

A methodology for identifying ways to improve SME access to government procurement markets within the APEC region

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Abstract

This paper outlines the methodology used in an APEC project to identify inhibitors that restrict SME access to government procurement markets in the region, and to develop strategies and solutions to reduce these barriers. Developing SME access to government procurement markets across the APEC region is a capacity building activity that supports the principles and objectives of the APEC Bogor goals. This project was an opportunity to identify public and private sector actions to help SMEs develop their local strengths while capturing the benefits of globalisation and trade liberalisation. The paper describes the strategies and structure of a project that effectively encouraged member economies to share experiences and lessons learnt relating to SME access to government procurement. The methodology can be used in future projects concerning SMEs and international markets or other problem-solving projects where a highly visual interactive style is desirable to accommodate multiple nationalities and experiences.

The Key deliverables required from the APEC Workshop

APEC required a project methodology to be developed which would harness the experiences and knowledge of participants from a wide range of APEC economies to:

- ❑ identify key inhibitors facing SMEs when seeking to access government procurement markets within the Asia-Pacific region
- ❑ develop strategies and provide possible solutions to overcome inhibitors to work towards liberalisation of trade and greater access to member economies' government procurement markets
- ❑ identify future capacity building initiatives
- ❑ provide a report that included country-specific contextual case studies
- ❑ recommend strategies for providing information and advice to other APEC on SMEs.

In this paper we discuss the nature and importance of SMEs and their access to government procurement markets in the APEC region of the global economy, then we outline the methodology used to harness the skills and knowledge of participants from APEC economies to achieve the above deliverables.

SMEs - Contribution to economies

SMEs "... are a dynamic force for sustained economic growth and job creation. They are a valid crucial component of a vibrant industrial society. SMEs stimulate private ownership and entrepreneurial skills; they are flexible and can adapt quickly to changing market demand and supply conditions; they generate employment, help diversify economic activities and make significant contribution to export and trade (MFT 2001)".

Definitions of SMEs differ from economy to economy, and are based on specific criteria such as the number of employees, level of assets or turnover. However the *economic* and *social* contributions of SMEs that are common across economies are their ability to:

1. create jobs with low capital costs
2. create conditions for development and introduction of new technologies
3. function as subcontractors for large corporations
4. adapt faster to the demands and fluctuations of the market place
5. fill marginal areas of the market, which are not targeted by large corporations
6. decentralize business activity and help foster faster development of regions, small towns and rural communities
7. alleviate the negative impact of structural changes (MFT 2001).

SMEs make up a large proportion of economic activity and are an important resource for government procurement. However the relative size of the SME sector is often not matched by SMEs share of the government procurement pie. For example in Australia:

- 99.76% of all non-agricultural private sector businesses are SMEs and they employ about 74% of that workforce - but their voice is frequently small and fragmented (Prestney 2003).
- SMEs make up in excess of 20% of primary contracts by value (all procurement) and also have a substantial involvement as subcontractors (Loudon 2003).

Globalisation poses special challenges and opportunities for SMEs. The Bologna OECD Charter 2000 on SME policies recognizes (OECD 2000):

- the increasing importance of small and medium-sized enterprises (SMEs) in economic growth, job creation, regional and local development, and social cohesion, also through the role played by women and young entrepreneurs
- that entrepreneurship and a dynamic SME sector are important for restructuring economies and for combating poverty
- that globalisation, the acceleration of technological change and innovation create opportunities for SMEs but also involve transition costs and new challenges and that globalisation should lead to higher living standards for all and that its benefits should be accessible to all on an equitable basis
- that SME policies need to be tailored to the circumstances and priorities of individual countries and sectors, while contributing to sustainable development and social progress
- the work on SMEs by the OECD and other international institutions encourages continued multilateral exchange of experience and best practice policies with a view to strengthening partnership and co-operation among SMEs in OECD and non-OECD countries.

SMEs are the engine of the economy (BRTF 2003) and a powerhouse of innovation and employment (NOIE 2003). An economy's overall economic health and well-being can be measured by the growth

of SMEs - so it is vital to enhance the capacity of SMEs to compete domestically, nationally and internationally (APPC 1999).

SMEs - Barriers to sustainability

Despite their importance, SMEs face many barriers to being sustainable in local and overseas markets. Government strategies to assist SMEs will vary, depending upon the country's stage of development (MFT 2001). Some of the barriers that SMEs face are (World Bank 2003):

1. expensive and time-consuming regulatory, licensing and permit requirements
2. lack of legal framework for commercial transactions and dispute resolution
3. inadequate protection of business and intellectual property
4. tax structures that distort incentives and discriminate against small firms
5. barriers to accessing information
6. insufficient internet access
7. labour market rigidities that make hiring and firing workers difficult and expensive
8. official and unofficial levies
9. government procurement procedures that discourage successful bidding by SMEs.

As one response to these barriers, Government has the option to use its buying power to build the business capabilities of SMEs (APPC 1999). Ensuring that the public sector market is opened up to SMEs is a key strategy in fostering economic growth (BRTF. 2003).

APEC and government procurement

APEC comprises 21 **member economies**, namely:

Australia	Japan	the Philippines
Brunei Darussalam	Korea	Russia
Canada	Malaysia	Singapore
Chile	Mexico	Chinese Taipei
China	New Zealand	Thailand
Hong Kong	Papua New Guinea	the United States
Indonesia	Peru	Viet Nam

APEC also has three **observers**, namely:

the ASEAN Secretariat	the Pacific Island Forum	the Pacific Economic Cooperation Council
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Government procurement

A basic principle of government procurement (GP) is to provide ample and equal opportunities for participation to interested and qualified bidders for government work, thereby ensuring healthy and effective competition.

Key milestones in APEC's government procurement initiatives

1994	<i>Bogor Declaration</i>	Free trade in APEC region: <ul style="list-style-type: none"> • by 2010 for Developed Economies • by 2020 for Developing Economies
1995	<i>Osaka Action Agenda (OAA)</i>	Government procurement was listed as one of the areas where leaders committed their economies to take steps to help achieve the goals of Bogor.

