

**CONCENTRATIVE ORGANIZATION AS A MODEL  
FOR ANTI-CORRUPTION:  
THE CASE OF CHINESE PUBLIC PROCUREMENT**

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**ABSTRACT**

Public procurement is a focus of attention in China. One key issue is to find an ideal organizational structure with an emphasis on curbing corruption. We selected three representative procurement centers and conducted in-depth field study on their purchasing processes and their organizational relationships with their supervisory entities, decision-making bodies, vendors, and stakeholders. With specific considerations to Chinese administrative system and public procurement laws, we propose a concentrative procurement center as a favorable organizational structure choice. The proposed organizational structure (1) can well separate supervision and operation in public procurement, required by Chinese Government Procurement Law; (2) can effectively confine corruption, a serious problem in Chinese public procurement; (3) can centralize all purchasing activities for public resources; and (4) can employ efficient and timely governmental adjustment and control.

## INTRODUCTION

Public procurement always is a focus of attention in all countries across the world, as well in academia. The meaningful public procurement only exists in a market economy: no competition, no purchasing (Pitzer and Thai, 2009). In its every integrity report, Transparency International concludes that the corruption in public procurement plays an important ignominious role (OECD, 2007a). This is because in all public activities, public procurement is most vulnerable to corruption, but also the maximum contact between the public sector and the private sector with most frequent economic exchanges and large amount of money. The key to curb corruption is the establishment of an effective supervision and control on public power.

With regard to public procurement anti-corruption initiatives and strategies, Transparency International (2006) in its *Curbing Corruption in Public Procurement Handbook* discusses vital ingredients: good procurement guidelines, good procurement laws, strict law enforcement, international anti-corruption conventions, the prevention and control on corruption, the whistleblower protection, and e-procurement, etc. Its comments on the control and control systems include both internal and external oversight systems, and supervision and control on both buyer and bidder. Unfortunately, it does not specify further about details of control and control systems, but if it has, it mainly refers to a national or regional public procurement system and its organizational structure.

OECD (2007b) in its book, *Bribery in Public Procurement: Methods, Actors and Counter-Measures*, also states that internal control is most important in restraining bribery in public procurement. Internal control relates to the decision-making process and structure as well as to the procurement process itself. Analysis of the administrative organization may give indications as to who makes decisions and how the projects can be designed, organized and manipulated. Control of the administrative organization involves risk analysis of the top management as well as the administration that does the procurement. Many practitioners and researchers have contended that purchasing authority, especially in government, must

be decentralized in order to provide more responsive support to end users, eliminate bureaucratic obstacle to program accomplishment, improve inter-departmental coordination, and empower service delivery managers to procure what they need without impediment by a centralized organization (Thai, 2001).

It is obvious that the organizational structure directly determines the integrity of public procurement. The relationship between organizational structure and the integrity of public procurement can be expressed as “in order to achieve the multiple goals of procurement, government entities need a sound procurement organizational structure with clearly assigned responsibilities. The form of this procurement organization may be as varied as the thousands of entities that expend tax dollars in support of governmental programs. In order to maintain integrity, improve efficiency and effectiveness, insure competition, and ensure that procurement laws and regulations are complied with, government entities need some degree of centralization in their procurement structure (Pitzer and Thai, 2009).

However, different countries and regions, because of their diverse political system, distinct socio-cultural histories, and economic development of various levels, can not build a unified model for the organizational system of public procurement (Jones, 2009) . In practice, building appropriate public procurement organizations is a challenge because too much centralization can lead to ineffectiveness and too little centralization leads to inefficiency. A balance must be struck between centralization and decentralization, because both are inevitable in some form, particularly in large government entities. Procurement structure and defined responsibilities may advance or deter performance of public procurement practitioners (Pitzer and Thai, 2009).

As a new phenomenon, China's public procurement gradually develops along with the gradual improvement of China's market economy. The evolution of China's public procurement can be generally divided into three phases. From 1949 when the People's Republic of China was established to 1978 when China implemented

reform and opening policies, China's economy was administered under central planning. During this period, goods and services government needed were purchased from or delivered by state-owned enterprises. Judging from the nature of public procurement that involves competition, public procurement did not actually exist in this phase. From 1979 to 1999, Chinese public procurement passed through a transition phase when China's economy transited from central planning to market. In this stage, private enterprises developed quickly and market economy gradually arose. The old practice no longer satisfied government needs to provide public goods and services. Local governments throughout the country started to enact local laws and regulations on public purchasing and launch pilot public procurement programs through bidding. The State Council of People's Republic of China started to consider establishing a standard government procurement system throughout the country. Therefore, the Ministry of Finance (MOF) studied the prevailing public procurement system of developed countries and pushed the legal process of China's public procurement system. The third phase starts from 1999 when the People's Congress passed the Tendering and Bidding Law to regulate governmental construction programs. During this phase, the Government Procurement Law (GPL) was passed by the People's Congress in 2002. A series of regulations have been issued by MOF and local governments pursuant to GPL. Moreover, central purchasing organizations have been established at different levels of government.

