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SME suppliers and the challenge of public procurement: Evidence revealed by a UK government online feedback facility



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ABSTRACT

The UK public sector provides an important opportunity for firms to transact business with an attractive customer. However there is concern that public procurement processes place smaller firms at a disadvantage. The views of small firms are under-represented and this paper provides additional, new evidence in order to improve our understanding of their difficulties with public procurement. A UK Government online feedback facility has provided an original, extensive and rich source of material from SME suppliers. It reveals a public procurement process which SMEs perceive to be frustrating and biased against them. Many of the concerns have been reported previously; overly prescriptive qualification criteria, poorly written tender specifications and prohibitive resource requirements remain the most common barriers but the need to supply via a third party is emerging as a new concern. Contract size, contract length and supplier rationalization did not feature as much as expected. Overall, SMEs are concerned about public procurement practices and the competence of public procurement officers. Whilst the UK government is implementing a series of measures, targeted to address these concerns, further research is required to determine their scope and impact.

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1. Introduction

Public procurement, whereby a public sector organization obtains goods and services from a third party by way of a contract, is significant both economically and politically (Harland et al., 2013). Recent estimates (OECD, 2013) suggest that on average public procurement accounts for approximately 12.8 per cent GDP for OECD countries. In 2012–2013 the UK public sector spent approximately £230 billion on the purchase of goods and services, of which £192 billion comprised current spending by central and local government, the NHS and devolved administrations (House of Commons, 2014). The volume and range of public sector spend provides a significant business opportunity for firms to trade with an attractive, reliable and prestigious customer (Michaelis et al., 2003; Loader, 2005). However, there have been concerns voiced about the challenges of public procurement for small and medium-sized enterprises (SMEs). They struggle to find the resources to engage with a bureaucratic process and are disproportionately affected compared to larger suppliers (Glover, 2008). Barriers were reported over 20 years ago (MacManus, 1991; O'Brien, 1993) and evidence suggests

they still remain (Loader, 2011; Flynn et al., 2013a) despite attention being given to the issue by successive governments.

In the UK, at the start of 2013, SMEs accounted, in number, for 99.9 per cent of the 4.9 million private sector businesses and 48.1 per cent of private sector turnover (BIS, 2013a). They are recognized by the UK government as being critical for economic growth, for example through job creation, but their contribution to public procurement is also recognized, with SME participation increasing both competition and innovation (Glover, 2008; Cabinet Office, 2013). Therefore evidence that SMEs continue to be under-represented in the award of UK public sector contracts (BERR, 2007; Freshminds, 2008) has led to the current UK government being the latest to express its concern about the difficulties facing small suppliers. Consequently it has embarked upon a series of initiatives to address their problems, including the announcement of an aspirational target to spend 25 per cent with SMEs by the end of the Parliament in 2015 (Cabinet Office, 2010), the appointment of a representative for SMEs and the launch of an online portal for advertising contract opportunities (Cabinet Office, 2011).

Concern about SME engagement with the public procurement process has led to increasing interest by the academic and policy communities, nationally and internationally. Various studies have examined the challenges that public procurement presents to SMEs, eliciting evidence about the extent and nature of the difficulties and attempting to provide remedies (for example: Bovis, 1996; Erridge

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et al., 1998; Zheng et al., 2006; Glover, 2008). The need to understand both the SME and public sector perspectives has led to evidence that has been acquired from public sector procurers (Loader, 2007; Preuss, 2011) and SMEs, including those which have successfully engaged with the process and been awarded contracts, those which were unsuccessful and those which had not participated, but would like to do so (Fee et al., 2002; Loader, 2005; McKeivitt and Davis, 2013). However, it has been noted that responses from public sector suppliers can be difficult to collect (Cabras, 2011) and (McKeivitt and Davis, 2013) conclude, following their review of literature, that the voices of small firms which do compete for public contracts are under-represented.

The purpose of this paper is to contribute further supplier generated evidence and to improve the level of representation of SME suppliers, in particular, to the debate. The UK government established an online feedback mechanism which asked SMEs about their problems with public procurement in order to inform policy discussions on the issue. The contributions to this facility have provided the evidence which we report and discuss here. Specifically, the paper examines:

- (1) The range, frequency and nature of barriers to public procurement reported by SMEs and
- (2) The implications for policy and future research.