The November 1995 Osaka Action Agenda commits APEC economies to "develop a common understanding on government procurement policies and systems" and to "achieve liberalization of government procurement markets throughout the Asia-Pacific region in accordance with the

principles and objectives of the Bogor Declaration". (Wiggins 2003).

The OAA commits APEC members to:

- develop a common understanding on government procurement policies and systems, as well as on each APEC economy's government procurement practices; *and*
- achieve liberalization of government procurement markets throughout the Asia-Pacific region in accordance with the principles and objectives of the Bogor Declaration, contributing in the process to the evolution of work on government procurement in other multilateral fora.

1995 Government Procurement Experts Group (GPEG) established

GPEG's aims are to develop a common understanding of government procurement policies and systems and to achieve liberalization of government procurement markets throughout the Asia-Pacific region.

Some examples of work carried out include the establishment of a home page to report on members existing government procurement systems as part of the enhancement of transparency.

Some GPEG activities

1995 – ongoing

Regular surveys of government procurement practices and systems.

1999

APEC identified and agreed a collective action plan for government procurement. A key component of the plan was to develop a set of principles on government procurement. The principles would be non-binding which means member economies adopt the principles on a voluntary basis.

In August 1999, under the convenorship of Hong Kong, China, the GPEG completed the development of the non-binding principles, including elements of and illustrative practices (Wiggins 2003).

Six Non Binding Principles (NBPs) were developed:

- transparency
- value for money
- open and effective competition
- fair dealing
- accountability and due process
- non-discrimination

Each non-binding principle addresses the elements of:

- general operational environment
- procurement opportunities
- purchase requirements
- bid evaluation criteria
- award of contracts.

A detailed explanation of the NBPs can be found via the GPEG website (APEC GPEG. 1999)

More information on GPEG latest developments is available via the GPEG website (APEC GPEG. 2003a)

2001-2002

Majority of GPEG members completed their voluntary review and reports of their GP systems against the Non Binding principle of Transparency.

2002

Mexico meeting. Agreed to begin voluntary reviews of the next principle – ‘Value for Money’ in 2003.

Ongoing

Group will continue educational and information sharing activities

Also the group will work more closely with 2 other APEC groups, namely:

- the Small and Medium Enterprises Working Group
- the Electronic Commerce Steering Group

From this collaboration GPEG developed a proposal for a workshop focusing on strategies to improve SME access to government procurement markets.

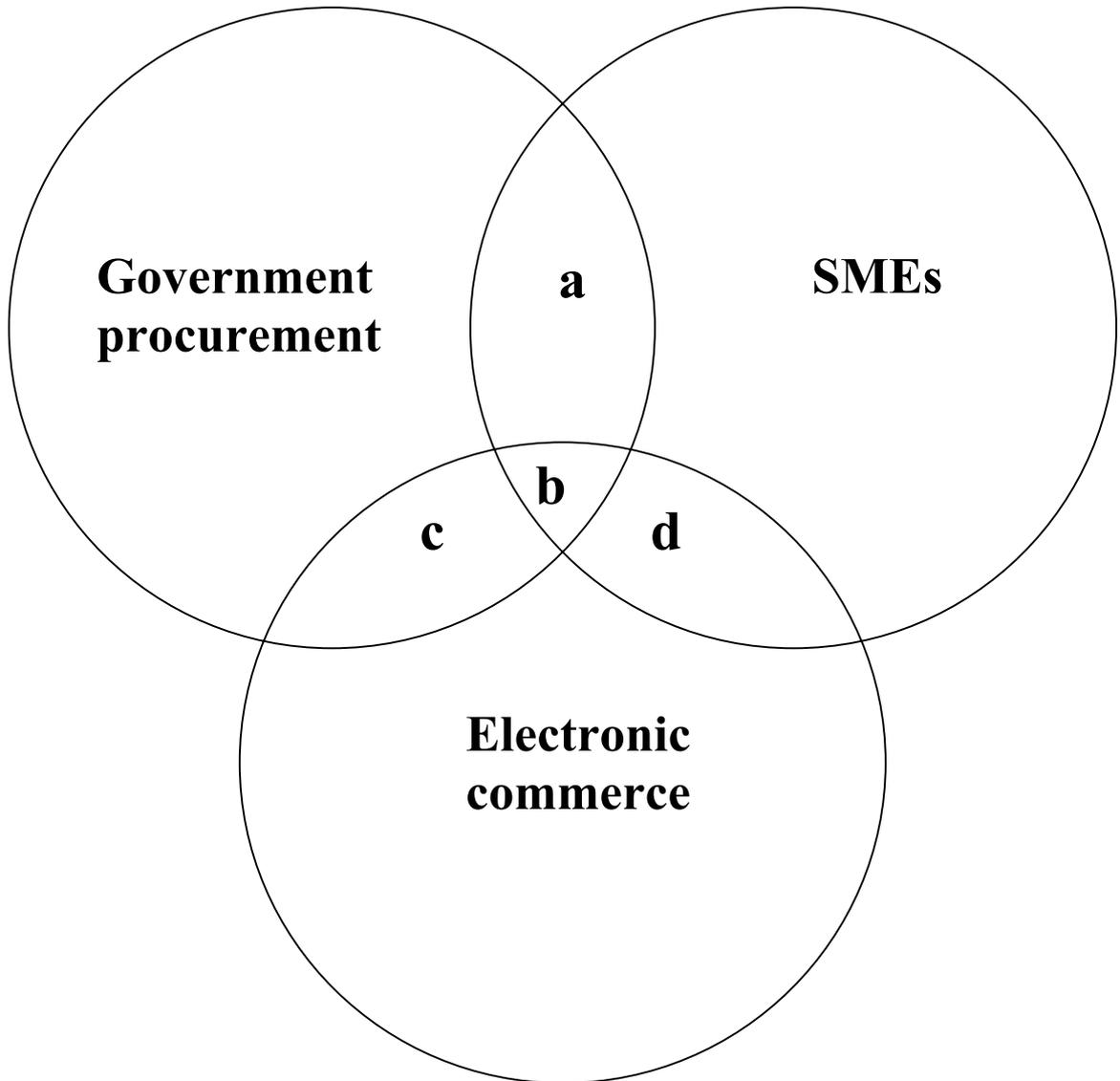
The project opportunity

Identifying inhibitors that restrict SME access to government procurement markets in the APEC region, and developing strategies and solutions to reduce these barriers, is a capacity building activity that supports the principles and objectives of the APEC Bogor goals (APEC GPEG 2003b).

