recognizes a new face of global giving and the importance of public-private partnerships for social change (Hudson Institute, 2006).

In the United States, private giving to poor countries amounted to at least \$71 billion in 2004, more than 3 ½ times the government's aid, and close to the total amount of all governmental international aid (Section I.D.2. above). In 2004, private giving and volunteerism by U.S. non-governmental Social Policy Entities topped \$13 billion (Adelman, 2006).

One example of private resources is the Bill & Melinda Gates Foundation with an endowment of \$29.2 billion (Bill & Melinda Gates

Foundation, 2006), and recently, Warren E. Buffet committed \$31 billion to the Gates Foundation (O'Brien and Saul, 2006). The private sector challenges the assumptions that foreign aid primarily comes from and through governments, e.g., people-to-people programs use technology to connect donors with projects and track their progress. (Adelman, 2006.)

The policies for use of the resources of Social Policy Entities emphasize providing opportunities for people as partners to become self-sustaining and productive in their communities. For example, the Global Fund for Women distributes grants to grassroots women's organizations around the globe, and the recipients decide how to use the money in line with the Fund's policies. This Fund shares this approach as a new paradigm of philanthropy. (Murray, 2006.) Its net assets exceed \$20 million and are derived entirely from private foundations, individuals, and other entities (Global Fund for Women, 2006). Funds of this type represent the opportunity to enable people to not only start self-sustaining enterprises, but to become providers to For-Profit and Social Policy Entities as well.

Technology is now available to affordably connect a global procurement system to local centers or individuals serving providers and clients, e.g., \$100, crank-powered, wireless computers with free software (One Laptop per Child, 2006); commercially-offered, solar energy backpacks, starting at \$200 (Voltaic Systems, 2006; Reware Store, 2006); and the technology to support a local water system organization (OPB, 2006).

### **E. The Link of Global Public Procurement**

A global procurement system may be a tool to interface with the Social Policy Entities and the people in at least three types of relationships to serve policies, e.g.,:

- Procuring supplies and services *from* the people as providers (to reduce poverty, promote healthy socio-economic cycles, and correct inequities);
- Procuring supplies and services *for* the people as clients (to relieve unnecessary suffering, invest in the future, and provide support); and
- Procuring *by* the people as business owners (to develop socially inclusive economies beyond the limits of For-Profit Networks).

Procurement can create lasting contractual relationships (partnerships), with mutual promises and resources, compared to short-term grants.

A review of state procurement revealed that many of the best practices had evolved over time and had been borrowed from other organizations. For examples, techniques and tools such as the use of centralized and decentralized decision-making and management structures, use of information technology, best-value practices, and training to support greater decentralization all evolved from other sectors. A procurement system needs on-going use and information-sharing to improve. Research and partnerships are crucial to a greater understanding at all levels of a system's application. (Bartle & Korosec, 2003, pp. 211-212).

A global procurement system benefits from a model approach, which encourages borrowing from best practices and elements of the other systems. Traditionally, governments had the policies and resources to invest in developing a structure for public procurement and then sharing the results with the private sector. Today, stakeholders in a global procurement system could include both public and private Social Policy Entities. Coalitions of stakeholders recognize the need for collaboration, leverage, and efficiency when undertaking system development on the global level. Conceivably, Social Policy Entities may borrow from the Oregon public procurement system to better understand a social approach to procurement at the global level. At the least, Social Policy Entities may individually enhance their procurement activities by learning from the experiences of the State of Oregon.

## **II. The Oregon Public Procurement System as a Model**

### **A. Overview: The Oregon Environment and Procurement System**

#### **1. Global Managed Trade Network**

In 2003, the state government's spending was estimated to be over \$1 billion each year for supplies and services, excluding construction. Oregon's economy has shifted toward non-manufacturing and service industries. It is tightly linked with exports of high technology, timber, and agricultural products to global export markets, mostly in Asia (ECDD, 2006). Because of the State's innovations and medium size, Oregon is studied as a pacesetter or bellwether with regard to procurement trends.

## **2. The People**

In 2005, Oregon had a predominantly white population of 3,641,056. The growing Hispanic population represented 9.5% of that total, while racial minorities represented less than 5%. (U.S. Census Bureau, 2006). Unemployment in 2003 exceeded 8.0% and lowered to 6.1% in 2005 (Employment Dept., 2006).

The number of Oregonians in poverty and the poverty rate steadily increased between 2000 and 2003, like national and West Coast trends, as the economy suffered through a recession. Each month, an estimated 190,000 people ate meals from emergency food boxes, a 4 percent increase over the prior year and the ninth year in a row that the number had increased. Food distribution has continued to increase to the present, after the recession hit in 2001 and unemployment began to hit record highs in 2003. Of those receiving emergency food, 38% were children. From 1998 to 2000, Oregon had the highest hunger prevalence (6.2%) in the United States (Oregon Food Bank, 2006).

