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## SME access to public procurement: An analysis of the experiences of SMEs supplying the publicly funded UK heritage sector

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## ABSTRACT

Previous research examining the relationship between small suppliers and public sector procurers has tended to portray small and medium enterprises (SMEs) as being homogeneous. However, there have been calls for further study of the SME population, in relation to public procurement, in recognition of its diverse nature. This paper contributes to the debate by exploring the experiences of SMEs supplying traditional building skills to the publicly funded UK heritage sector. Our analysis demonstrates that the heritage sector has distinct characteristics which affect the public procurement of traditional building skills. Specifically, the uncertain nature of the work and the key role of the architect demand a specialist input from the public sector procurer. Other experiences compare with those reported across the broader SME population, including the preference to supply directly rather than subcontract, the reluctance to form consortia and the benefit of demonstrating a track record. We argue that this evidence of distinctiveness within the heritage sector suggests that policymakers and practitioners need a greater understanding of the requirements of SME suppliers in different sectors. Attempts to improve participation and success of SMEs in the public procurement process require that consideration is given to the need for a distinct, sector-driven, remedy.

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### 1. Introduction

The relationship between public sector procurers and smaller suppliers is the subject of increasing academic interest both in the UK and internationally (Kidalov and Snider, 2011; Harland et al., 2013; Loader, 2013). This reflects both the attention it receives from policy makers and the significance of the public sector market, especially in the current economic climate. Whilst public spending upon goods and services provides opportunities for suppliers of all sizes, previous studies have examined the experiences of small and medium sized enterprises (SMEs) in particular. Evidence demonstrates that public procurement presents challenges for SMEs which can either prohibit them from tendering for work or adversely affect their success in gaining work (Fee et al., 2002; Loader, 2005; Pickernell et al., 2011; Preuss, 2011). Over time a degree of consistency has emerged from the various studies highlighting the nature of the challenges faced, and making recommendations to remedy the situation, but improvement seems slow and elusive.

To date many of the studies have portrayed SMEs as a homogeneous group, in order to distinguish them from large suppliers.

Although there are a number of studies which have mapped the profile of SME suppliers, using a number of variables such as size and sector of activity (Freshminds, 2008; Cabras, 2011), there has been little investigation to determine whether the experiences of public procurement differ for different sub-groups of SME. However, the limits of the approach have been recognised and there have been calls for further research to contribute to our contextual knowledge and understanding of the SME–public procurement relationship, for example through further investigation and analysis according to size of firm, maturity, sector or products and services (Karjalainen and Kemppainen, 2008). This paper contributes to the debate by examining the experiences of SMEs supplying traditional building craft skills to the publicly funded UK heritage sector. We then explore the broader implications for public sector procurers attempting to improve SME access to public procurement.

The sector under examination in this paper is the heritage sector which is becoming increasingly important to many regions because of the significant economic and social benefits it can generate (English Heritage, 2010). Heritage can incorporate various dimensions including natural heritage, cultural heritage and heritage assets such as historic buildings and monuments and it is the latter that provides the focus for this study. Within both the craft and heritage literatures, terms can be difficult to express precisely and definitions difficult to

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agree. Indeed, in the UK the term craft is not officially defined, but is recognised as being associated with skilled labour, natural and vernacular components, and an element of creativity (European Commission, 2011). Our study is guided by the research published by the National Heritage Training Group in 2008 which explains “traditional building craft skills” as those associated with the repair of pre-1919 buildings, and more generally with traditional materials and methods (National Heritage Training Group, 2008).

For the benefits of heritage to be sustained, its assets must be valued and cared for. In this study we are focusing upon those firms which are employed in the conservation, repair and maintenance of the historic environment, known as the traditional heritage building sector. A characteristic of craft firms, including those within the traditional building craft sector, is their size, with most being categorised as SMEs (Bilbrough and Moir, 2004). These firms engage with the heritage sector as prime- and sub-contractors working for both public and private clients. As the UK public sector is a significant funder and procurer of heritage contracts (National Heritage Training Group, 2008), the experiences of these small traditional building firms are relevant to the ongoing debate about SME access to public procurement.

Adopting a qualitative method, we explore in detail the experiences of 18 SMEs located in the Yorkshire and Humber region which have engaged, to varying extents, with the public procurement process. Our analysis demonstrates that their experiences can be disaggregated into two categories, those which are specific to the heritage sector and those which resonate with the broader SME population. We find that the heritage sector has distinct characteristics which affect the public procurement of traditional building skills, specifically, the uncertain nature of the work and the key role of the architect. Other experiences compare with those reported across the broader SME population and are therefore unaffected by their operating within the heritage sector, for example the preference to supply directly rather than subcontract, the reluctance to form consortia and the benefit of demonstrating a track record.

