Professional purchasing in the Dutch public sector

Benchmarking and best practices are believed to be drivers of professionalizing Purchasing in the Dutch public sector. In order to provide the public sector with these drivers a project was started in 2003 under the name “Purchasing Excellence”, modelled after a similar project in the private sector. It involves the development of an assessment model, training of assessors, roll-out of assessments, benchmarking and the development of various best practices.

The assessment model was not developed from scratch, but involved a redesign of the MSU assessment model specifically for the public sector. As it turns out the methodology of the MSU model can also be used in the public sector, although the contents of various processes had to be adopted. For training, roll-out of assessments and benchmarking a phased project plan was used that proved valuable in the private sector.

First results are expected to come in this summer. We will report on project set-up, organization, lessons and first results, with a special emphasis on possibilities for transferring this process to other countries.

Part I: Developments driven by central government

1. Background to PIA project

The Dutch Cabinet decided in 1999 that there was room for improvement in complying with European rules for procurement by tender. An awareness existed that professional purchasing and tendering procedures offered numerous opportunities for obtaining the best available in the marketplace. This resulted in the PIA action plan. The plan’s objective is to improve the legitimacy and effectiveness of purchasing. General opinion in the Netherlands is that the government, as the spender of public money, should optimise the use of the resources at its disposal (labour and capital). Professional purchasing and procurement by tender was seen as a way for the government to get more value for taxpayers' money. PIA was established as a means for adding value. A key element of this professionalisation operation was to obviate the need to reinvent the wheel and instead to benefit from what others had already learned. Approximately 80% of the work of government purchasers in the Netherlands is the same as that of purchasers at non-profit organisations and companies. Therefore, PIA is making grateful use of knowledge and experience gained by purchasers in the private sector. The government has enormous knowledge of purchasing but two factors impede the sharing of the knowledge. One is that the knowledge is very fragmented. The other is that very intensive use is made of external consultants.
2. PIA action plan

The circumstances outlined above resulted in 1999 in an action plan focused primarily on central government departments. Knowledge of purchasing obtained from the project is being made available and passed on to other authorities and the healthcare sector. PIA channels about 70% of the available time, money and effort into the central government apparatus and 30% into action focused on other authorities (municipalities, provinces, education and healthcare).

The action plan has three objectives. Firstly, compliance with European directives covering procurement by tender must be improved. Secondly, authorities must be encouraged to make more announcements of planned public contracts so as to expand the market and reduce prices. Authorities must also make greater use of ICT. This will produce a larger market accompanied by more efficient working practices. Thirdly, the action plan requires authorities to increase and disseminate their professional knowledge of public procurement and to establish real co-operation in the purchasing filled wherever it is possible to do so.

Content of action plan

<table>
<thead>
<tr>
<th>Seven steps for each ministry</th>
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<tr>
<td>1. Each ministry must name at the highest level the person who is responsible for carrying out the action plan.</td>
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<td>2. Each ministry must analyse quantitatively and qualitatively its purchases and calls for tenders, the officials responsible and the procedures. Part of this analysis is re-examination of the role of the ministry's &quot;Co-ordinating Purchasing Director&quot;.</td>
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<td>3. The purchasing portfolio must be analysed in terms of core and non-core activities and opportunities for greater outsourcing. For each group of purchasable products, the ministry must develop a strategy for purchases and calls for tenders.</td>
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<td>4. Each ministry must work in conformity with European (and national) rules for procurement by tender. The same applies to government agencies that fall under the responsibility of each ministry.</td>
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<td>5. Each ministry must examine the conditions that are necessary in terms of organisation, support by new information and communication technology and personnel training.</td>
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<td>6. Each ministry must co-operate in ensuring co-ordination between ministries.</td>
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<td>7. The Lower House of Parliament will be informed each year of the progress of the action plan by means of a transparent annual report as part of the normal budgeting and accounting cycle.</td>
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3. PIA project management

An inter-departmental taskforce called PIA (Dutch abbreviation for professional procurement by tender) was put in charge of carrying out the plans. The taskforce acts like an outboard motor in co-ordinating, stimulating and accelerating the professionalisation operation. PIA consists of 10 to 15 people.
made available by the ministries. The ‘client’ is a steering committee of five senior civil servants who meet four times per year to check and steer the project at arm's length. The co-ordinating purchasing directors (CDIs) are responsible for day-to-day co-operation between the ministries and PIA. They are also responsible for staffing projects organised under the PIA umbrella. These projects include real procurement contracts and also activities like the joint development of purchasing tools.