The State serves many different client Oregonians through its state agencies. For example, nearly 3,000 Oregonians with developmental disabilities require around-the-clock support, formerly provided by closed state institutions.

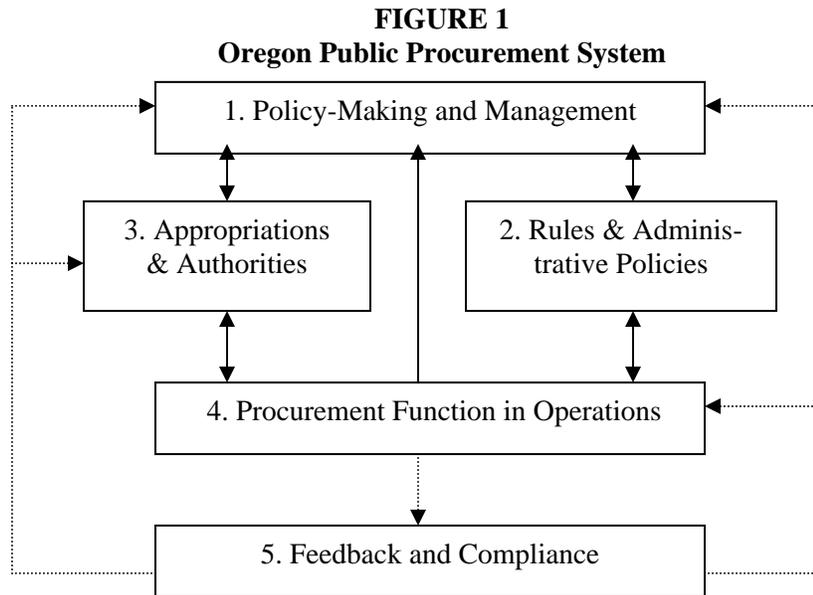
The State's policies and procurement in response to these and other changing, socio-economic conditions are described in detail below.

## **3. The Structure of the System**

This article adopts the systems approach depicted in Figure 1, representing the relationships of five core elements of a procurement system (Thai, 2001, p. 18). The direction of arrows in the Figure below may also change within this dynamic system.

## **4. Global Application**

The Oregon environment includes For-Profit Networks, Social Policy Entities, and the people, leading to global comparisons. The systems approach applied to Oregon's system will also be the approach applied to a global system in the following Sections.



## **B. System Element 1: Policy-Making and Management**

### **Oregon**

The Oregon Legislature creates the Oregon Revised Statutes (Statutes) and makes policies for the public procurement system. Before March 1, 2005, the Oregon Legislature had not changed a majority of its procurement Statutes in over 25 years. These laws were originally designed for the construction industry and were based on a traditional, low-dollar-bid policy, when personal services and information technologies were few.

The Statutes had been partially revised over the years to address other types of procurement needs, such as personal services and information technology, and in response to socio-economic changes. For examples, to address the need for an inclusive economy, state agencies were required to give notice of most solicitations to an office for minority, women and emerging small businesses in order to advise them of opportunities. When people with disabilities were moved into

community homes, the Legislature created a program to employ these people through qualified rehabilitation facilities. (Section II.E.)

By public initiative, the voters also changed the Oregon Constitution to create an employment and training program for inmates, including agency procurement of their supplies and services (Section II.E.).

Because of these and other changes, the various Statutes became difficult to use, understand, and reconcile. In the late 1990s, reform of procurement law began. Like other states in the early 2000s, Oregon suffered economically, and services were cut back at a time of increasing public needs. Reform objectives included:

- Integration of the socio-economic programs into procurement;
- An upgraded information network to serve all stakeholders; and
- Realization of savings through flexible and creative sourcing methods, which would permit contracting for best value; complex information technology projects, cooperative purchasing, multi-state agreements and the establishment of long-term relationships with core contractors.

On March 1, 2005, the Public Contracting Code began its operation (Oregon Revised Statutes, 2005, ORS 279ABC). Its policy requires a sound and responsive public contracting system, including but not limited to policy that this system should simplify, clarify and modernize procurement practices; instill public confidence; promote efficient use of resources; and clearly identify rules and policies that implement each of the legislatively mandated socio-economic programs (Oregon Revised Statutes, 2005, ORS 279A.015).

