

"Purchasing clinics" in public procurement and urban development

Research paper

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Abstract

Purpose:

The aim of this paper is to present a concept of "Purchasing clinics", which have been used in complex property and urban development related procurement processes in Finland, and evaluate the benefits of aforementioned concept. Purchasing clinics are a systematized form of market dialogue under Finnish Act of public procurement, which again derives from EU Procurement directive.

Design/methodology/approach:

The data used has been acquired from a database maintained by RAKLI (The Finnish Association of Building Owners and Construction Clients) and consisting of sixteen cases, and by the authors' participation in various clinics.

Findings:

As a major finding, the paper presents a successful way of improving property and urban development related procurement processes, especially when using competitive dialogue, and ways of implementing a Purchasing clinic as by-product.

Research limitations/implications:

The study has been conducted in Finland only, which poses some limitations when applying the findings elsewhere. However, in EU countries the public procurement processes follow the aforementioned directive and should be rather similar.

Practical implications:

Practical implications of the study consist of improving purchasing and urban development processes. The improvements are better private sector participation in procurement, shorter procurement processes and changes in formatting the procurements.

Originality/value:

Originality of the paper lies in systematic way of organising market dialogue.

Keywords

Procurement, Market dialogue, Competitive dialogue, Urban development

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Introduction

European Union is about to give new directives (European Commission, 2011a, b, c) on public procurement, which will in time replace the existing EU public procurement directives (European Parliament, 2004a, b). There is a continuum in the directives all the way back to 1970's (Grover, 1993). The directives will most likely be given in 2013, and the time frame for national level legislation to implement the directives will be two years. In general, the new directives intend to add value on usage of tax money and enhance EU internal markets.

The directives strongly regulate property-related procurement in construction and renovation and urban development; as the public sector – both on local and national level – is an influential procurer, and many of the member states did actually increase public investments after GFC. The directives and national legislation is likely to be of most significance to urban development and urban regeneration projects, which more often than not include both public and private investments (Heurkens, 2009; Kuronen, 2011a, b; Kuronen et al., 2012) and may involve concessions, which are a novelty in the directives. Urban development and regeneration incurs via partnerships, and public procurement is only partial fulfilment of urban development. Partnership between public and private may take the form of concession agreement or competitive negotiation.

Now, the challenge is that public procurers, as well as all the other procuring actors, operate in uncertain and ever-changing environment; and large infrastructure projects, let alone urban development, are not very straightforward to procure. In fact, urban development generally does not happen via public procurement (Heurkens, 2009; Kuronen, 2011b), but nevertheless public procurement contributes to urban development (Lember et al., 2010). Defining all the aspects beforehand to a project executed in forthcoming 5-10 years very rarely leads to best possible results, and, what is more, there are existing projects the actual procurements of which will take place under the new legislation.

Property or urban development related public procurement often fulfils following criteria:

- Procuring non-standard goods or services;
- Procurer's limited knowledge of markets; and
- Procurer's limited knowledge of tenderers' business logic, interests and risks;

Very often this kind of situation can lead to procurement process in which the procurer maximizes certainty and transfers all risks. A fear of violating procurement legislation may cause neglecting market studying and asking potential tenderers for their views, even if this is a key issue in competitive dialogue.

To help solve this and to generally support good public procurement, The Finnish Association of Building Owners and Construction Clients RAKLI has introduced a “Purchasing clinic” method aiming at market dialogue and improvement of procurement processes. RAKLI, acting as a facilitator in the Purchasing clinics presented in this study, represents public and private professional property and infrastructure owners and is a non-profit organization. The participants of Purchasing clinics are potential tendering organisations.

A Purchasing clinic is a process consisting of

- Preparation phase between procurer and facilitator;
- Opening seminar open to all interested parties;

- Usually three or four half-day workshops;
- Potentially exercises between the workshops;
- Potentially preparation of procuring documents, especially if competitive dialogue is used in the procurement; and
- Result seminar open to all interested parties and publication of the final report.

Purchasing clinic takes three to six months to complete. The participants carry their own costs and in some cases there is a participation fee to cover the clinic costs, but the procurer is responsible of all or most of the costs involved.

RAKLI aims at general improvement in procurement processes and is committed to publish the final reports and organise the opening and closing seminar as open and free events. The workshops are only open for participants.