Currently, however, numerous organizational models for public procurement exist in different regions across China. Firstly, the separation between supervision and administration is divergent. This is mainly manifested in the affiliations of centralized purchasing centers: financial departments, government agencies, state-owned asset management sectors, and so on. Secondly, supervisory organizations are dispersed. In some places, construction projects, office supplies and services, pharmaceuticals and medical devices belong to different purchasing departments and different supervisory agencies (Wang, 2006) ; some areas are gradually integrating all public procurement into a single trading platform, and considering a unified monitoring.

Finally, organization structures and processes are different. In some places the organizational structures are setup by the procurement business processes; some set up organizational structures and processes in accordance with the goods and services purchased. These different organizational structures of public procurement directly affect the purpose and effect of curbing corruption. To this end, the Chinese government is aware of this sensitive issue and at the beginning of this new century developed a series of concrete measures to resolutely curb and punish corruption in public procurement. Since the transactions involved in public procurement is too broad with too many links, although the specific measures the central government implemented has initial success, the organizational structure in public procurement is key to fundamentally confine corruption.

As China's public procurement started late, institutions and mechanisms are still in the process of gradually improvement. To this end, this paper aims to find the ideal model of the organizational structure of public procurement suited to China's administrative system with an emphasis of attempting to confine corruption, through field study in representative organizations.

Our research questions are:

1. What should be the right setup for a decision-making body in public procurement?
2. What should be the typical model for “Supervision-Operation Separation” in public procurement?
3. What is an ideal organizational structure of procurement centers with effective supervision?
4. What are valuable means to supervise and regulate public procurement?

## **METHODS**

In this case study, we selected and visited three procurement centers in spring and summer 2009. During the investigation, we interviewed the executive agencies as base, and to examine organizational relationship, we also met regulatory authorities, purchasing specialists, and vendors.

We first chose Beijing Municipal Procurement Center and its regulatory agencies. Beijing is the capital of China, but also the country's political and cultural center. Of course, the organizational structure of Beijing Municipal Procurement Center has a strong demonstration effect across the whole country. Since Beijing is one of four direct-controlled municipalities in China, its procurement center is also the representative at the provincial level. Beijing Municipal Procurement Center was established in May 2000. In January 2004, after the approval from Beijing Organizational Establishment Committee, the center was separated from the Beijing Municipal Finance Bureau. Its administrative affiliation belongs to State-owned Assets Supervision and Administration Commission of the Beijing Municipal People's Government, and its business is supervised and evaluated by the Beijing Municipal Procurement Leading Group and Procurement Office. As an independent legal personality and a full funding civil service institution, the center is the only procurement center responsible for centralized purchasing activities of the Beijing-level state organs, institutions, and society groups. Businesses of Beijing Municipal Procurement Center do not include construction projects, medicines and medical devices, or public resources such as land transactions. Rather, it is only responsible for these purchasing under the provisions of "The People's Republic of China Government Procurement Law". Beijing Municipal Procurement Center consists of seven functional departments: Office, Human Resources, Project Management, Purchasing One, Purchasing Two, Inventory Allocation Management, Inventory Allocation Clearing, led respectively by one Director and three Deputy Directors.

Shenyang is the largest city in the three northeastern provinces, which are the traditional industrial base. At present, Shenyang is in a rebuilding stage. Shenyang Municipal Procurement Center seeks reform and innovation during the reconstruction of the city. Therefore, Shenyang Municipal Procurement Center in a sense represents an enterprising organization, and the location is in the northeast of China, which is also symbolic. Shenyang Municipal Procurement Center, approved by the municipal government, is a full funding civil service institution required by Shenyang Establishment Committee.