The executive branch implements the procurement policies in the Oregon Constitution and the Statutes of the Legislature, with broad managerial and procedural responsibilities and related policy-making, including:

- The Governor issues executive orders with related policies;
- The Department of Administrative Services (DAS) issues public contracting rules (DAS Rules) and administrative policies on behalf of those state agencies subject to its procurement authority (Agencies); and

- A limited number of state agencies procure independently of DAS authority, in whole or in part (Independent or Hybrid Agencies). They adopt their own rules and policies, which might adapt DAS Rules and policies.

The Legislature also made statutory exceptions for local government management (e.g., leeway with personal services procurement).

While the Oregon judicial branch and federal judicial branch do not set Oregon procurement rules and policies, their court decisions are also a source for the Oregon procurement system's DAS Rules and policies.

## **2. Global Application**

All procurement systems need clear policies, because policies provide the shared concepts that define why the systems exist and provide collective direction for accomplishing the objectives. Oregon's approach to policy-making and management is an example of the investment needed by the stakeholders on a global level. For examples of the effects of these policies and management, see below.

### **C. System Element 2: Rules and Administrative Policies**

#### **1. Oregon**

To implement the Public Contracting Code and integrate the socio-economic programs, DAS conducted collaborative rulemaking and policy-making processes over three years through its State Procurement Office (SPO). Objectives included clear, Agency-friendly language and stakeholder commitment. About 100 people directly contributed to the text of DAS Rules, including representatives of Agencies, SPO, the Attorney General, and the business community. Training was provided to over 500 people prior to the DAS Rules filing and thereafter. As a result, procurement professionals could understand the DAS Rules and explain them to others, increasing compliance and public confidence.

Effective March 1, 2005, and refined in 2006, the DAS Rules and related policies describe the Oregon public procurement system for all Agencies. For the first time, the DAS Rules are compiled in one book, and set forth policy, authority, contract administration, cooperative procurement, ethics, selling, seven sourcing methods, life cycle costing, special procurements, remedies, and e-procurement. These Rules and related policies provide the flexibility, process improvements, and clear guidance to resolve tensions among markets, programs, and innovations.

## **2. Global Application**

Following Oregon's example and to effect social policies, a global system needs committed stakeholders for collaborative rulemaking in order to create a common understanding of how the system operates and reaches its objectives. User-friendly rules and policies would clarify who has authority, how procurement occurs, how conflicting priorities are to be resolved, and how to be in compliance. These rules and policies then support tools and training. Oregon's rule structure, support and discipline might be adapted and built upon for a global system, avoiding duplication of effort.

### **D. System Element 3: Appropriations and Authorities**

#### **1. Oregon**

The Legislature authorizes appropriations for procurement, and DAS administers the allotments to the Agencies. Agencies use this specific authority to encumber funds for contracts and run financial systems. The central procurement system has yet to integrate finances.

The Legislature delegated all procurement authority to DAS on behalf of the Agencies (Oregon Revised Statutes, 2005, ORS 279A.140). The Legislature also delegated authority to a few Independent and Hybrid Agencies and local agencies (Section II.B.). As a result, procurement authority in Oregon is centralized and delegated in a hybrid system in order to meet divergent requirements (e.g., Jones, 2002, pp. 29-53) and to have the best of both worlds. The centralized SPO provides Agencies with rule and policy development, socio-economic program integration, large procurements, quantity discounts, cooperative procurements, and better internal control. Decentralization through delegations to local and state agencies provides benefits when procurements require special items, expertise, experience, or resources. To maintain this hybrid system, thoughtful delegation standards, adequate training, and effective monitoring are necessary (Bartle & Korosec, 2003, p. 193).

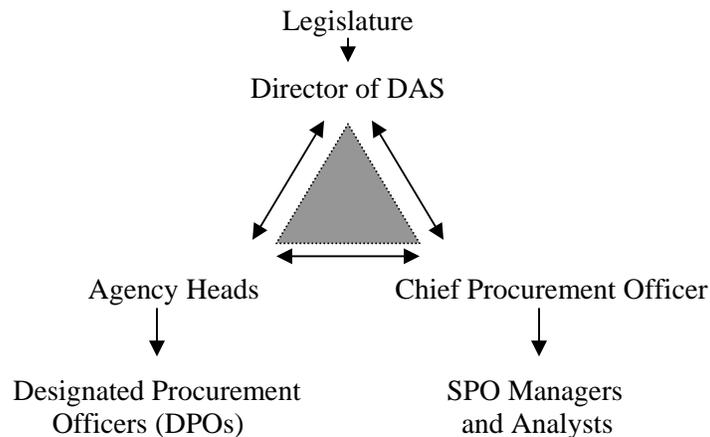
Individual procurement authority, responsibility and accountability are prominent features of the DAS Rules for the Agencies. The DAS Director delegated authority based on type and dollar thresholds to the Agency heads on the condition that the heads subdelegate this authority to the Agency's Designated Procurement Officer (DPO). (Figure 2.) A DPO may subdelegate to specialists. All individuals in the chain of

delegation remain responsible for the procurement. For an example, DPOs have authority up to \$150,000 to informally procure supplies and services. This delegation arose from a desire to procure locally and thereby keep some funds within economically depressed counties.