A small organisation like PIA can never bring about the required changes on its own. The key to success is to persuade others to start taking action. First and foremost, this naturally means the purchasers and tender callers. But parties of at least equal importance are the decision-makers, the superiors of the purchasers and the financial staff. PIA encourages them to act and to co-operate more than in the past. They must be stimulated to professionalise the work of purchasing.

Two activities, or more precisely strategic decisions, are crucially important to the relationship between central government and other levels of government. Firstly, instead of creating their own websites and communication channels, the authorities should enter into co-operation with an organisation that already has an extensive infrastructure for providing all authorities with e-info. Secondly, instead of assembling a network of central government purchasers, they need to look upon government purchasers as a total group. Co-operation with NEVI: NPPP lies at the heart of this co-operation as part II of this paper will explain.

4. Main activities in first two years
PIA focuses mainly on central government so this paper is confined to a description of activities in that field. Over the first two years, PIA has concentrated on establishing an organisational structure for the State’s procurement, on ensuring that knowledge is shared and on clarifying the concept of e-procurement.

Consultative structure
Professionalisation starts by getting to know each other and sharing knowledge. Firstly, PIA took steps to ensure that the co-ordinating purchasing directors of all ministries held regular meetings with each other. PIA chairs and runs the secretariat for these meetings.

Knowledge sharing
Eliminating the reinvention of the wheel was a fundamental goal of PIA. Therefore, PIA established a network for civil servants who are responsible for procurement. The network interactively puts people in touch with each other. This is done by such means as thematic meetings and a secure meeting point on the Internet. A great need was found to exist for this kind of contact. The thematic meetings are well-attended and more than 1,000 purchasers actively use the digital meeting point.

E-procurement report
Electronic procurement has significant advantages for government organisations. It provides an insight into who is buying what and where. It simplifies and speeds
up purchasing and tendering procedures. There is less administrative work. These are just a few of the benefits. Over the first few years, PIA has defined what exactly e-procurement is, because different interpretations of the concept gave rise to considerable confusion.

PIA subsequently started several e-procurement projects. Ahead of new European legislation, PIA has obtained experience with electronic auctions. PIA is working with other parties on a uniform system for calling for tenders. The new system will be operational year-end 2005 for all government purchasing organisations. A website has already been launched to allow parties who are calling for tenders to publish their notices free of charge.

Products

The project has already yielded several products and tools.

1. Practical tips
   - Guidelines to help co-operating government organisations to undertake a joint procurement process successfully.
   - A manual entitled "Spend and earn" to assist local authorities in setting down their own policies for purchasing and procurement by tender.
   - A model for procurement diagnosis. The model enables an organisation to test, adjust and professionalise its purchasing function.
   - An inter-departmental overview of contracts in which each ministry can place its European calls for tenders.
   - A competence model for clearly defining the most important duties of purchasing officers, determining the related competences, keeping track of how an employee develops and finding a suitable training course.

5. Efficiency gains

After PIA had been running for two years, the co-ordinating purchasing directors felt a need to inject more structure into the project and to define priorities. This resulted in the naming of efficiency gains at the top of the list of priorities of the PIA project:

1. Define and announce responsibilities and powers of the co-ordinating purchasing director.
2. Use figures to manage procurement.
3. Strengthen the role of procurement and embed it at the start of the budgeting cycle.
4. Identify stages of development of procurement organisations.
5. Set up shared service centre procurement.
6. Introduce electronic calls for tenders, ordering and billing.
7. Widen and adhere more strictly to master contracts and umbrella contracts.
8. Make joint purchases.
6. Purchasing targets programme

The most recent activity of PIA is the Procurement Targets Programme (‘PIT’). The programme was established after the Cabinet instructed ministers in 2003 to save €50 million on government purchases. PIA co-ordinated the operation. The remit resulted in the inter-departmental co-ordination of procurement. From 2004 onwards, ministries no longer separately purchase certain products, like office requisites, ICT, communication, postal services and official vehicles. Instead, they make their purchases in a harmonised way by designating one ministry as the portfolio owner and orchestrator. This approach enables central government to procure goods and services more efficiently and at a lower cost. It is a step towards modernising administrative procedures within the government apparatus.

