

DRIVING PERFORMANCE IN PUBLIC PROCUREMENT - QUALITY ASSURANCE AND INCENTIVE MECHANISMS ACROSS THE CONTRACT LIFECYCLE

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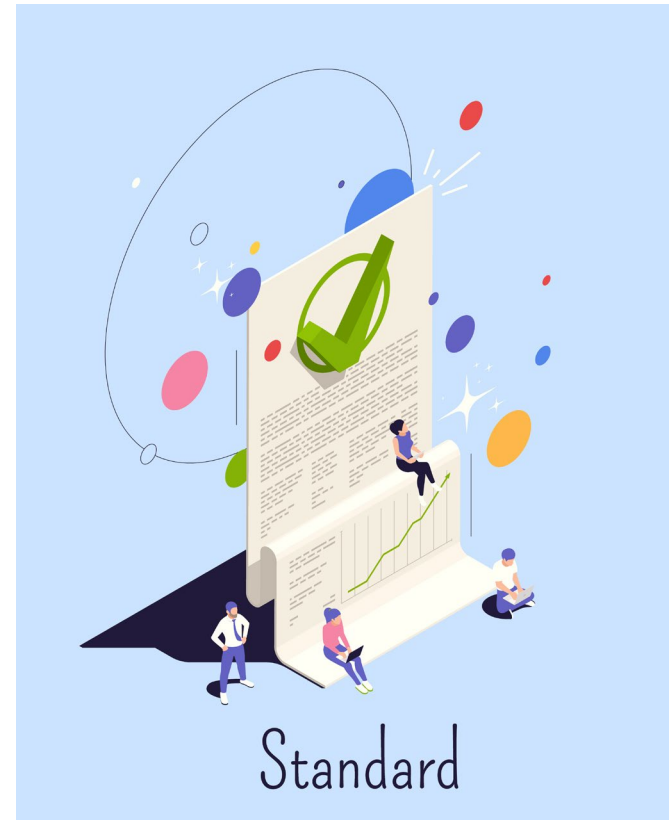
ASSURANCE OF QUALITY

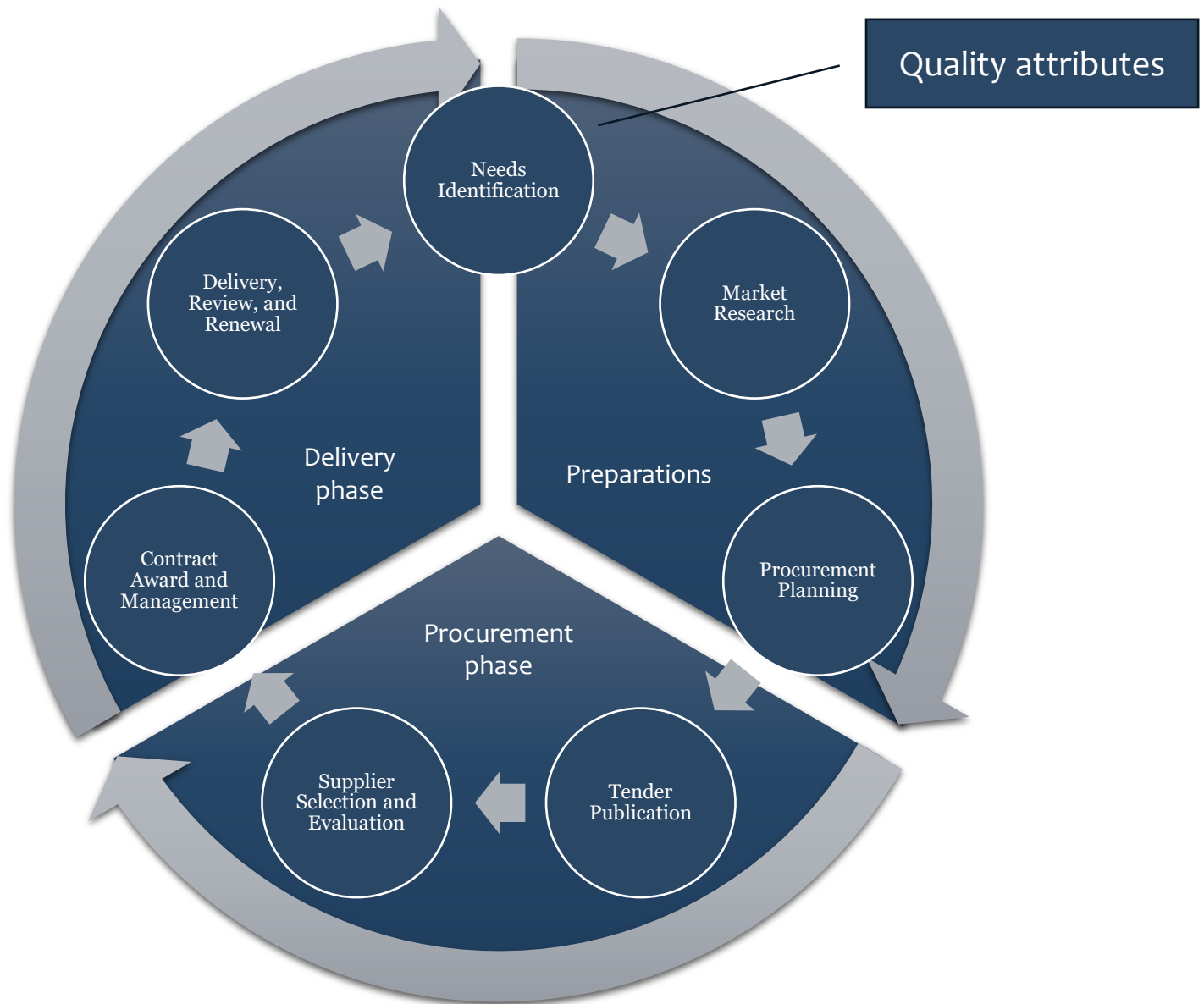
- Incomplete information about price (cost) and quality is to be expected
- Quality can be difficult to measure beforehand
- Incentive problems
 - Moral hazard
 - Adverse selection
- Discretion is not allowed (for good reasons)
- The reputation mechanism – formal or informal – works relatively well on private markets. B2B or B2C
- How about public procurement?