This workshop-based project was an opportunity to identify public and private sector actions to help SMEs develop their local strengths while capturing the benefits of globalisation and trade liberalisation.

The 'opportunity space' for SMEs in the GP market

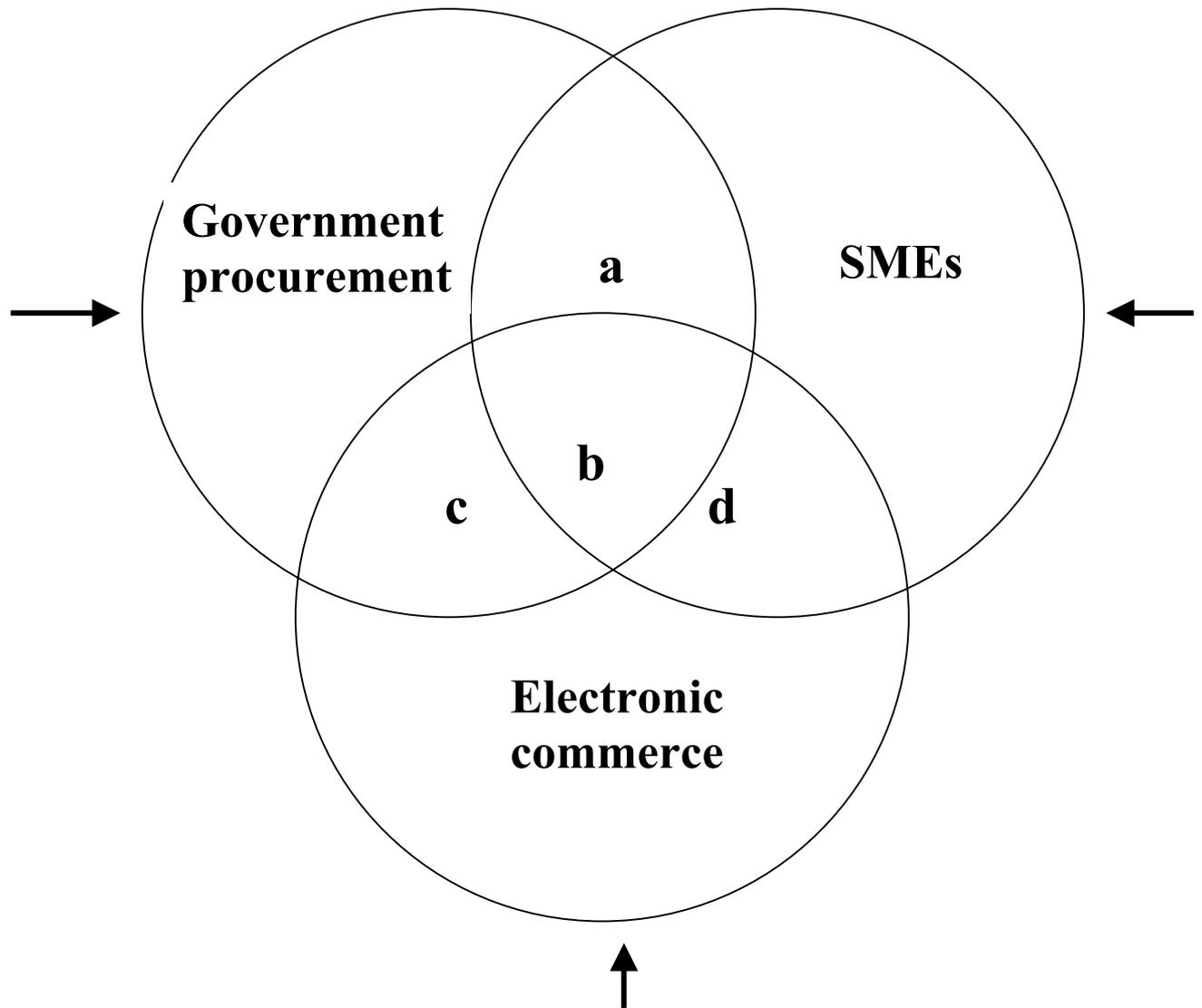
- The three circles below represent the intersecting interests of three APEC groups, namely: GPEG, the Small and Medium Enterprises Working Group, and the Electronic Commerce Steering Group
- This workshop will concentrate on *solutions* and *strategies* to maximize intersection 'a' – the *opportunity space* for SMEs in the government procurement (GP) market



Intersection	What it tells us
a	the <i>opportunity space</i> for SMEs in the government procurement market
b	that part of the <i>opportunity space</i> for SMEs in the government procurement market that is facilitated by e-commerce - so 'b' is a subset of 'a'
c	any government procurement that is facilitated by e-commerce
d	any SME activity that is facilitated by e-commerce

Expanding the ‘opportunity space’ for SMEs in the GP market

- *Inhibitors* limit the *opportunity space* for SMEs in the government procurement market. This workshop uses activities to identify these problems.
- Developing and implementing *solutions* and *strategies* to overcome inhibitors provides a way to maximise the *opportunity space* for SMEs in the government procurement market, thus realising the potential economic and social benefits of a strong SME sector. This workshop uses activities to identify and prioritise viable *solutions* and *strategies* to these problems.



Construct	What it tells us
inhibitor	a problem limiting <i>opportunity space</i> for SMEs in the government procurement market
solution strategy	<i>what</i> outcome might solve or minimize a problem – ‘ <u>the outcome</u> ’ <i>how</i> the required solution will come about – ‘ <u>the plan of action</u> ’

Stages in the government procurement process

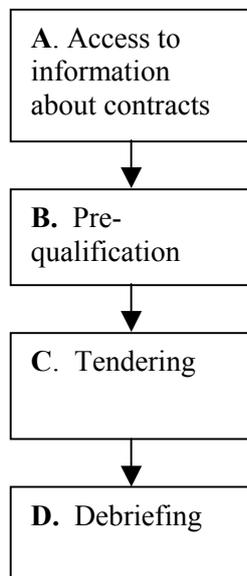
The following two flowcharts give different views of the steps in the government procurement process:

- the chart to the left shows the process from the perspective of an SME.
- the chart to the right shows the process from the perspective of a government.