The center, according to "The People's Republic of China Government Procurement Law" and other laws and regulations by higher authorities, is the specialized procurement agency responsible for purchasing needed goods, works, and services for all municipal organs, institutions, and organizations. The center operates directly under the Financial Bureau of Shenyang. Shenyang Procurement Center implements the government procurement process into: implementation and refinement of procurement requirements and purchasing methods; determination of the assessment method and the preparation of procurement documents; organization of bid opening and evaluation for procurement projects; organization of contract signing and compliance acceptance. Based on business processes, the center establishes four departments: comprehensive information service, purchasing, bidding, and contract management.

Shaoxing City, as a prefecture-level city in the developed coastal regions, has the country's oldest trading center of public resources. The Trading Center of Shaoxing City, a full funding institution by government, was established on the basis of the old bidding center at the end of 2002. All above factors highlight its symbolic status. Its businesses cover four major categories: construction projects, land transfers, property exchanges, and government procurement. At the leadership level, the Municipal Public Resource Transaction Management Committee consists of the mayor (as director), Commission for Discipline Inspection and the executive vice mayor (as deputy directors), and leaders of other relevant functional departments (as members). The committee is mainly responsible for decision-making and coordination on major issues. At the regulatory level, the Office of Public Resource Transaction Management Committee, as the agency of municipal government, develops regulations on transaction markets, validate trading rules and systems, and supervise all main subjects. At the operational level, The Center assumes transactional and service functions in four major categories of government procurement.

## **RESULTS**

An appropriate organizational model of centralized procurement is difficult to develop, not to mention how to confine corruption.

Searching for a suitable organizational structure with a country's own characteristics need proofs of practices, even in the United States or the European Union where the public procurement system started early and are relatively more complete (Baeyens and Martel, 2007; Thai and Drabkin, 2007). And for the development of a late start in China in terms of building a socialist system with Chinese characteristics, it relies more on own practice, also an approach of "crossing the river by feeling the stones " (Deng, 1993).

In interviews with these three centers, we were deeply impressed by their efforts into all kinds of practical explorations. According to their distinctness and their particular practical situations, these organizations are different. However, we are able to uncover major common effective organizational structures by summarizing our field study findings with the combination of China's unique administrative system and the specific national conditions.

### **The Decision-Making Body**

As the most important part of public expenditure, public procurement relates to all public departments and also their objectives and organizational development (OECD, 2007a). To this end, the decision-making on public procurement is particularly central. Similarly, how organizational restructuring and process reengineering can achieve to contain corruption requires a strong decision-making body. During our visits, we found that Beijing has a Municipal Procurement Leading Group as the decision-making body; Shaoxing has the Public Resource Transaction Management Committee.

From a practical point of view, having a decision-making body clearly increases the efficiency of handling various matters, especially making timely decision on regulatory issues in public procurement corruption. Shaoxing Public Resource Transaction Management Committee comprises chief administrators from the municipal government, Municipal Standing Committee, Discipline Inspection Committee, and relevant functional departments. This is the exact leadership needed for favorable public procurement. Shenyang City did not set up a similar such leadership committee, but by the Financial Bureau as business executive and supervisory

authority. In practice, Shenyang Procurement Center had encountered various problems which could not be solved in a timely manner and also affected the integrity and efficient government procurement.

During interviews, the three government procurement centers shared a common understanding that given vast public procurement and serious acts of corruption, relying on operational guidance and supervision alone is hardly effective. The establishment of Shaoxing Public Resource Transaction Management Committee received great concern in public procurement field, but also well welcomed by the central authorities. On July 1, 2005, the former Central Political Bureau Standing Committee member, the Secretary of the Central Commission for Discipline Inspection, Wu Guanzheng made a special trip to the platform and made an important instructions: “experiences learned to continuously perfect”. This is also from another aspect to reflect and prove that the establishment of public procurement decision-making body is in line with China's actual conditions and effective.

Who should lead the public procurement and who should make decision are very important issues (McCue and Pitzer, 2005). The rank of a decision-making body is a key factor, directly impacting solutions of public procurement. If just set up a decision-making body without enough authority, the outcome will be no good. The chief person of Shaoxing Municipal Government is in charge of public procurement presents a first-class exemplum.

### **The Organizational Structure of “Supervision-Operation Separation”**

“Supervision-Operation Separation” is a basic principle for all countries’ public procurement to prevent and curb corruption. As the political systems are different in different countries, the organizational structures of “Supervision-Operation Separation” vary as well. The United States emphasizes on the legislative regulation of public procurement, which is determined by the United States constitution's separation of power (tripartite) and the institutional structure of federalism. China is a people's congress system, belonging to a unitary political regime. It determines that China's public procurement regulation should focus on the executive branch.