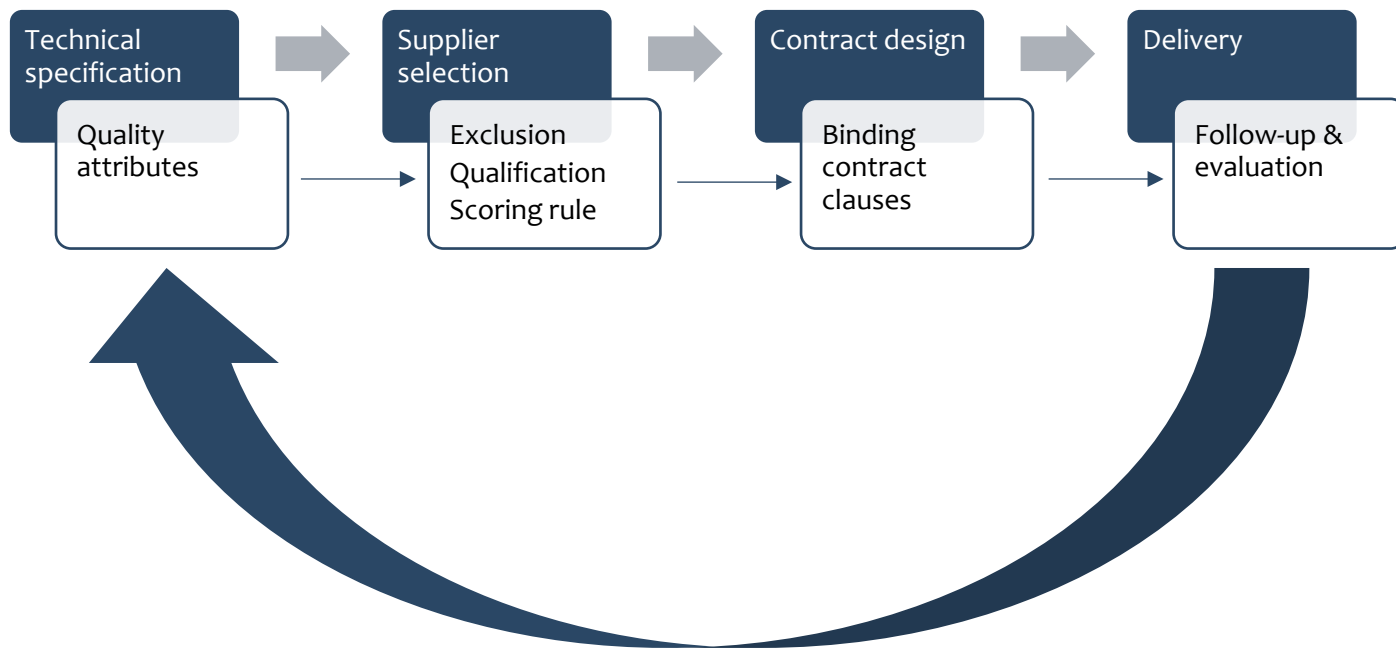
ASSURANCE OF QUALITY IN PRACTICE

- Supplier selection
 - Mandatory and discretionary exclusion grounds
 - References
 - User panels
 - Pitching/presentations that are graded
 - Certificates
 - During the delivery phase