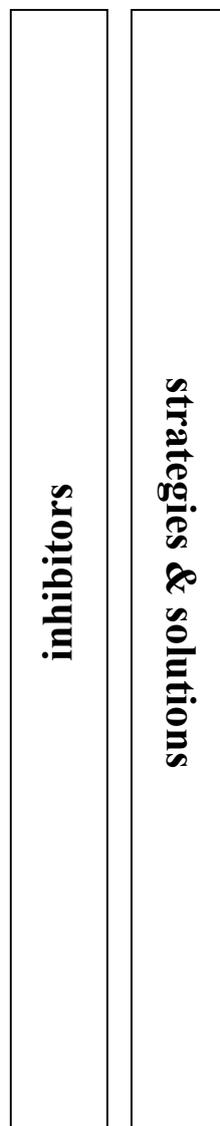
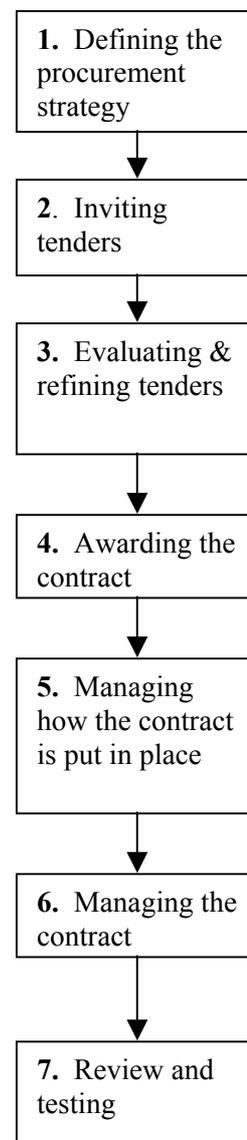
Whilst it is possible to have other equally valid interpretations of the steps involved, so that a common point of departure could be found for workshop activities, the steps listed below were articulated to frame the workgroup discussion and debate.

So when we examined the inhibitors that restrict SME access to government procurement markets, for convenience we categorised them according to which step (A, B, C or D) in 'the SME perspective' they derive from.

The SME perspective (BRTF. 2003)



The government perspective (OGC. 2002b)



Using a case study to identify GP inhibitors

Jonsson (1996 p. vii) suggests that: “What cannot be discussed cannot be improved, at least not intentionally”.

Making the barriers to SMEs participation in the government procurement market ‘discussable’, by identifying and prioritising inhibitors, improves prospects for informed decision making by government and business about priority solutions and strategies.

The case of *Central* Consulting highlights some of the real issues that SMEs may encounter in accessing government procurement. *Central* is a fictitious name but its situation is based on a real business. The case offers a brief overview of *Central*, describes its perceived strengths as an SME, and then describes its experiences with the government procurement market.

We used activities based on the *Central* case to illuminate specific inhibitors which can restrict SME access to GP markets. Then we used additional activities to identify strategies and solutions that might overcome or reduce such barriers.

The nature and structure of the activities are detailed in a separate *Presentation Schedule* sheet distributed during the workshop and attached to this paper as Appendix 2.

Case Study – ‘Central’ Consulting

Section 1. Introduction to the case

i. Brief Overview

Central Consulting is an SME that provides a wide range of consulting services. *Central*'s services extend across diverse areas such as ergonomic design, occupational health and safety assessments, process planning and evaluation, and managerial training. *Central* has worked for government, NGOs, private sector and industry bodies.

Examples of *Central*'s wide-ranging tasks include designing or assessing:

- building fire safety and evacuation plans
- meat and seafood plant preparation processes
- furniture ergonomic design requirements for educational institutions
- correctional-institution practices
- emergency rescue procedures
- managerial change management training.

Central is based in one state, but contracts across its home country. It has had one experience with the international government procurement market.

Central has a core staff of three professional consultants and two support staff. The owner is the principal consultant, and is aided by the two associate consultants. Occasionally, *Central* calls in outside consultants to assist in projects on a short-term basis. *Central* has downsized from 5 consultants to 3. This was in part due to issues of profitability and overcapacity, but in part because the principal consultant recognised the benefits of operating at the ‘coalface’ rather than getting and organising work for others.

ii. *Central*'s strengths as an SME

Central's business plan lists a number of perceived strengths that differentiate it as a small business from larger competitors:

We are a small and agile specialist consultancy, which offers highly skilled expertise and creative, cost-effective and better quality outcomes through:

- **creative solutions**
 - we find, discuss, and exploit new ideas and technology faster and better than market competitors.
- **responsiveness**
 - we respond in fresh ways to meet initial outcome requirements, and we respond quickly and directly to ongoing change in requirements.
- **service quality**
 - we offer personal levels of service and strong relationships that come from every client being significant to our business.
- **cost & efficiency**
 - we offer cost and efficiency advantages which mean better value for clients.

iii. Overall assessment of *Central's* experiences with government procurement

Central sees government procurement business as being critical for its sustainability.

Central has found that contracts are generally increasing in size and complexity. *Central's* limited financial and human resources compared to the demands of these 'bigger' contracts reduces its ability to win tenders on its own.

Even with contracts that it believes it could handle, *Central* is frustrated by prequalification demands for financial, competency and experience capabilities that go beyond what it thinks are realistic requirements for the task.

Central believes that many of the smaller tenders are made not visible enough, not even by the new e-commerce portals.

Central believes that its future in the government procurement market is dependent on maintaining a competitive advantage and somehow also getting a partial share of larger contracts:

“We get the impression that governments are, in principle, trying to give businesses like ours fair and open access ... but in practice the obstacles are numerous, often unseen and I think largely unintended. For us government contracting is an opportunity and not a waste of time, but that may not be the case for some newer players or those without a track record or some real point of difference to offer ...”.

iv. International activities

Central has attempted one foray into the international government procurement arena. It is not an experience that *Central* intends to pursue again without adequate legal, cultural and financial background investigation.