However, all countries' "Supervision-Operation Separation" should include two levels. The first one is self independence of the regulatory authorities and the procurement centers. The regulatory entity and the operational entity should belong to different independent agencies, not be managed by a same institution. The second one refers to how to separate the regulatory entity and the administrative entity. Different regulatory authorities supervise different operational agencies, or the same regulatory authority regulates different operational agencies or a same operational agency.

Field study from the three procurement centers shows that "Supervision-Operation Separation" suits China's national conditions, and is an effective approach. Moreover, these three centers have done this step, the real achievement of the separation between regulatory agencies and executive units. However, the key problem is the setup of regulatory agencies. Shenyang and Beijing's government procurement, bidding for construction projects, property transactions, and pharmaceutical and medical equipment procurement belong to different entities, and of course their regulations are classified into their different supervisory agencies respectively. On the other hand, Shaoxing City has set up a new specialized institution - Shaoxing Public Resource Transaction Management Committee as the regulatory authority, the same regulatory entity regulating all different types of transactions of public resources. Judging from practical outcome, Shaoxing's new regulatory organization model shows a clear advantage. This is mainly as follows: first, integrate the power of supervision. Supervision under different entities is carried out according to different processes with various regulatory enforcements, so the execution is individualized and fragmented. It is very difficult to apply comprehensive legal means for effective supervision. The Shaoxing integrated regulatory model is a better solution to this problem. Second, centralized supervision can have a more specific focus. As previously said, the acts of corruption in public procurement are through the entire purchasing process, so its regulation should also be in the whole process. Supervision under different entities can only target a particular aspect, which makes it hard to form a regulation on the whole process. The mode of Shaoxing's regulatory body runs through the entire process.

## **The Organizational Structure of the Executive Agency**

Internationally accepted public procurement should include purchasing in engineering construction, goods, and services by using public money (UNCITRAL, 1994). We are inclined to have a more broad set of public procurement, namely, the transaction of public resources. It should embrace government purchases (including goods and services), construction bidding, land transfers, and medicine and medical equipment purchases. However, because trading systems of engineering construction, land transfers, and medicine and medical equipment purchases in China started earlier than the government procurement system, they form their own specific independent systems. This determines that China's current executive agencies are responsible for different scope of procurement and their internal organizational structures are also dissimilar.

Beijing and Shenyang Municipal Procurement Centers are responsible for goods and services set forth by "The People's Republic of China Government Procurement Law", not including construction, land transfers, property transactions, and medicines and medical equipments. During interviews, they talked about major problems due to belonging to different purchasing entities. First, the purchasing costs are high. Belonging to different procurement entities would naturally require the establishment of different purchasing offices with different personnel, different office resources, and different policies. Moreover, the various purchasing offices take individual actions, resulting in unnecessary waste. Second, the risk of corruption is higher. Different procurement offices need to implement different executive systems, so that opportunities for corruption are bound to rise. Shaoxing Trade Center of Public Resources covers the four major areas, which integrates originally decentralized purchasing offices and purchasing behaviors. This concentration has shown tremendous advantage: saving resources, easy monitoring, and stronger execution for implementing policy objectives of public procurement(Huang,Q.C and Pei, Z.Y, 2007).

The executive agency is the hub linking buyers and vendors, and also controls the entire procurement process. Therefore, balances and restraints of its internal units directly affect the integrity of public

procurement. Shenyang Municipal Procurement Center sets up its individual units based on the whole procurement process; each unit is in charge of one purchasing step only. Thus, balances and restraints among internal units are formed. This organizational model is also known as the four-section structure of the internal settings. Obviously, it is effective for curbing corruption in a procurement process.

### **The Regulatory Means for Public Procurement**

Publicity and transparency are crucial for sound and open procurement practices. These principles also act as deterrents to corruption in public procurement because publicized and transparent procedures allow a wide variety of stakeholders to scrutinize public officials' and contractors' performance and decisions. This scrutiny, in addition to other mechanisms, helps keep officials and contractors accountable (OECD, 2007a). For present China, the most important elements to ensure publicity and transparency in public procurement include full employments of e-procurement and extensive exposures of procurement budgets. Communications between public procurement entities are based on the law and are open to general public through the Internet, which will be the most powerful tool to curb corruption,.