The DAS Director also delegated procurement authority to the Chief Procurement Officer (CPO). The CPO or delegatee may procure for unlimited amounts, using all methods, including cooperative agreements. The CPO may approve Agencies' special requests and revoke Agency authority (Oregon Administrative Rules, 2005, OAR 125-246-0170).

Legislative policy required that Oregon's socio-economic programs, like diversity, rehabilitation and sustainability established by other Statutes, must be integrated into the public procurement system. To help resolve the tension among the socio-economic programs and procurement from the global market, DAS issued a policy that stated the "buy decision" in order of priority. Agencies must use socio-economic programs and SPO price agreements, if applicable, before the Agency may turn to and procure from the global market (DAS Delegation Policy, 2005, pp. 3-4).

**FIGURE 2**  
**Authority Relationships**



In 2005, SPO formed the DPO Council to advise on issues. The DPOs are informally regarded as owners of the DAS procurement subsystem and provide advice to SPO regarding authority and balancing the system.

## **2. Global Application**

Oregon's experience emphasizes the importance of addressing authority for a system and socio-economic innovations. Clear authority describes who has the power as well as responsibility and accountability for procurements. A global system's authority, based upon Oregon's example, would have clear individual authority and accountability throughout a hybrid system. Socio-economic policies and programs would be supported by thoughtful delegations and oversight.

## **E. System Element 4: Procurement Function in Operations**

This Section describes Oregon's social approach to procurement in response to changing socio-economic conditions. All operations may indirectly support socio-economic opportunities by cost-savings, e.g., bulk purchasing, standardized forms, purchase cards, and training.

### **Procurement *from* the People as Providers**

#### **1. Oregon: Diversity**

In 1987, the Legislature created in the Office of the Governor an appointed Advocate for Minority, Women and Emerging Small Business (MWESB) and charged this Governor's Advocate to assist in the development and implementation of an "aggressive strategy for this State, based on research and monitoring, that encourages participation of [MWESBs] in the state's economy." (Oregon Revised Statutes, 2005, ORS 200.025). Under ORS 200.025, the Legislature created a separate Office for MWESBs under the Department of Consumer and Business Services to certify MWESBs for inclusion in a database, which receives Agency notices of State procurement opportunities.

The Legislature also permitted Agencies to take affirmative action and procure from only MWESBs up to \$50,000 without competitive solicitations (Oregon Revised Statutes, 2005, ORS 279A.100).

In 2005, DAS and the Governor's Advocate addressed new ways to integrate the MWESB program into the Oregon public procurement system. Over half of the MWESBs were registered in the new

information network, and efforts continue to expand participation. DAS issued an MWESB Policy, offering the Agencies options through the information network to satisfy the mandate of ORS 200.025 (DAS MWESB Policy, 2006).

The MWESB Policy aims to accomplish procurement equity with a neutral, inclusive approach, e.g., for procurement of supplies and services up to \$150,000. Agencies must balance solicitations of MWESBs and non-MWESBs, with allowances for imbalances based upon documented, nondiscriminatory reasons.

In 2005, the Legislature required Agencies to provide to the Governor's Advocate not only timely notice of solicitations over \$5,000, but also information about the solicitations and awards (Oregon Revised Statutes, 2005, ORS 200.035). Through the information network, data is available to analyze how successfully Agencies reach procurement equity. With this data and analysis, the Governor's Advocate may formulate and promote an aggressive strategy for focused affirmative action, as needed.

### **A Global Application: Diversity**

At all levels, procurement equity is a meaningful policy to people deprived of opportunities because of their race, ethnicity, gender, or emerging small business status. Major benefits of Oregon's operations for diversity include: an advocate for this socio-economic program, a network for communications, and encouragement of broad participation by Agencies and MWESBs. A global procurement system could establish operations that realize these benefits and thereby extend opportunities through a neutral procurement method, while collecting and tracking data to focus affirmative action where needed.

### **2. Oregon: Rehabilitation**

In the 1970s, the Legislature moved away from centralized institutional care for people with disabilities and toward supported community care. It recognized the need to provide specially supported employment opportunities to these disadvantaged people, unable to be employed with For-Profit Entities or compete for contracts.