The remainder of this paper is structured as follows. It begins with a literature review that first presents an overview of evidence relating to public procurement and SMEs, and then examines the literature relating to SME homogeneity and the need for a more nuanced understanding of suppliers in the public procurement environment. Thirdly we outline the methods employed and in the fourth section we present the evidence from our participant firms. In this section we first consider the UK heritage sector and the characteristics of the sample SMEs, and then present our analysis of their experiences with the public procurement process. The final section sets out the conclusions of the study, also identifying broader implications and further research.

## 2. Literature review

### 2.1. Public procurement and SMEs

It has been well documented that public procurement, traditionally viewed as an operational activity, has become increasingly recognised for its strategic potential to drive broader economic and social policies (Erridge and Greer, 2002; Harland et al., 2007). Support for SMEs is included within this broad remit, whereby public procurement offers direct support through the generation of demand for their goods and services (McQuaid, 2002). But the relationship between SMEs and public procurement has long been recognised as mutually beneficial (Erridge et al., 1998), with SMEs driving competition and innovation as well as delivering more direct benefits to the procurement process such as flexibility and responsiveness (Glover, 2008). Engaging SMEs in public procurement continues to be a significant priority of the UK coalition government, alongside the achievement of value for money

(House of Commons, 2014a) which has consistently been identified as the main priority since the first UK procurement review 30 years ago (Cabinet Office, 1984).

The public sector has been identified as an attractive market for SMEs (Bovis, 1996) and it has been suggested that it provides a range of benefits such as stability, reliability, certainty of payment and marketing opportunities (Erridge et al., 1998; Michaelis et al., 2003; Loader, 2005; Peck and Cabras, 2011). Unfortunately the policy intentions and attractiveness of the public sector market have not translated into successful engagement. Evidence demonstrates low levels of SME participation in the public procurement process, less success in winning public contracts compared to private contracts (Freshminds, 2008) and a low share of procurement spend relative to SMEs' contribution to the economy, although this varies by type and tier of public sector organisation, with local government awarding more contracts than central government (Bovis, 1996; BERR, 2007; Pickernell et al., 2011; OECD, 2013). Freshminds (2008) reported that 70% of SMEs claim that they rarely or never bid for public contracts, whilst more recently the Federation of Small Businesses (2013) reported that 78% had not bid for or worked on public sector contracts.

The low participation and success rates of SMEs have led to an increasing number of studies which are seeking to understand and explain these disappointing figures (for example: Bovis, 1996; Loader, 2005; Zheng et al., 2006; Freshminds, 2008; Glover, 2008). A variety of obstacles are emerging from the evidence relating to both the procurement process and the broader procurement environment.

The procurement process involves a number of stages, from the initial attempt to identify opportunities and then deciding whether or not to tender, through to the award of the contract (GOV.UK, n.d.). Existing evidence suggests that obstacles have been associated with each stage of the process, and that some of these have been present for more than 20 years and continue to be experienced (MacManus, 1991; Flynn et al., 2013a). A lack of knowledge about the process and who to contact, bureaucracy, excessive pre-qualification requirements, contract volumes and length, procurers' lack of knowledge, focus upon cost and lack of feedback are some of the concerns that have been identified over a period of time (MacManus, 1991; Fee et al., 2002; Smith and Hobbs, 2002; Michaelis et al., 2003; Loader, 2005; Peck and Cabras, 2011; Flynn et al., 2013a). In addition, SMEs are seen to have an inherent resource disadvantage which can be detrimental to their progress. Larger, and especially more mature, firms with established track records, accumulated experience and economies of scale enjoy a competitive advantage (Penrose, 1995).

The broader public procurement environment is also generating challenges. The development of public procurement as a supporter and deliverer of a range of broader goals, for example regional development, diversity and sustainability, in addition to SME engagement (Telgen et al., 2007) has created a complex environment (NAO, 2004). Furthermore this multiple-goal complexity has produced tensions for procurement officers (Loader, 2007; Sykes, 2007; Preuss, 2011). Evidence suggests that when faced with conflicting priorities, procurement practitioners are more likely to prioritise the achievement of efficiency and value for money rather than broader objectives (Harland et al., 2007). Even then, concerns have been reported that a narrow interpretation of value for money has been dominant (Loader, 2007), manifested through a focus upon cost and savings (Loader, 2011). Although this does not preclude SMEs from successfully winning contracts, evidence suggests that they will be disadvantaged (Peck and Cabras, 2011).

### 2.2. Public procurement and SME homogeneity

Whilst the body of evidence about SME relationships with public procurers is increasing, there are deficiencies in our knowledge. To

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