This paper sets out to explore the benefits of the Purchasing clinic method in the context of public procurement, especially concerning urban development; the hypothesis being that market dialogue can lead to improvements in the procurement process and thus be beneficial to the procurer and providers alike.

Methods and data

Research approach of this study is a comparative case study, a solid method to evaluate real world phenomena such as urban development (Yin, 2009; Flyvbjerg, 1998 & 2006). The cases are described, compared and analysed in order to evaluate the benefits (and existence of benefits) of the Purchasing clinic approach. What is more, the authors have actively participated to, or even facilitated, most of the clinics (altogether 13 of 16 cases). This active participation leans methodologically towards action research (Coghlan & Brannick, 2010).

The data was analysed regarding to concept of success. Measuring and defining success in Purchasing clinics is not unambiguous. In the analysis success correlates to whether Purchasing clinic has led to procurement or formed procurement definitions or documents. Also other kinds of success could be defined, such as creating social cohesion between procurer and potential tenderers, but this is not in the scope of this paper.

The data consists of publicly open final reports of all Purchasing clinic cases so far, as well as data not publicly available related to them, including minutes of meetings, notes of discussions, presentations at clinic workshops and reflecting discussions with clinic procurers and participants. The study employed a database maintained by RAKLI. Four of the clinics included or were immediately succeeded by actual public procurement. In these cases the procurer of clinic had already decided to procure and wanted the clinic to deliver the purchasing process. The clinics taken to the comparison were concluded 2007-2012. Table 1, below, displays the cases and their details.

Case no.	Clinic title	Contents	Author(s) participated (x = yes)	Included or led directly to procurement (x = yes)	Finished	Procurer(s)
1	Pisara	Procuring an €750M underground railway connection under Helsinki CBD	x	too early to evaluate	2012	Finnish Traffic Agency and City of Helsinki
2	Riihimäki	Improvement of a deprived residential development	x	too early to evaluate	2012	City of Riihimäki
3	Alueelliset energiaratkaisut	Developing neighbourhood level energy solutions	x	too early to evaluate	2012	City of Espoo
4	Onnelanpolku	Procuring a home for the elderly	x	x	2012	Public foundation
5	Piimäen syke	Redeveloping an commercial/ industrial area			2011	City of Helsinki
6	Soininen	Developing and procuring an energy efficient social housing project	x	x	2011	VASO (Social housing provider)
7	Ylijäämämassojen käsittely	Developing a city level solution for abandoned soils	x		2011	City of Helsinki
8	Suvela,	Improvement of a deprived residential development			2010	City of Espoo
9	Varkaus	Outsourcing city technical department	x	x	2009	City of Varkaus
10	Jätkäsaaren palvelut	Developing commercial space to new urban development			2009	City of Helsinki

Case no.	Clinic title	Contents	Author(s) participated (x = yes)	Included or led directly to procurement (x = yes)	Finished	Procurer(s)
11	Keskuskatu	Procuring challenging street construction	x	x	2009	City of Helsinki
12	Tiehallinnon alueurakat	Developing procuring processes of areal road maintenance works	x		2008	Finnish Road Administration ¹
13	Valsai	Developing procuring processes of hospital real estate construction and maintenance	x		2008	Three public hospital districts
14	Jätkäsaari	Redeveloping old harbour area	x		2008	City of Helsinki
15	Bunkkeri	City departments sought for future use for industrial property	x		2008	City of Helsinki
16	Kehärata	Developing procurement process of € 600 M airport railway	x		2007	City of Vantaa and Finnish Railway Administration ²

Table 1. List of compared cases and their details.

Results

In all the cases least that can be said is that mutual understanding between procurer and potential providers and tenderers increased. The markets differ geographically and by segments, but the procuring units are often centralized in public organisations and there is not always enough detailed knowledge of current situation.

In the four cases which led to procurement (numbers 4, 6, 9, 11) the clinic workshops helped to form the final contract notices. This is clearly regarded as success.

¹ From the beginning of 2010 Finnish Road and Finnish Railway Administrations were merged into Finnish Traffic Agency.

² From the beginning of 2010 Finnish Road and Finnish Railway Administrations were merged into Finnish Traffic Agency.

The clinic discussions were open and participatory, although tenderer participants and procurers alike noted that actual business secrets and competitive advantages were not revealed. Procurers did not reveal anything outside procurement documents and thus procurement legislation was not violated.