Central became involved in a joint government-private sector initiative that concerned the development of a helicopter rescue training facility in an APEC member country.

Central failed to comprehend the real role of the overseas government in the project, and became convinced that government participation assured continuity of the project and certainty of payment.

The contacts entered into were loosely bound because of the organic nature of the project. In retrospect, the legal issues about contract performance from both sides and *Central's* unfamiliarity with the local legal system led to much dissatisfaction all round:

“In essence we had to walk away from the project with a large financial loss - not to mention the opportunity cost of other business we passed over.

Our biggest mistake was not insisting on a contract direct with the government or finding some other solution.

Our second mistake was in not nailing down progress payments to coincide with the input of our intellectual capital into the business. Our input of ideas, plans and documentation was not matched by cash flow. Subsequently another contractor did the work, using our framework.

It was a case of 'fools rush in' ... we did too much talking and did not really listen to some good advice we had been given by our own government's export advisors and others”

Central cites a number of other issues to do with the international GP arena, which in hindsight, they failed to recognise and deal with properly:

- differences in language and culture
- misunderstandings about desired time and quality performance standards
- complex web of operational, legal and financial regulations
- lack of real market intelligence

Central might seek future expansion into the international market by:

“...piggybacking as a subcontractor to a multinational by an extension of the work we do domestically...or as a strategic alliance partner with a group of SMEs.

It's a matter of finding where the rewards are – where the work is...and then balancing that potential against the risk of working in unfamiliar territory with new associates and clients, while establishing a compatible working relationship”.

Section 2. Access to information about contracts

This section of the case relates to SME **step A** on page 10, and concerns how *Central* goes about finding the opportunities in GP markets.

Websites

Central's experience in searching WebPages for opportunities has been patchy, and ranged from productive to time-consuming and frustrating. Some sites have helped demystify a tendering process, whilst others have added a layer of complexity.

Central has no real problem with network infrastructure from its office as it has access to ADSL broadband, but when 'on the road' in rural and regional areas internet access, speed and reliability have been an issue.

One state's e-tendering site in particular has been a useful source of tender information. *Central's* biggest contract to date, a training course for public sector managers from local, state and national agencies was retrieved from the site in 2001.

Central has thus far found most of the different websites to be simple enough in themselves, but all have different graphics, menus, capabilities and requirements so:

“... it is really hard work checking various local, state and federal government procurement web resources.

Some sites get us to download PDF files, which we can't even type onto. We have to reconstruct them in word and email or fax them back. Other sites allow on-line responses, but the available 'answer boxes' don't always match the logic of how we need to respond ...

... the more sites we have to access on an infrequent basis, the harder it is to cope with the mixture of approaches ...

Some local governments are good, their sites have a clear link to business opportunities, and give clear contact information ... for others you need a sixth sense to find what you are looking for and still may find nothing.

But the biggest problem of all is that the smaller jobs that are a good fit for us often don't seem to appear anywhere.

Having sufficient time, computing competencies and IT equipment to cope with tendering in GP markets may become more of an issue for *Central* as electronic portals multiply and increase in sophistication:

“We have had a look at a new electronic system at the state government level called 'smart buying' or something like that, but have not taken that much further as I need to set some time aside to try to understand what it does and what it requires ... and we are supposed to have Pentium 3 to use that site, but we hope our existing Pentium 2 laptops and PCs will handle it OK”.

Search providers

Central checks tenders in the local and national newspapers, and have, on and off, paid for a tender search service when business is slow:

“This is a pretty hit and miss affair because it’s poor at capturing the smaller jobs which are a good entrée into the bigger stuff that’s out there ... and its not cheap for us as well pay the same as our large competitors”.

Referrals and direct requests to submit a tender

Central has a good reputation, and has been invited to tender for contracts, which it had not found out about in its own searches. However *Central* realises it cannot rely on ‘word of mouth’:

“There had been a lot of churn in management (positions) at regular government clients. People who knew about us, knew how good our work was have very left, or been repositioned, or have no hands-on role in the tendering process any more ... so the referrals we would have expected to get haven’t come our way ...”

Direct approaches by *Central*

Central has attempted to be proactive in identifying prospective projects and buyers, but success has been mixed:

“We have invested a lot of time sitting on a couple of government sponsored task forces and committees ... (this) ... has been a good way to make connections and get detail on some future directions and projects. But direct approaches to get to know agencies and (their) people and projects have not been so productive or even welcomed. Our local government here gave us support as a small business in signage and directory listings ... but when we ‘cold-called’ to introduce our services and find out the potential to provide services, no one really had the time or inclination or even maybe the knowledge to usefully brief us on their needs or connect us to staff who may have use for our services ...”

Section 3. Prequalification & debriefing

This section of the case relates to SME **steps B & D** on page 10, and concerns *Central’s* experiences with tender prequalification, guarantees, and debriefing.

Prequalification is about demonstrating that an SME has met the minimum standards to be considered for a contract. In this section we also consider the ability of SMEs to meet guarantee requirements that relate to satisfactory contract performance. Debriefing is about getting feedback about how and why an SME fared as it did in the whole tendering process.

Prequalification

In *Central’s* early days, pre-qualifications were a nightmare from the point of view of the amount of information to be documented and the hurdles set for various credentials.

Central was forced to ‘cut its teeth’ in private sector or NGO (non-government organisation) work in order to get the track record that was often necessary to qualify for government business.

Central still finds pre-qualification a resource consuming and difficult process, as tasks and model documents differ across clients.

Central believes that financial and experience requirements are often arbitrary or inconsistent:

“Before we had built up a track record with government, our lack of public sector experience counted too much against us. I can never work out the pre-occupation with where you had done something, rather than what you can do

It is public money, we understand that ... we don't mind being tested out on our abilities, but the requirements and documentation could and should be simpler.

Some of the financial 'rules of thumb' applied - like contact price as a percentage of turnover and financial statement expectations - seem to be set without reason and discretion. Strong and justifiable cash flow forecasts should be what matters most ..."