 - Contract clauses
 - Extension clauses
 - Guarantees
 - Not equivalent to informal or formal reputation mechanism
- Discarding of information is inefficient

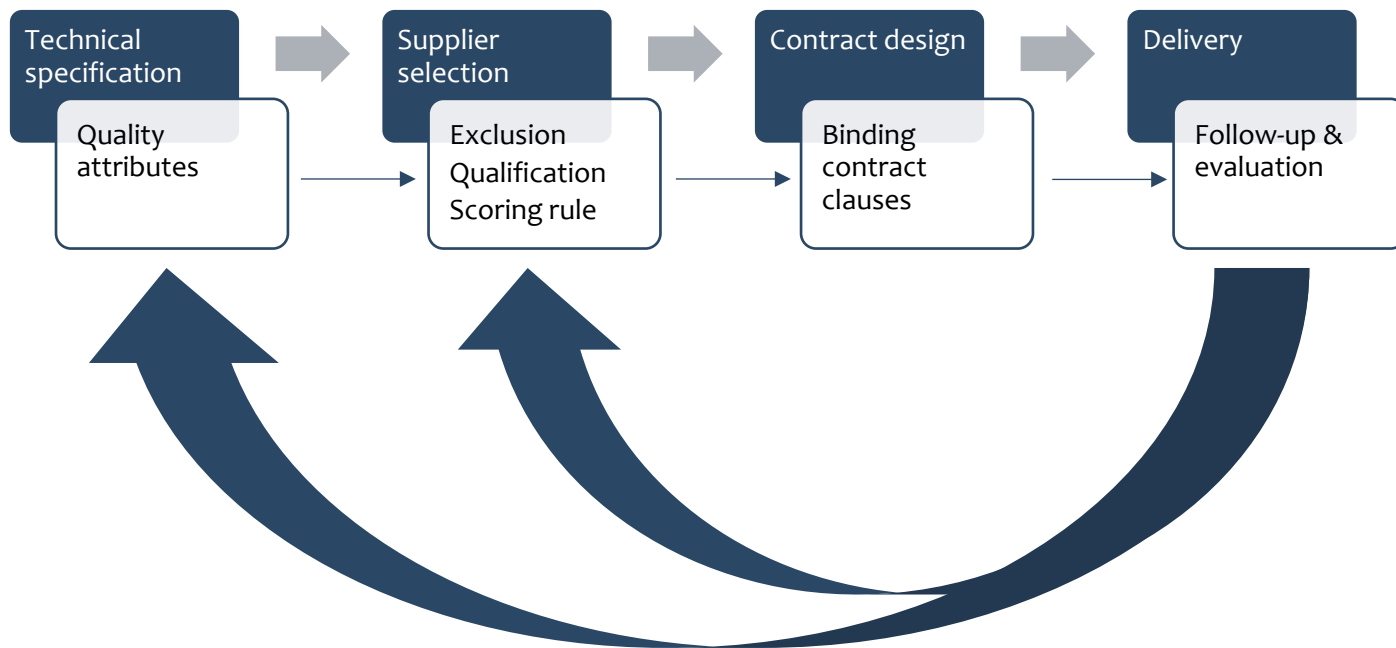




PROCUREMENT PRACTICE



PATH TO SMARTER PROCUREMENT...