In 1977, the Legislature created a program informally known as the "QRF Program" to employ people with disabilities and gave DAS the authority and responsibility for the administration of this Program.

“QRF” refers to the Qualified Rehabilitation Facilities (aka community rehabilitation providers or CRPs). This Program requires all state agencies to procure approved and available supplies and services through the QRF Program instead of the global market. The QRF Program is exempt from the competitive requirements of public procurement. (Oregon Revised Statutes, 2005, ORS 279.835 to 279.855).

DAS issued rules for the QRF Program with the following key features: QRFs must be qualified for the Program; QRFs must retain at least 75% of their workers from people with disabilities; and SPO will determine the suitability of price (including costs of support) for the supplies or services that the QRFs may provide without competition (Oregon Administrative Rules, 2005, OAR 125-055-0005 *et seq.*).

DAS also issued administrative policies to integrate the operation of QRF Program into the system. For example, Agencies must follow the priorities of the buy decision and procure from the QRF Program, if available, before turning to the market (DAS Delegation Policy, 2005).

By the mid-1980s, the QRF Program generated \$200,000 in contracts. In 2004, the Program generated approximately \$50 million in contracts. With this growth, the QRF Program continued to receive support from the Legislature, DAS, SPO, the Agencies, and courts.

As of April 2006, about 4000 people with disabilities have employment opportunities through this Program, with an average hourly wage of \$7.50. The Program has forty-six (46) qualified QRFs and is administered by SPO with 1.5 full-time, permanent staff.

### **A Global Application: Rehabilitation**

People around the world have disabilities that prevent them from competing within the For-Profit Networks and yet, these people can be valuable providers and deserve assisted employment within inclusive economies. Oregon’s QRF program is an example of how to integrate these people through a procurement system that includes a supportive structure and oversight.

### **3. Oregon: Corrections Inmates**

By initiative, voters amended the Oregon Constitution to create a work and training program for inmates of state correctional institutions

(Inmate Program), administered by the Oregon Department of Corrections and exempt from competitive procurement requirements. The public established a policy that Inmates must be fully engaged in productive activity if they are to successfully re-enter society with practical skills and a viable work ethic. The program provides for combinations of work, training and education, and all income generated from prison work programs shall only be used for this Inmate Program. Inmate work shall be used by Agencies as much as possible to help operate the corrections institutions themselves, to support other government operations and to support community charitable organizations. (Oregon Constitution, 2006, Section 41).

Under the DAS Delegation Policy, the Inmate Program is the first priority of the buy decision, in light of its constitutional authority.

Oregon Corrections Enterprises provides work crews, services, and manufactured products. The Department of Corrections internally employs and trains Inmates. A work force development program helps Inmates with transitions. Statistics for state agencies' compliance with this Inmate Program are available (see Oregon Inmate Program, 2006).

### **A Global Application**

People around the world are constrained physically and mentally, e.g., by their governments, wars, or isolation. The Oregon Inmate Program demonstrates that a procurement opportunity in these circumstances needs to be structured with training and education. Constrained people, with assistance, may be providers and work toward freedom. This model suggests creative global parallels.

### **4. Oregon: the Natural Resources Environment**

Oregon has joined the majority of states in environmentally preferable purchasing, e.g., use of life-cycle costing, consideration of environmental or energy-efficiency issues in making awards, a preference for recycled products, procurement of recycled oil, purchase of alternative fuel vehicles, required purchase of reusable items over disposable items when possible, and use of soy-based ink for offset printing (Coggburn & Rahm, 2005, p. 35; Oregon Administrative Rules, 2005, Chap. 125, Div. 246 and 247).

The Legislature enacted a statute on sustainability, which means using, developing and protecting resources in a manner that enables

people to meet current needs and provides that future generations can also meet future needs, from the joint perspective of environmental, economic and community objectives (Oregon Revised Statutes, 2005, ORS 184.421).

Two Oregon Governors issued Executive Orders on sustainability, directing “green policies,” like development of Agency sustainability plans and DAS purchase of alternative fuel vehicles. Current priorities include assisting local governments and the private sector in developing sustainability practices and developing bioenergy markets.

### **A Global Application: Sustainable Procurement**

The value of integrating sustainable procurement practices applies equally on a global level as well. Social Policy Entities may use their resources to procure sustainable supplies and services from the people, giving opportunities to repair and restore environments and economies for future generations.