Central has found that information required for qualification is sometimes out of keeping with the type of work to be performed:

"We have had to supply information to qualify for government tenders which required providing OH&S (occupational health and safety) information at levels more befitting a manufacturer using asbestos than a consulting business ...".

It doesn't appear to *Central* that web technology has made the prequalifications work any easier or less repetitive. If anything, the electronic format seems to increase the ability of some procurement sections to demand an even greater depth of information.

If *Central* is short-listed for contracts, and is then asked for subsequent presentations or expanded proposals, it now carefully considers the costs and benefits of proceeding:

"...sometimes we get a feeling that the decision is more or less already made, and we are just being asked along to make it look like there is some real competition going on...".

Guarantees and liability

Financial guarantees had not been a problem for the work *Central* does. However the rise in insurance premiums ex-September 11 and after the collapse of a local major insurer has placed a large financial burden on professional indemnity and general liability insurance. This has tripled in the last two years. *Central* is of the view that government contracts all too often do not have liability limits set at realistic levels.

Learning from feedback

Central has tried to gain an insight into better future practice by accessing feedback on what went wrong with failed tender bids, and what could be done better next time:

"In about 25% of the cases the responses provided really excellent feedback with concrete suggestions about why our bid was unsuccessful. Debriefing helps us read between the lines of future tenders, figure out what's really needed, whether we want to be in the race at all, and write responses...(we now)...discriminate better...we go for far less contracts...In a lot of cases the responses are not all that illuminating or helpful, and you wonder why...".

Section 4. Tendering – contract criteria

This section of the case relates to part of SME **step C** page 10, and concerns *Central's* experiences with the contract criteria of tenders.

Value for money (VFM)

The tendency for contracts to be awarded more on the basis of value for money rather than cost has in large part worked to the advantage of *Central*. The larger competition had often beaten *Central* on price alone:

“Sometimes because of economies of scale we just can’t match the price of bigger players. Other times I suspect their costs are not much different to ours, but they can absorb thin or negative margins on one job to keep in the loop for the next bit of business that comes along ... we are too small to cross-subsidize jobs.”

Central has found that value for money requirements can take a short-term orientation that revolves around budgeted cash availability. Here what is advocated as a VFM exercise really becomes a ‘cost driven’ decision. The problem for *Central* is determining, when it frames its tender, whether the real decision is likely to be based on genuine value for money considerations or on cost alone:

“To us, providing value for money means getting the mix of costs and quality right to meet the client’s needs ... but to get that mix right, the client needs to both have and communicate a clear view of what they want ...”

Task detail

Central has often struggled to fully understand the requirements of the bid in terms of exactly what ‘deliverable’ is wanted, and how the information response should be framed. The lack of uniformity between government agencies presents an additional hurdle.

Central has experienced a tendency by many agencies to be more prescriptive and certain about the processes required than the outcomes. Where processes are heavily prescribed, *Central* loses a competitive edge:

“Where we can’t play our ‘innovation card’ to get the outcomes that the government wants, we become less useful and less competitive.

A lot of managers read the idea of risk wrongly ... it can be more risky for government in getting cost-effective outcomes to over-specify processes rather than if they under-specified them ... the less the processes are pre-specified, the more value we can add by applying our ‘magic’ ...”

Evaluation detail

A lack of clarity and transparency in the parameters used to assess VFM has frustrated *Central* in its ability to respond to tenders. *Central* also has doubts about how qualitative factors, such as its ability to quickly adapt in innovative ways to meet evolving needs of projects, are considered in the evaluation process.

Intellectual property

Central has had some unsatisfactory experiences with intellectual property in the tendering process and feels its good reputation has led it to be an unpaid 'sounding board':

“We tendered for a process mapping job, and specified our methodology and procedures. We missed out on that contract, but we heard that the chosen party was later told ‘hey, have you thought about adding *this*’...and the *this* was part of the (*Central's*) proposed model in our losing bid.

At other times, we have had reason to believe that our ideas in an unsuccessful bid have resurfaced in the tender specifications documents next time around...”

Payment

With the exception of a couple of local government contracts, *Central* has not experienced significant problems in accessing payment in most of its government procurement experiences. Unlike suppliers of goods, *Central* does not have any significant front-end materials costs. The private sector do not pay more quickly on the bigger jobs, but they often settle smaller jobs more promptly by credit card payment on invoice.

Section 5. Tendering – contract scale

This section of the case relates to part of SME **step C** page 10, and concerns *Central's* experiences with the scale of contracts.

Contract size

Central faces two main challenges regarding contract scale:

- many lower value contracts are hard to find out about, and openness is an issue
- many contracts that were previously in *Central's* do-able range are being aggregated into contracts that are unmanageable given the company's resources.

Central has experienced a tendency for state and federal government contracts to be set up for larger amounts of work over a longer time. Also, additional 'follow-up' elements are being built into the original contract, whereas these tasks would previously have been tendered out on the open market at a later time.

Central's management feels that aggregation may also be an issue with local government contracts if 'buying groups' of councils emerge as predicted.

The trend to aggregation propelled by two forces:

- rationalization of the supplier base to reduce obvious administrative transaction costs
- policies to outsource large parts of 'non-core' activities

The trend to bigger contracts has often pushed *Central* out of contention because of the volume of work relative to its resources. This has led to *Central* seeking more industry, NGO and local government work.

Central acknowledges that larger contracts with fewer suppliers can reduce some transaction costs and make sense for activities where there is strong competition between major players. But *Central* believes that aggregation also removes smaller players from providing price-competitive and creative solutions in critical areas where an innovative approach and continual improvement are required:

“I think governments need to maintain supplier diversity and real long term competition.

We did a number of separate contracts for **assessing** building fire safety and evacuation plans for various agencies. That work led to further contracts on **improving** those plans and execution. The feedback on our ideas and documentation was excellent.

Then the latest fire safety assessment tender to come out is for multiple sites at multiple centres ... its just too big for us to handle, and additional improvement work has now been put inside the main contract.

So we are effectively locked out of the assessments and the improvement work as well. We don't really reckon there would be much in it (for the government) from a cost angle, and there is no way that (*company name deleted*) can give better value for money

I know the senior procurement manager understands the value we provide, but obviously not some of the policy or operational people..."