This operation combines the best of two worlds: the price benefits of central procurement and the benefits of committed employees working on local procurement in business units. Procurement policy is co-ordinated centrally by harmonising specifications, bundling orders to create large purchases, allocating specialisms to purchasers and entering into alliances with key suppliers. The Cabinet has since raised the cost-saving target to €150 million.

Part II: Netherlands Platform for Public Procurement (NPPP)

7. Starting point

Up to 1999 the Netherlands had two competing purchasing associations. A smaller one (NVILG about 300 individual members) specifically oriented towards purchasers in health care institutions and the major organization called NEVI (Netherlands Association for Purchasing Management) that comprised members from about 4000 member organizations (including health care institutions). NEVI had a number of activities and meetings but although open for all its members none of them was geared towards public procurement specifically. We estimate that some 10% of NEVI members were in the public sector at that time. In 1999 it was the foresight of the president of NEVI, who brought about a movement to organize those in public procurement as well. He asked one of us to get going on public procurement and promised full support.

A first meeting was called with a number of familiar people from public procurement present. And so we started the NEVI Platform for Public Procurement (NPPP), which we call Netherlands Platform for Public Procurement in our international contacts. The word “platform” was used on purpose as it was not a term defined in NEVI statutes or bylaws. That facilitated the process of finding a proper organizational lay-out for the activities of NPPP as time proceeded.
The NEVI president stuck to his promise of full support. Right from the start the president of NPPP was invited to become a member of the NEVI board of directors, in order to bestow some status on the initiative. Also the activities of NPPP were fully paid for by NEVI without even requesting a participation fee from those NPPP participants who were not NEVI members (the majority).

NPPP first focused on organizing meetings, were purchasing professionals from the public sector and academics specializing in public procurement gave presentations to the audience. All interested were allowed in and their names and addresses were noted as “participants”. NPPP had about 4 national meetings the first years.

Soon also project teams (working party) were started for example to analyze the current situation in the educational market place: was there enough attention to educating public procurement professionals (there was not) and how best to remedy this situation (do not develop a separate education from scratch, but dedicate part of the general education to public procurement). Such a working party usually resulted in delivering a report. And such a report made another fine presentation.

Another approach taken was to start a “purchasing forum” for every sub-sector in the public sector. We now have fora for states, municipalities, educational institutions, housing associations and social welfare organizations. These fora provide a meeting place for purchasers from those sub-sectors and they hold regular meetings as well. Usually such a forum was started by the president of NPPP inviting a small number of people (about 5) from this sub-sector and suggesting them to form a forum. He would typically chair the first three to five meetings and then hand over to a representative from the sector itself. After that it is left pretty much to the forum to decide on their future activities and the frequency with which they meet. Typically they meet once every 1-2 months at the premises of one of their members. If the subject of their meeting is very interesting they may choose to open their meeting to other interested people as well.

8. Growth

Since the inception of NPPP we have had some 20 national meetings and the enthusiasm for organizing meetings is so overwhelming NPPP has to restrict fora from organizing too many.

Because of personal contacts of those involved in NPPP with PIA the fora were supported by the internet site of PIA (Pianodesk) almost from their inception. That gave them a sense of being important as well as facilitating interchange of questions and ideas. Of course it is a little bit awkward as NEVI has its own internet site well developed. But in retrospect we believe this little distance from NEVI gave NPPP just the leeway it needed to search and find its own direction and credibility.

Over the years NPPP grew to some 500 participants and some of its meetings have attracted larger audiences than the national NEVI meetings.
Seeing this success, after 3 years NEVI decided to provide some extra stimulus to NPPP. So far all NPPP activities were done by volunteers in their own spare time. From 2002 NEVI provided a part time (50%) program manager to streamline the activities and professionalize communication. This brought about even more enthusiasm and was instrumental in making NPPP the most successful and talked about entity in NEVI (even though it did not exist as a formal part of NEVI).

It was around this time that NPPP took a strong position in the NEVI board on a proposal to invest in a major effort to improve professionalism in purchasing (the Purchasing Excellence project (see part III). This project originally focused on the private sector. Strong NPPP lobby led to an extension to the public sector as well.