PATH TO SMARTER PROCUREMENT

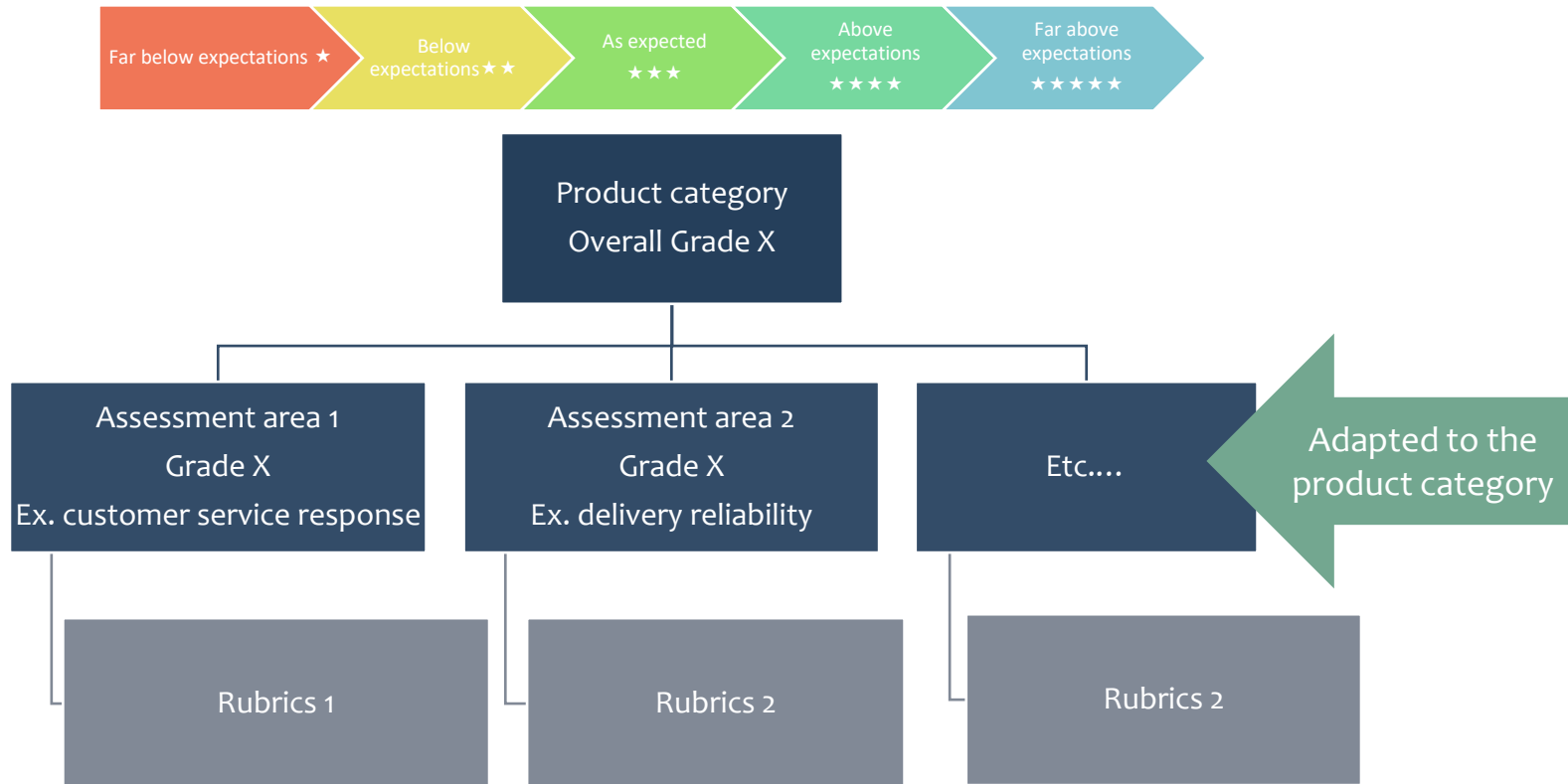
LESSONS FROM RESEARCH

Online ratings services on numerous online platforms allow buyers to see how other buyers have rated a potential suppliers and it increases quality (Banerjee and Duflo, 2000; Hui et al., 2018; Tadelis, 2016).