Consortia

Where *Central* does not have the resources or financial backing to undertake the increasingly larger scale contracts, consortia bids have not proven to be a satisfactory option. In a couple of cases where contract size narrowed the market down to large local or multinational competitors, *Central* looked at direct bidding through a consortia:

"The advance notice needed to get a consortia together was just not possible given tender timeframes.

... besides the potential partners are our natural competitors, so in the long run maybe it is just not viable in some of our specialist knowledge based work to go down the consortia road.

... but if SMEs which submit initial expressions could be somehow put into contact with each other in a timely fashion, who knows ...

It is in a government's long term best interest to promote a successful and enduring competitive marketplace that's got a range of innovative companies in the bidding".

Subcontracting

Subcontracting is also problematic. *Central* believes that in the future much more of its work will have to be via subcontracts, but it would prefer to win contracts in its own right. *Central* maintains that profit margins tend to be less when they are subcontractors.

For *Central* there are issues of certainty and timing of payments and potential loss of intellectual capital. These factors, combined with the absence of a system that brings parties together to negotiate subcontracting possibilities at an early stage, has limited *Central's* participation as subcontractor:

"Early on we lost a bid for process mapping at a correctional facility on the basis of our lack of a company financial profile and because we had done little in the public sector. No way would we have been overstretched doing that contract ... yet we were seen as a risk compared to a big name provider.

The irony is that, by invitation of (*company deleted*) we ended up subcontracting. The (*government agency deleted*) really got us anyway and paid lots more for the privilege...and they would have got a better result if we had control over how the actually work was done".

Identifying inhibitors to SME access

Using the *Central* case and the participant's own experience and observations, we worked to identify and prioritise the inhibitors facing SMEs when seeking to access government procurement markets.

We wished to ascertain whether the inhibitors that *Central* faces are indicative of those affecting other SMEs in their domestic, national or international GP marketplaces.

We used a 'fishbone' cause-effect model (Appendix 1) in activities to identify and prioritise inhibitors which restrict the access of *Central* and other SMEs to the government procurement market.

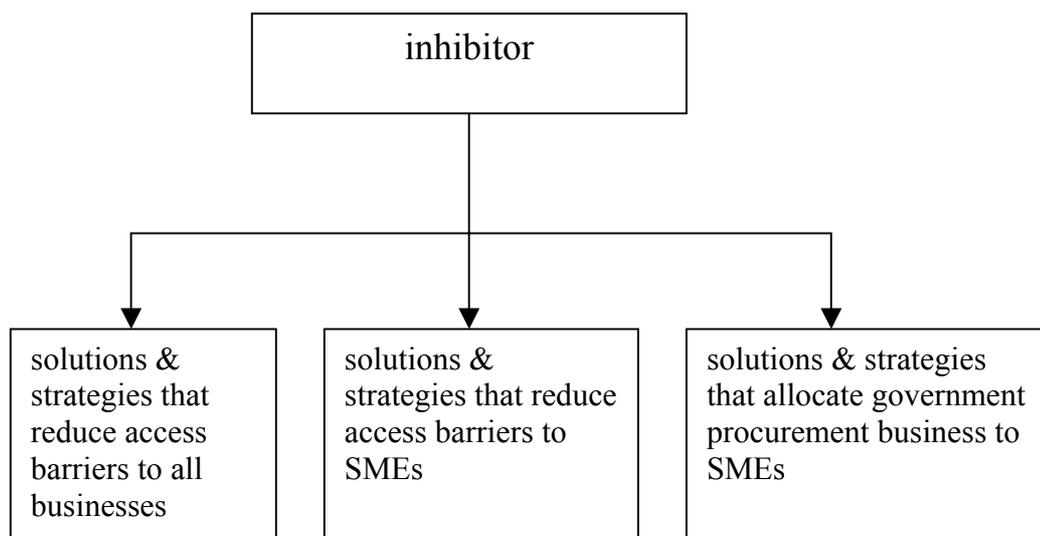
The nature and structure of our activities concerning inhibitors are detailed in a separate *Presentation Schedule* (Appendix 2) distributed during the workshop.

Identifying solutions and strategies

We used additional activities to identify and prioritise strategies and solutions that might overcome or reduce the inhibitors which are illuminated through the *Central Consulting* case study.

We considered solutions and strategies that assist all businesses to access GP markets, and those that specifically target SMEs.

The following figure describes the three categories for solutions and strategies:



Conclusions and recommendations

The key deliverables expected from the workshops was to identify inhibitors facing SMEs when seeking access to government procurement markets within the Asia-Pacific region and to identify possible solutions to the impediments identified. The workshop outcomes were to inform government procurement market stakeholders within APEC and to provide some tangible ideas for them to consider for future implementation.

The workshops were designed as interactive sessions to capture the knowledge, experience and priorities of the participants. Feedback from the participants about the workshops indicate that they provided a positive learning and networking experience. Participants immersed themselves in the activities, offered numerous ideas and examples, discussed the various issues raised and genuinely supported one another in developing their understanding of the interaction of the government procurement market and the SME sector. In particular, the presentation schedule structure that allowed participant voting to determine the direction and prioritisation of issues to be debated proved extremely successful.

The presentation schedule (Appendix 2) shows that the Central case was used as the point of departure for group discussions on inhibitors. This tactic was seen as effective since it provided a frame of reference against which participants could discuss their own contextual situation.

The visual presentation of inhibitors via participants actually adding directly onto a wall-sized replica of the fishbone diagram (Appendix 1) aided in subsequent debate and voting about individual factors. Given the multiplicity of nationalities this highly visual approach to debate and voting was seen by participants to be extremely effective. We would recommend the adoption of a similar technique in the future to explore government procurement or other issues, but suggest that the presentation schedule as handed out to participants, unlike Appendix 2, should provide structured timelines.