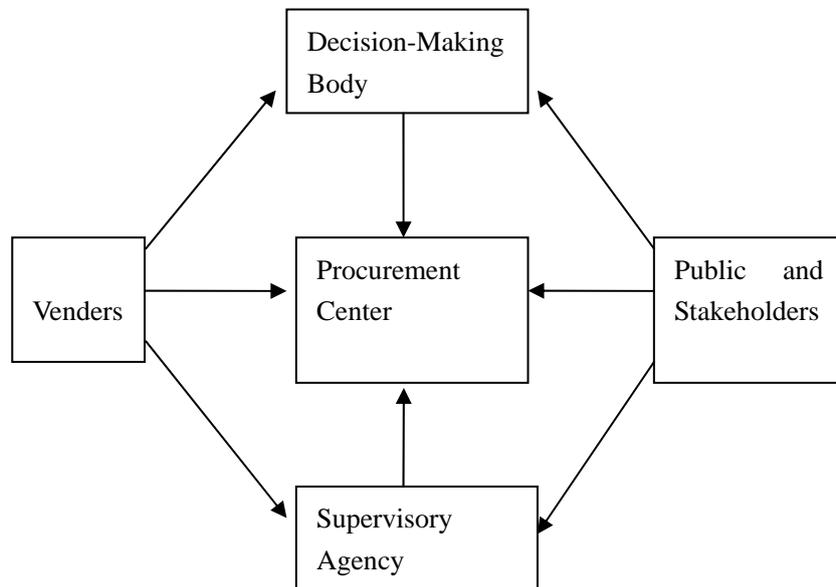
From our study on these three procurement centers, the current e-procurement is limited to simple contents such as online information bulletins and downloadable forms. E-procurement can not perform complex transactions such as bid evaluation, archive search, public punishment, etc. Three procurement centers had talked about the progress in the procurement budgets, but the procurement budgets were not open to vendors.

### **The Proposed Organizational Structure**

Based on our field study and China's national specifics, we conclude a suitable organizational structure for public procurement organizations with emphases to suit current China's administrative system and to successfully curb corruption. First, there must be a strong decision-making body, whose leader is best served by its municipal government's chief official. Secondly, it is favorable to establish a unified public procurement or resource center, executing

government procurement, bidding for construction projects, medicine and medical equipment procurement, land transfers, and property transactions. Its internal units are set up on the whole procurement process in order to form a restraint mechanism. Thirdly, a unified regulatory entity should be established accordingly, responsible for all supervisions on government procurement, bidding for construction projects, medicine and medical equipment procurement, land transfers, and property rights transactions. This regulatory entity has the administrative law enforcement power in inspection and supervision. Fourthly, the means of communications between public procurement organizations is the Internet, which publicizes all procurement matters (other than exceptions stipulated by law). Figure 1 shows a detailed schema.

Figure 1. The Proposed Organizational Structure for Public Procurement



Their relationship can be expressed as: the decision-making body receives comments and suggestions from all sides, and is responsible for major decisions. Vendors mainly contact the procurement center and accept procurement contracts. If vendors are dissatisfied with the various acts in the procurement process, they can question the procurement center, and they can also file complaints to and request remedies from the supervisory agency, which supervises the procurement center. Public and stakeholders can also oversee any wrongful acts, or directly send feedbacks to the decision-making body. The procurement center executes all transactions of all public resources, while a unified regulatory agency fulfills complete supervision.

## **DISCUSSION**

In this paper, our findings are based on empirical study on limited local organizations. Due to limited data available and the time span, we had not been able to make specific economic data analysis and comparison, and were not able to track corruptions based on the long-term analysis of the occurrences and comparisons. Therefore, there is a need for future research in this area.

In addition, since China's public procurement or public trading system is still in the continual improvement and development, combined with the administrative reform and constant governance updates, future research need to closely follow practical progresses and provide updated findings.

Finally, we sincerely hope that more colleagues will pay attention to this issue and hope to continue to explore and analyze the following areas:

1. Is there a limit of the concentration of public procurement? How to decide the degree and how to measure it?
2. Whether there is a method or model for monitoring the ideal organizational structure, how to set detection variables and how to collect and analyze data?
3. How to investigate the degree of corruption in public procurement? Can we measure the control of corruption by establishing an

analytical model, or analyzing frequency, breadth and loss of corruption?

4. How to analyze an organizational structure model in the role of curbing corruption, and can we have quantitative analysis?

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