A competently designed reputation system based on effectively collected and structured past performance data can significantly improve procured quality and safety at work sites without increasing procurement price. (Decarolis et al., 2016)



SUPPLIER RATING IN PUBLIC PROCUREMENT



SUPPLIER RATING IN PUBLIC PROCUREMENT? CONSIDERATIONS

- ★ Credibility, free from commercial interests, transparent, public
- ★ Transaction costs on both sides of the auction
- ★ Balance information asymmetries on both sides
- ★ Potential suppliers in and outside a reputation system
- ★ Minimize measurement errors, sufficient data – large-scale
- ★ Timeliness, more weight to more recent assessments
- ★ The number of evaluations should be indicated
- ★ Contract value should be indicated to prevent incentive problems
(allows flexibility – filter by value)
- ★ National – at the minimum, potentially expanded to the internal market
- ★ Reporting is mandatory



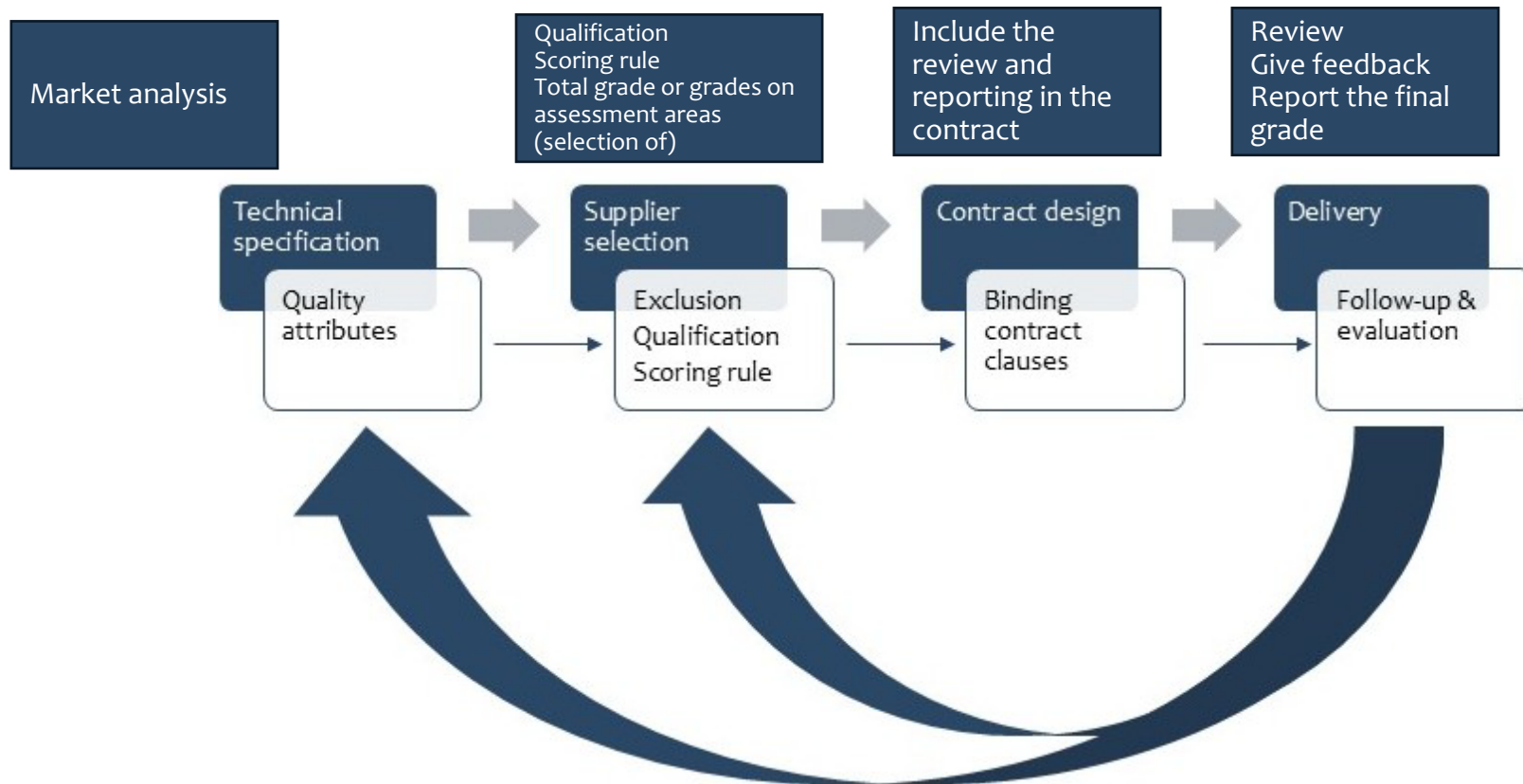
HOW TO DEAL WITH POTENTIAL SUPPLIERS OUTSIDE THE RATING SYSTEM



- ★ Don't base the supplier selection on the system
- ★ Entrants are assigned the lowest rating (value zero)
- ★ Some low number
- ★ Average value (Spagnolo, 2012; Spagnolo and Castellani, 2017)
- ★ Initial rating based in retroactively engineered rating