9. Finale
In maturing NPPP (with the full support of NEVI) also took on the task of representing the purchasing community in various official and non-official bodies involved in Public Procurement. NPPP and its fora are now the official purchasing counterparts for the Department of Economic Affairs, the Union of Dutch Municipalities (VNG), the Organisation for State Councils (IPO), the Housing Association (Aedes) and the Association of Welfare Organisations (Cedris). Also it represents the dutch public purchasing community in the European Public Procurement Group. A great deal of these “lobbying” and representation activities involve discussions on legal and regulatory issues such as the European Procurement Directives.

From its inception NPPP took the position that NPPP itself was not interesting. It is only the role NPPP can play in improving purchasing in the public sector, that it is worthwhile. Therefore the situation in which there was a separate network (Piano) around PIA, with about 1000 participants, NVILG with around 300 members and NPPP with some 500 “participants” (with a good deal of overlapping individuals) was considered to be sub-optimal. Early on NPPP embarked upon a road to dismantle itself and merge with Piano (initially) and NVILG (from 2003).

This grand merger is now scheduled to take place in early 2005. The 3 former organizations NPPP, Piano and NVILG will merge into “NEVI Publiek“ which will be a formal section of NEVI. All members and participants of the three former organizations will become a member of NEVI with the full benefit package. NVILG will become the Purchasing Forum Health Care with its own activities, but members of this forum will also be able to participate in all other NEVI activities.
Part III: Purchasing Excellence Programme

10. PEP project

- Based on the MSU model of Professor Monckza.
- Implemented in the Netherlands by NEVI as PE NL - Private Sector, running from 2002 to 2005.
- Decision to take joint action for public sector by NEVI-PIA (in a PPP project).

Key Features:
- single test model for government purchases;
- testing of 50 different organisations with decision-making by the PEP steering committee;
- PIA/NEVI pay all the costs of the tests;
- tests performed by selected, specially-trained and experienced consultants.

Two types of follow-up action are possible after the test:

Phase 2: define and make improvements with the help of a consultant so as to earn money quickly.

Phase 3: with the help of NEVI, improve the organisation itself to make it structurally stronger.

All the results of tests and improvements will be known to NEVI-PIA in an anonymous way. NEVI-PIA will make the results known publicly to:
- the entire public sector, educational institutions and training institutions and consultants.

Part IV: Discussion

11. What have we learned?

We have learned a few general lessons:

1. Do not do too much at once. Maintain a focus and set priorities. PIA was deliberately made a temporary project but it has gradually taken on more tasks than it can handle.
2. Make changes visible and demonstrate (or at least put up a plausible case) that money is really being saved. This is a difficult and often debatable matter. For that reason, efforts in this direction are not having the desired effect in the PIA project. This is not conducive to the project.
3. Persuasion alone is not enough. A hard and resolute approach is sometimes necessary. This requires help from the top.
4. Let people know what you are doing. You cannot make it work on your own. You need friends and supporters. By explaining often and in detail
12. What are we about to do?

Our number one consideration is to have strong follow-ups. NEVI-Public and Ovia will have to go for it alone from 2006. E-procurement must be advanced considerably. From next year, there will be one site for all notices and the site may grow substantially right from the start. This year we will make an existing government system for e-procurement suitable for general use. Next year the system will be tested by the largest government sector purchaser in the Netherlands; this will be followed by promotion and persuasion to get everybody to use the system. Next year PIA can do a lot in the way of communicating and paving the way for improvements. Finally, there is the question of earning money. We must make sure that the PIT project is a success. Politicians and senior civil servants at ministries are keeping a sharp watch on the project. If it is a success, we will be able to maintain the focus on the professionalisation of procurement.

13. What kind of problems did we encounter?

Some of the problems we faced were:

1. The government decided to establish an expert centre for public procurement for civil engineering works. A few months later it was decided to create an expert centre for public procurement. We also have an expert centre for European regulations that mainly provides information about public procurement under EU legislation. How can a simple professional find his way through this maze?

2. A new Act is going to be introduced. There is a risk that the law will be framed mainly by lawyers and entrepreneurs. There is the related danger of PIA having to devote too much time to matters concerning the Act.

3. Will there be a new target for 2005? The government always needs money. It amounts to an awful lot of negative energy.

4. Internal tensions. Many co-ordinating purchasing directors have the job of "chief procurement officer" on the side. They are also facility managers or financial directors. If the CPO role becomes more important, it will create a risk that the job will have to be divided up. This will necessitate painful decisions.

5. Absurd scaling up. It was decided under the PIA project to co-operate, unless... This creates a risk that some people will scale up without giving the matter due thought. The result will be a danger of market distortion.