### **Procurement *for* the People as Clients**

#### **5. Oregon: Client Services**

Agencies procure supplies and services for people in Oregon who need assistance for living (clients). The largest Agency, the Department of Human Services (DHS), has a budget of more than \$4.5 billion and 9,000 employees. DHS supports programs, including public welfare, health, and services for seniors, people with disabilities and veterans. Its programs aid abused and neglected children and people with addictions (Wong, 2006). Other Agencies also provide for clients, for examples, youth, veterans, job seekers and inmates.

As socio-economic conditions worsened for clients during the recent recession (Section II.A.), the Legislature and Agencies responded through the procurement system. As cuts in funds and employees grew, procurement of client services increased. The DAS Rules were revised to define client services and provide authority for special procurements.

The Oregon public procurement system continues to be developed in this area to provide Agencies with information and streamlined processes.

### **A Global Application: Client Services**

People in Oregon and around the world suffer from poverty, addictions, incarceration, abuse, neglect, and lack of employment. Procurement is a tool to deliver client services and create inclusive economies through contractual interrelationships among the clients, providers, and Social Policy Entities.

For example, a Social Policy Entity might run an orphanage. In the past, it only held the orphan teenagers. Today, recognizing that “this is our future,” the Social Policy Entity may change its policies and procure supplies and services on behalf of these clients, so that when the youth walk out of the orphanage, they will be the future. The Entity’s goal is socio-economic change, and procurement is one tool to change the teenagers’ lives, the structures, and culture for a better future for all.

### **Procurement *by* the People**

#### **6. Oregon: Procurement *by* the People as Business Owners**

People with businesses need to procure supplies and services and manage their supplies and service providers. If these people do not understand their own procurement and supply management, their businesses are harmed. The Oregon public procurement system does not yet address this need.

### **A Global Application: Procurement *by* the People**

For-Profit Entities have evolved policies to respond to the changing socio-economic conditions of the people around the world. Initial procurement on behalf of clients may grow into procurement from some of these people who become providers. But these providers with their own businesses will need procurement knowledge to sustain them and build economies.

### **Key Supportive Operations**

#### **7. Oregon: Information Network**

On March 1, 2005, SPO commenced Phase 1 of a new electronic procurement system named the Oregon Procurement Information Network (ORPIN), replacing the prior antiquated system.

ORPIN is a user-friendly web-based system. Anyone with Internet access and a standard web browser can use this network (ORPIN, 2006). Its design results in substantial cost savings by avoiding special hardware

or software or an expert staff. ORPIN is highly flexible and open, operating on user-determined business rules and roles. It can be easily tailored to the specific needs of SPO and its diverse user group, which includes local governments, the business community and private citizens.

ORPIN's basic functions include: end-to-end procurement by all Oregon government entities, public access to opportunities and notices, optional automatic notices to registered providers, and a wide variety of reports.

Statewide, ORPIN streamlines government procurement operations, supports government entities, and provides information on statewide contracting opportunities to interested public parties and providers.

By policy, DAS requires Agencies to use ORPIN for all solicitations and awards over \$5,000 and reporting (DAS ORPIN policy, 2005). All Agencies have been able to use its basic functions, and to date, pilot Agencies have had access to added features. SPO has announced that later in 2006, all Agencies should have access to its full functionality.

Agencies are not required to limit their selection of providers to registered providers in ORPIN, and Agencies may supplement their search on ORPIN by also going outside that system. SPO seeks to increase supplier registration and ORPIN's use as an electronic market.

From March 1, 2005 through April 5, 2006, 6,600 awards of contracts were entered into ORPIN for a total value of \$10,119,879,831. As of March 31, 2006, 11,795 active providers were registered; and 276 new solicitations were posted on ORPIN during March 2006.

ORPIN has cost about \$6 million over a 4 to 5 year project, which involved careful, slow customization of an off-the-shelf product. It appears that the project has enjoyed a higher success rate than most governmental information technology projects. This success, in part, is attributed to the user community controlling the project and making business and policy decisions, which integrate expert areas and require a user-friendly approach.

#### **A Global Application: an Information Network**

ORPIN creates interconnections and interdependencies among the stakeholders of the procurement system, tying them together through

information, communication, procurement processes, and an electronic market. ORPIN empowers small as well as large players to participate in the procurement system, gain opportunities, and shape the outcomes. These benefits are available and needed for a global procurement system. While ORPIN stakeholders have invested painstaking effort and expense in 6 phases and plan for the 7<sup>th</sup> phase, stakeholders developing a global system may be able to build upon what ORPIN has accomplished to date. Since ORPIN is customized to Oregon's entire procurement system, replicating ORPIN depends upon each of the global system's elements. If replication is impractical, lessons learned and concepts still have value.