 - ★ Resource demanding



MANAGING THE SYSTEM AND INCENTIVIZE SUPPLIERS

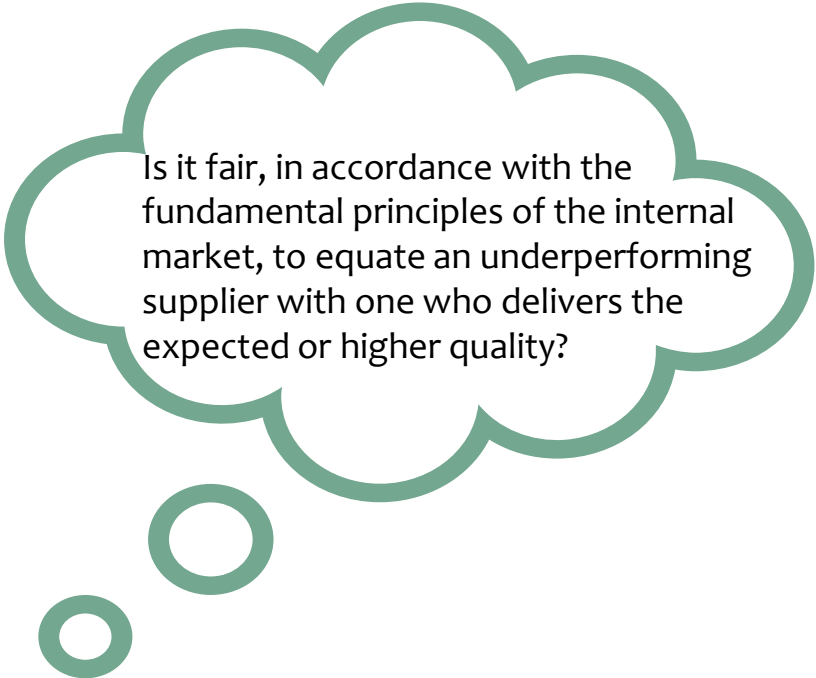


LEGAL PERSPECTIVES

The EU directives do not explicitly forbid the use of ratings

This is not an exercise of public authority and therefore cannot be subject to judicial review

Key: distinguish between giving potential bidders the same **chance** and the same **opportunity** to win public contracts



Is it fair, in accordance with the fundamental principles of the internal market, to equate an underperforming supplier with one who delivers the expected or higher quality?



FINAL NOTES

Complement to existing practices

Increases the importance given to follow-up and review of contracts - feedback during the delivery phase is important

Makes the public procurement process more cohesive

Accounting for past performance with an assessments spanning from low to high scales increases the incentives to delivering at least promised quality

Transfer of the cost for reporting difficult to measure quality from the supplier to the buyer side – positive impact on SME entry?

Can make it less attractive for unscrupulous or organized criminal activities to participate in public procurement?

Overall: Increases efficiency in public procurement