One key to successful clinic seems to be that the purchaser and facilitator plan the Purchasing clinic well. This includes formulating the questions the clinic seeks answers for, and preparing the workshops and group sessions. The results suggest that the participants contribute during the workshops but not between them, and the most productive group sessions happen in groups of two to five people. Judging by the results, it seems that participants are willing to solve problems if the problems are presented interestingly enough, even if the problem fields were outside the participants' everyday scope. Also presenting previous cases as benchmarks has proved to be a good method of leading discussion. In reporting it is crucial to grasp the essentials of the discussion, and this requires the secretary to have a solid understanding of the field.

The questions posed to clinics are important, and even more important is that the procurer provides an actual, if yet unformulated, business case. This means that within a few months' time frame the procurer will either procure or sign collaboration agreement; and that the business case is not a pilot case. Common draw of successful clinics was that the participants represented business units and not research and development units of their own organisations.

Purchasing clinic could be a pre-stage to competitive dialogue. It is also one way for the procurer to communicate future procurements with the markets, and thus ease the actual procurement.

When deciding to use the Purchasing clinic method, the procurer may not have a purchasing strategy. The clinic preparation must include a thorough analysis of the actual procuring challenge. The interests of the procurer may lie in curb costs of purchasing, implementing a progressive solution, or just generally making things easier for the procurer. The key in Purchasing clinic preparation lies in defining what the procurer actually wants; and Purchasing clinic can act as a catalyst in that process. However, the result of a Purchasing clinic can also be confirmation of existing hypothesis (as in number 16).

A common denominator of successful clinics is that the interests of participants are different. The participants can be constructing companies, consultants, service providers etc. From procurer point of view this enables different potential configurations in dividing the procurement, or defining what will be included in an outsourcing. The participants may have different business logics and may form different business ecosystems.

Urban development or urban development related cases (numbers 2, 3, 5, 8, 10, 14, 15) dealt with collaboration and partnership issues. A common denominator to all such cases was that the procurer was the local authority in charge of planning. Again, all the clinics recognized the need to collaborate and operate in partnerships. The procurer turns out to be more in a role of a facilitator, and the aforementioned clinics did not lead to procurement.

As a conclusion, the improvements in the procurement process brought by Purchasing clinic method found in the cases are better private sector tenderer participation in procurement, shorter procurement processes and changes in formatting the procurements.

Discussion

The hypothesis set in the introduction was that market dialogue can lead to improvements in the procurement process and thus be beneficial to the procurer and providers alike. The results seem to suggest that the hypothesis should be taken into consideration in future research and practice. Nevertheless, without good preparation Purchasing clinic may be more just dialogue than market dialogue, and thus it is by no means an universal solution. The originality of the paper lies in systematic way of organising market dialogue.

Overall, the results regarding whether the Purchasing clinics are successful or not, place in a continuum rather than strictly defined classification. In qualitative analysis this is not uncommon.

In urban development related Purchasing clinics the role of procurer is different than in property-related Purchasing clinics. They may procure the clinic, and have clear targets on how to develop, but they are not the procurers.

The bias involved in action research connects to the dualistic role of the researcher(s) as participants and researchers. To decrease the bias, the data display clearly points the cases where the dual role exists. On the positive side, action research allows the researchers to be culturally savvy in the research environment and to have solid preunderstanding of the phenomena investigated.

The study has been conducted in Finland only, and the scarce references to existing literature derive from northern European environment, which poses some limitations when applying the findings elsewhere and affects external validity. However, in EU countries the public procurement processes follow the aforementioned directive and should be rather similar, and thus the results allow analytical generalizations. In Finland the national legislation is generally considered to be on the tighter side. The study included all the cases in which the Purchasing clinic method has been applied. Nevertheless, the case selection is not free of bias as the procurers who have decided to use the method are not randomly chosen, and, therefore, nor are the cases. In Finland there are altogether almost 20,000 public procurement notices published annually, although vast majority of these are goods procuring.

Practical implications of the study consist of improving purchasing – especially competitive dialogue – and urban development processes. The improvements are better private sector participation in procurement, shorter procurement processes and changes in formatting the procurements.

Methodologically the study is a rigorous one, and the data applied was rich. However, connections to existing literature are very limited. Therefore future research will be also aimed at connecting the findings with literature. The Purchasing clinic is a method still to be used and developed, so this self-reflecting study will also generate future investigation. In the future there is also need for more detailed analysis on how the method corresponds with the directives and could the method be used in other member states as well.

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