### **8. Strategic Sourcing**

In 2003, when Oregon was under pressure to cut costs and preserve public services, savings from procurement were needed to free funds. In response, the Governor, DAS Director and SPO initiated a strategic sourcing program called "Oregon Smart Buy" to leverage purchasing power with a data-driven approach. Many variables and strategies were employed in this program, and therefore, strategic sourcing was generally defined by its analyses, planning, and processes.

A consultant assessed approximately \$300 million in the State's annual spending for possible savings opportunities. Certain categories had the greatest potential, representing approximately \$76.5 million in annual spending, for examples: express mail, office supplies, personal computer (PC) software, telecommunications (long-distance and cellular), PC hardware, PC peripherals, rentals of copiers, telecom premises equipment and repair services. The consultant trained SPO members.

By March 1, 2005, SPO had completed the first phase of strategically sourced contracts. As of April 30, 2005, the reported cumulative hard dollar impacts exceed \$7.6 million for state agencies and \$5.8 million for local governments and schools. Over the four-year life of these contracts, it is estimated that state agencies will save about \$50.1 million. The Smart Buy program also focused on reviewing current procurement processes and techniques used by different Agencies to identify and eliminate inefficient practices to better serve taxpayers.

#### **A Global Application: Strategic Sourcing**

Like Oregon's system, Social Policy Entities may use strategic sourcing with the Global Managed Trade Network to realize savings and

also to purchase water, food, medicine, energy and other supplies and services on behalf of the people as well as Entities. If Oregon's example were followed, a program would be needed to provide guidance on how to conduct the research and analyses, use the processes, and review inefficient practices.

## **F. System Element 5: Feedback and Compliance**

### **Oregon: Knowledge**

With attention placed on operations, the feedback element may receive little attention. Yet, it is important for leaders to know where adjustments and reforms are needed (Thai, 2001, pp.31-32). Feedback may relate to the system itself or noncompliance of its users. Where the cause of a complaint is systematic, it becomes feedback.

Informally, any stakeholder who feels frustrated or concerned (e.g., procurement professionals, Agencies, the public, the Legislature, attorneys or auditors) may communicate with SPO, other parts of DAS, their Agency DPOs, a legislative representative, attorneys, or others.

Formally, SPO solicits feedback from the DPOs, the DPO Council, advisory committees, work groups, recipients of training, and analysts. Issues of noncompliance come to SPO through the system, including: Agency requests for assistance with purchase requests, problem-solving, and corrective processes or amendments; complaints raised during protest opportunities that are afforded in solicitations, internal DAS audits, external audits of the Secretary of State, or legal sufficiency review of larger contracts by the Attorney General.

### **Voluntary Compliance**

The majority of issues of system noncompliance addressed by SPO are resolved through voluntary adjustments, including education; corrections in contracts, procedures and communications; improvements; reports or other monitoring or mentoring as needed; and creative measures for voluntary compliance. Collaborative work at the front-end reduces implementation issues.

### **Involuntary Compliance**

Under DAS Rule, SPO may revoke delegated procurement authority because of noncompliance. The Secretary of State conducts independent audits of procurement, makes recommendations for corrective action,

and may enforce several measures to require compliance from Agencies. In the Public Contracting Code, the Legislature enacted mandatory penalties for certain violations, including violating DAS's authority. The related DAS Rule permits DAS to offer an administrative remedy, but this process would not change or influence any criminal proceeding. Employment law also may bear upon an employee's noncompliance.

### **Corruption**

Due to many reasons, public procurement has been perceived as an area of waste and corruption, and corrupt activity in the public sector takes much the same form and affects sensitive areas like procurement, regardless of the developed or developing country (Thai, 2001, p. 26). If left uncurbed, its cost to Oregon's procurement system would be immeasurable and could eventually bring the system down.

Discovery of corrupt activities is a serious type of feedback. Scandals in the media may reveal defects in the system's design. Abuses of the system's legal structure may provide feedback to close loopholes.

To expose and discourage corruption, the Oregon procurement system is designed to encourage transparency through: individual responsibility and accountability for their use of authority, mandated use of ORPIN, required approvals for sensitive procurement (e.g., larger sole-source and special procurements), legal sufficiency reviews, Secretary of State and SPO audits, clear procedures, on-going reviews and improvements of DAS Rules and policies, new DAS Rules on procurement ethics, checks and balances, on-going training, procurement assistance with challenges, oversight by the DPO Council as well as SPO, periodic review of data collected by ORPIN, and legal penalties. Transparency, professionalism, restraints, and real consequences can curb corruption.