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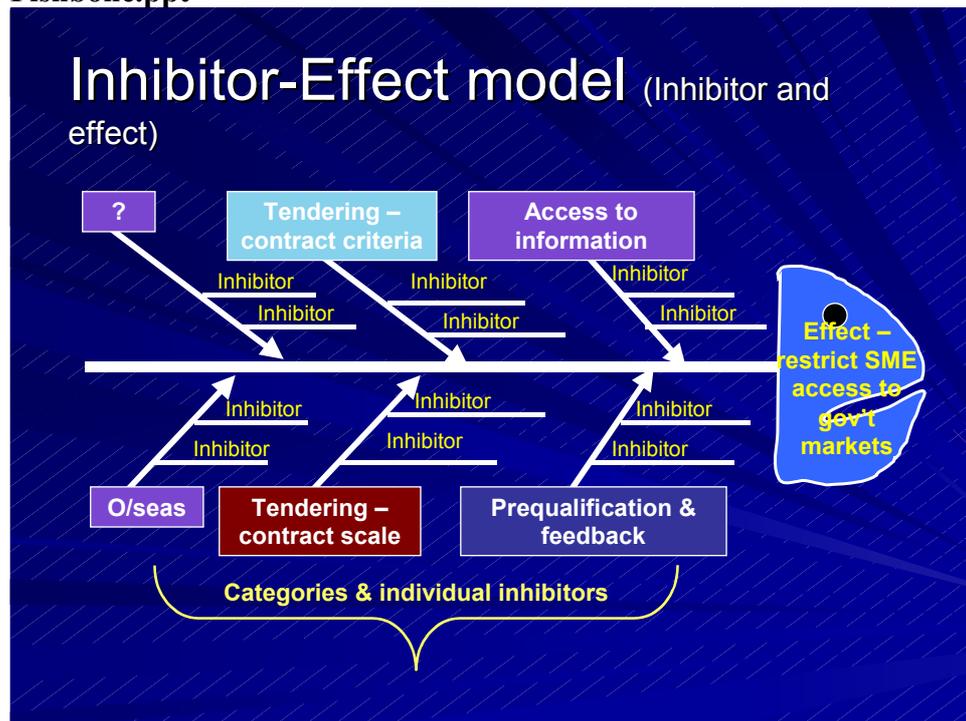
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Appendix 1 – Cause-effect model

Fishbone.ppt



Appendix 2 – Presentation Schedule

During this workshop participants will:

- Overview SMEs and the government procurement market
- Identify inhibitors that restrict SME access to government procurement markets
- Develop strategies and solutions to overcome inhibitors

Overview of SMEs and the government procurement market

1. **Setting the context:** Discuss workshop notes pp. 1-9.

Identify inhibitors that restrict SME access to government procurement markets

2. **Gathering your first impressions:** Think about the perspectives on page 10. Walk over to the BIG poster of p. 10:
 - Imagine you are an SME. In which one of the four steps (A to D) in ‘the SME perspective’ would you expect the most serious inhibitors to be found? Place **one red sticker** on that step.
 - Imagine you are a government organisation. In which one of the seven steps (1 to 7) in ‘the government perspective’ would you expect the most serious inhibitors to be found? Place **one red sticker** on that step.
3. **Introducing the case study:** We will use a ‘fishbone’ cause-effect model (Appendix 1) to highlight the inhibitors that restrict the access of our case study (*Central*) and other SMEs to the government procurement market. As background, we will all read **Section 1** (pp. 12-14) of the ‘Central Consulting’ case study.
4. **Demonstrate the model:** John & Peter will apply part **iv** of Section 1 ‘International activities’ (pp. 13-14) to the ‘fishbone’ model to determine inhibitors that may form around international initiatives.
5. **Forming discussion groups:** We will divide into four ‘colour-coded’ activity groups. Each group is allocated the following **section** of the *Central Case* to read:
 - a. **Pink:** Section 2. *Access to information about contracts*, pp. 15-16
 - b. **Green:** Section 3. *Prequalification & debriefing*, pp. 17-18
 - c. **Yellow:** Section 4. *Tendering – contract criteria*, pp. 19-20
 - d. **Blue:** Section 5. *Tendering – contract scale*, pp. 21-22

6. **Identifying inhibitors:** Each group unpins the BIG SHEET for their section from ‘the fish’ and takes it back to their group table. The group then writes down on the big sheet, the inhibitors experienced by *Central*. Also write down any other inhibitors that are not found in the case but relate to your section (mark these with an **X** – for e**X**tra).
7. **Finalising the inhibitors list:** Each group pins their completed BIG SHEET back on the ‘fish’. But have we ‘caught’ the whole fish? Discuss the inhibitors identified by each group and add any extra ones.
8. **Prioritising the inhibitors list:** We will vote for the inhibitors that we consider need priority action. Use 3 of your stickers here. Each sticker is worth one vote. Either place **3** stickers on *one* inhibitor **or** spread your stickers across *multiple* inhibitors.

Develop strategies and solutions to overcome inhibitors

9. **Allocating inhibitors:** The ‘top 8’ inhibitors are allocated to each group as follows:
 - e. **Pink:** Inhibitor 1 & 8
 - f. **Green:** Inhibitor 2 & 7
 - g. **Yellow:** Inhibitor 3 & 6
 - h. **Blue** Inhibitor 4 & 5
10. **Developing solutions and strategies:** For the *highest* number inhibitor that your group is allocated, brainstorm solutions (the *what*) and strategies (the *how*). On the BIG SHEET ‘**Solutions and strategies for inhibitor.....**’, for each solution or strategy record the **method** (the *what* or the *how*), the **benefits** expected, and any **concerns** (such as adverse or unintended consequences, or implementation difficulties). Pin your completed sheet up. Repeat the process for your other allocated inhibitor if you have time.
11. **Gathering more solutions and strategies:** Walk around the pinned-up BIG SHEETS for ‘**Solutions and strategies**’ and add additional methods that you consider will help overcome the listed inhibitor (write on sticky pad and put under the relevant BIG SHEET).
12. **Identifying good practice examples:** Everyone to discuss actual ‘good practice’ examples of our recommended solutions & strategies.
13. **Revisiting our first impressions:** How do the solutions and strategies that we ended up developing match with our first impressions (in #2 above), of where the problem areas lie from SME and government perspectives?
14. **The number one priority:** Identify the number one solution or strategy that you think APEC should be pursuing/facilitating/championing. Place one sticker on your priority.