The evidence from this paper will add to the procurement and supply chain literature, as well as being of interest to the small business and public policy communities. There has been recognition of a limited academic interest in SMEs within the field of procurement and supply chain management and criticism of the preoccupation with large companies (Ramsay, 2008), although the calls for further research have focused primarily upon SME purchasing (Morrissey and Pittaway, 2004; Ellegaarde, 2006). However, whilst our knowledge of the purchasing behaviour of large organizations provides limited insights for the SME purchaser, it does have repercussions upon the SME as supplier. For example, supplier rationalization adversely affects the chances of SMEs becoming prime contractors. This paper addresses this aspect in relation to public procurement organizations.

The remainder of this paper is structured as follows. The paper begins with a literature review that outlines the public procurement context and then considers the existing evidence about SME participation in public procurement. In the following section the methods employed are presented; the data source is explained and the decisions and resulting approach to the content analysis are presented, including the coding process. In the fourth section, the results of the analysis are presented and discussed. These demonstrate that many of the previously highlighted barriers continue to hinder SME participation, but that some – including newly emergent concerns – are becoming more prominent. Remedies and government actions are also discussed. The final section sets out the conclusions of the study, also identifying limitations and further research.

2. Literature review

2.1. Public procurement context

Public procurement is a significant activity for governments because of its scale and, increasingly, because of the broader roles it can perform (Arrowsmith, 2010; Harland et al., 2013). According to the OECD (2013) it accounts, on average, for 12.8 per cent GDP, equivalent to 29 per cent of general government spending. The primary procurement aim across most jurisdictions is achieving value for money (World Trade Organisation, n.d.) and this is the

approach adopted within the UK (House of Commons, 2014). First explicitly articulated Cabinet Office (1984), value for money is currently defined as: “securing the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought. It is not about minimizing up front prices” (HM Treasury, 2013: A4.6.3). However, it has been increasingly recognized that public procurement can be used more strategically to achieve additional aims (OECD, 2013). Within this “extended policy environment” (Schapper et al., 2006: 11) it acts as a vehicle for achieving wider socio-economic goals (Erridge, 2007) such as sustainability (Walker and Preuss, 2008), supporting SMEs, encouraging innovation (OECD, 2013) and aiding minority owned businesses (Ram and Smallbone, 2003; Temponi and Cui, 2008; Kidalov and Snider, 2011). As a consequence, procurement strategies to support the environment and SMEs, for example, have been established by the majority of OECD countries, 72 and 63 per cent, respectively (OECD, 2013). However, it has been noted that there are no incentives for procurers to take these wider issues into account (Schapper et al., 2006) with the suggestion that they should be addressed through other policy initiatives (NERA Economic Consulting, 2005). Such a range of goals provide additional challenges for procurement staff (NAO, 2013) including policy conflicts (Loader, 2007; Preuss, 2011) and it is claimed that the success and balance of goals achieved is affected by the discretion and competence of procurement staff (Kidalov and Snider, 2011).

Although value for money has remained at the forefront of UK procurement policy, a focus on savings has also been evident (Loader, 2007) and remains so, more explicitly, as part of the current government’s austerity measures (House of Commons, 2013). The OECD (2013) has also identified that savings are being sought, through a variety of measures including centralization of the procurement function, the aggregation of purchases in order to achieve economies of scale and by the introduction of innovative practices. In the UK, public procurement contributed savings of £3 billion in 2010–2011, the first year of the Coalition government, increasing to £5.4 billion in 2013–2014 (Efficiency and Reform Group, 2014). These were achieved through centralizing the procurement of some common goods and services, renegotiating contracts, and reducing spend in some areas such as advertising and consultants (House of Commons, 2013). To an extent these measures are a continuation of a collaborative approach which has existed over a 20 year period in an attempt to encourage government to maximize its buying power (Loader, 2011).

2.2. Public procurement and SMEs

The concern over SME access to public procurement needs to be viewed in a wider context which recognizes the significant role of SMEs within an economy, both in terms of their economic presence and the contribution that they can make to economic growth. SMEs, in the UK defined as firms with 0 to 249 employees, comprise 99.9 per cent of private businesses and account for 59.3 per cent of private sector employment and 48.1 per cent of private sector turnover (BIS, 2013a). But it is their potential to stimulate innovation, competition and job growth (BIS, 2013b; Fee et al., 2002; Glover, 2008) contributing to economic growth that is valued. However, evidence suggests that there are obstacles which are hindering their success: the internal capacity and capability of the SME, the vision of the owner, and the external environment (BIS, 2013b). The latter category, which is the most frequently reported, includes concerns about access to public procurement.

In recognition of their importance to economic growth, the government is intent upon supporting SMEs by addressing obstacles using a variety of measures, including improving access to public procurement. The Coalition’s programme for government

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