### **A Global Application**

At any level, this element is essential. On a global scale, a procurement system needs to earn public confidence through the system's controls, freedom to implement its policies, ability to listen and reform, and stance that noncompliance is unacceptable.

## **DISCUSSION**

### **A. Why Develop Global Public Procurement?**

#### **The Global Environment**

A procurement system offers opportunities through managed contractual relationships, realizing multiple policies and efficiencies. This article's brief global applications barely touch on the possibilities and demonstrate the need for further research. It reflects a shift in perspective for Social Policy Entities, who have the commitment, resources, and motivation to aid the people in new and lasting ways.

#### **Limits of the For-Profit Networks**

People are able to join the For-Profit Networks when infrastructure, health services and education are widely available, but a market-based economy can accomplish little if the people lack this infrastructure, health and education (UN Millennium Project, 2005, pp. xiii and 13). A procurement system may be a socio-economic tool to function outside these constraints and provide an alternative network that connects the policies, resources, and opportunities of the Social Policy Entities with the people. Supported people may also become beneficiaries within the For-Profit Networks.

### **B. Who Develops Global Public Procurement?**

Public policies may allow and encourage governments to invest in the procurement structure and share it with others, as Oregon has done.

#### **Public Policy Issues**

While contemporary government procurement is concerned with ethics and socio-economic issues (Thai, 2001, p. 16), a traditional view is that international best practices for public procurement discourage economic and social measures, and they are best dealt with outside the procurement system, e.g., labor laws (Rothery, 2003, p. 384).

This view relates to the For-Profit Managed Trade Network, assumes procurement professionals make isolated choices among conflicting policies, and defines procurement by inserting limiting operative terms. Operational difficulties should not define procurement. Systematic solutions may resolve difficulties with: qualifying collateral objectives, contradictory objectives, determining who qualifies, manipulation, and complaints based on contrary notions of fairness and best value.

If governments do not include socio-economic measures within their procurement systems, then other Social Policy Entities may need to develop a global procurement system. It is reasonable, however, to look to government procurement systems developed with the resources, time, and work force often not available or a priority among non-governmental Social Policy Entities. Developing a global procurement system also requires crossing disciplines and organizations, which is difficult. Governments may need to consider their public procurement systems in a different light, insuring that they are capable of addressing and balancing both traditional and socio-economic procurement policies.

### **Conflicting Public Concerns**

Parallel challenges may exist between Oregon's environment and the global environment. These challenges include the fear of procurement professionals exercising discretion, the need for oversight of these professionals due to sensitivity in government, political interferences, unsatisfied prospective providers, dislike of a central procurement system, resource constraints, calls for reform, technologies, volume of activity, shortage of staff, public process demands, and socio-economic procurement goals (Thai, 2004, p. 312).

On a state level, the Oregon procurement system has slowly developed over years and serves widely diverse, sometimes fractious stakeholders, related to the For-Profit Managed Trade Network and the policy-driven Public Contracting Code, rules, administrative policies, and programs. The result is a sound procurement system designed for varied objectives.

## **CONCLUDING REMARKS**

If any of the five core elements of a policy-oriented procurement system is missing, negative consequences are likely to follow. A lack of clear policy can result in individual procurement professionals being caught between opposing interests with unsatisfactory results. A lack of integrated authority, appropriations, rules and procedures reduce effectiveness and may fail to launch well-intentioned innovations. A lack of procurement function in operations creates blocks and losses. A lack of feedback and compliance measures robs the system of the necessity to learn from mistakes and failures and continue to improve.

A workable, sustainable procurement system must be integrated in a self-sustaining manner, beyond the control of any single individual, to expose and discourage corruption, have a low-maintenance operation, and function with stakeholders with a range of skills, care, and experience. The system needs to bring out the best in its stakeholders, constrain the worst, and reveal the rare aberrations, while improving with use.

Social Policy Entities may provide socio-economic opportunities to people through a transparent, integrated, global procurement system, creating socio-economic reform and more socially inclusive economies. Additional research is needed to further define innovative procurement systems that involve a systematic social approach to procurement.

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### **NOTES**

1. The views expressed in this article are those of the author and do not necessarily reflect the views of the State Procurement Office, State Services Division, Department of Administrative Services, or Oregon.
2. See “pro” and “procure” at the Online Etymology Dictionary (2002).
3. The National Association for the Prevention of Starvation (2006) estimates that “Every day 34,000 children under five die of hunger or preventable diseases resulting from hunger.” Starvation.net (2006) estimates that “if we were to add the next two leading ways (after starvation) the poorest of the poor die, waterborne diseases and

AIDS, we would be approaching a daily body count of 50,000 deaths.”

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