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Public Procurement

Performance Measurement

CONTENTS

- What is the rationale for measuring performance in public procurement?
- What are the benefits of effective performance management?
- How to measure performance
- Methodologies for measuring performance at different levels of the public procurement system



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1. What is the rationale for measuring performance in public procurement?

Public procurement contracts represent a major share of any country's GDP and public expenditure budget. According to data published by the European Commission in its recent Evaluation Report (2011), public procurement in the EU accounted for EUR 2100 billion in 2009, or 19% of GDP. These levels of expenditure alone provide sound reasons for analysing the performance of public procurement operations at all levels.

The overriding objective of a state's public procurement system is to deliver efficiency and "value for money" in the use of public funds, whilst adhering to EU requirements and to national laws and policies. Performance measurement is about seeking to answer the fundamental question of whether the procurement system and operations ultimately deliver in accordance with the main objectives set.

Three different levels of performance measurement within a public procurement system are broadly identifiable¹ There are close links between the three levels in terms of performance interdependency. However, the needs, objectives and methodologies for measuring performance can differ.

1. **National (Meta) Level** - assessing the performance of the national public procurement system
2. **Contracting Authority (Macro) Level** - assessing the performance of the contracting authorities' operations
3. **Contract Management (Micro) Level** - assessing the delivery of an individual contract

¹ The Contact Committee of the Supreme Audit Institutions of the European Union introduced the Meta, Macro and Micro levels in the Public Procurement Audit booklet (2010)

2. What are the benefits of effective performance management?

The main benefits of effective performance management are outlined below with reference to the three different levels of performance measurement identified.

National (Meta) Level: Good quality information on the performance (standard or quality) of the public procurement system at a national level:

- assists policy makers to understand how various policy goals interact and how policy impacts on the overall performance of the procurement system;
- enables governments and parliaments to improve the quality of decision-making and to take constructive and long-term actions that will most effectively develop their public procurement systems (e.g. in terms of procurement policy and regulatory reform, institutional development and capacity strengthening);
- may create stronger incentives on governments to improve their public procurement systems, help them to set priorities for reform actions in the area of public procurement and to monitor progress against the objectives set;
- can provide valuable information for the assessment of the public expenditure system.

Contracting Authority (Macro) Level: A good performance measurement system can assist contracting authorities in the effective implementation of their operational goals and strategies and in decision making by:

- providing information which puts them in a better position to determine the degree of efficiency and effectiveness of their procurement operations as a whole and at the level of individual projects, such as major infrastructure projects;
- identifying strengths and weaknesses in their procurement operations and monitoring progress over time, so assisting in setting the correct priorities and in taking the appropriate actions to improve weak areas;
- forming an integral part of long-term strategic and operations planning, including the annual budget process, management and staff development.

Contract Management (Micro) Level: Contract management at individual contract level, with its linkage to payment mechanisms:

- incentivises better and higher-quality delivery of contract requirements;
- assesses whether a contract works efficiently and delivers “value-for-money”;
- provides valuable feedback and confirmation of the extent to which the procurement process has been efficiently planned and managed, in particular with regard to: the design of the technical specifications or terms of reference; the choice of contracting strategy and contract model; the choice of procurement procedure; the setting of selection and award criteria; and the conduct of the tender evaluation and the award of the contract;
- will generate good arguments and incentives for change and improvements of the procurement process in all its parts, and in the internal and external relationships through continuous review of lessons learned;
- Where benchmarking is used as a performance measure, a contracting authority will be in a position to compare its own performance and results with the contracting authorities responsible for similar types of operations.

3. How to measure performance

3.1 Challenges: Setting up and running effective performance management systems is a complex matter which can raise a number of challenges. It is helpful to understand these challenges in advance and take them into account when planning and implementing performance measurement systems. The following challenges are common to performance measurement systems at all three levels outlined above.

- **Consistent policy goals and objectives:** Policy goals and objectives that change or are inconsistent can render performance measurement systems meaningless and act as a constraint on opportunities to maximise the economic outcome and efficiency of public procurement operations. Consistency in policy and other objectives is therefore a critical element in effective performance assessment and management.
- **Accurate and reliable statistical information:** Performance assessment and management is dependent on good quality, relevant and appropriate data which must be collected in a robust and consistent manner based on strong research

methodology. Significant efforts need to be made to ensure that information collected is of practical use.

- **Defining and measuring efficiency:** Performance measurement often seeks to measure “efficiency” but there is no single definition or way in which to measure efficiency. Care therefore needs to be taken to ensure that a clear definition is agreed and applied consistently.
- **Introducing a performance driven culture:** Regulatory and institutional mechanisms may offer few incentives for contracting authorities to strive for improved efficiency or better performance, although contracting authorities may seek such improvements if driven by economic imperatives or by concerns relating to improvements in quality. Consideration therefore needs to be given to how regulatory and institutional mechanisms can support positive performance assessment.
- **Strong central support and guidance:** Many of the above factors are dependent on strong central support and guidance both at central government level and within particular institutions. This may require a broad information campaign, led by organisations with a clear mandate, national level guidance documentation and support. It may also require a national level policy decision obliging contracting authorities to implement meaningful performance management systems and to provide relevant information for the purposes of collecting national data
- **Availability of information:** Information that is not disseminated widely may be of little practical use, making the reporting of achievements and results important. The results and findings should be presented in an annual report and made accessible in a transparent manner within the public administration for comparative and benchmarking purposes, as well as to the general public. With reference to the fundamental objectives set for the operations and procurement measurement system, the report should (i) describe the main findings in terms of strengths and weaknesses of public procurement operations, and (ii) define a list of recommended actions for improvement of the system. The results should form part of strategic planning in the short and medium terms.

Note: Baseline requirements, output indicators and input indicators

It is important for the measurement of performance at all three levels to establish baseline requirements and set performance indicators. The following note provides some information on these activities.

One key activity is to prepare a *baseline* against which performance will be measured and where the baseline represents a chosen standard under each indicator against which the assessment will be made and compared. In principle, the baseline represents the level of performance (acceptability or outcome) that should be achieved at a certain point in time. It also constitutes the starting point for measuring the degree of progress over a specific period, e.g. one calendar year.

Performance can be measured by different means, depending on the nature of the indicator used. Output indicators can normally be measured by means of a numerical system (e.g. economic savings achieved), while input indicators, such as the quality of the procedural framework, normally require a systematic assessment by qualified assessors, which may be complemented by surveys and similar data-gathering tools. The final component of the assessment system is the setting of performance targets in words or figures and/or a combination of both. The government will set some of these targets as part of the overall objectives for public sector development and budget implementation, for example in terms of financial savings and efficiency improvements in public service delivery. Such (nationally set) goals will have to be implemented by contracting authorities, while operational goals that are exclusive to the contracting authority will be set by the management of that authority.

A general ambition has been the development of systems based on performance indicators in order to provide information and guidance on the quality or performance of the public procurement, which is a common methodology in the economic field. Usually, the selection of performance indicators is associated with *output indicators*, where quantifiable factors are used to a large extent to measure the performance of a system. Output indicators show whether a system works in accordance with a given standard set of factors, but they do not attempt to explain why a certain result is achieved. An example of an output indicator in the procurement field is the value of monetary indicators, such as savings and efficiency improvements. However, relying solely on output indicators is not a sufficient method to measure the standard and progress of a public

procurement system.

It is equally important to also include *input and process indicators* since they lay the foundation for the generation of economic output within a public procurement system. It is very important to be able to control and/or understand how this output has been achieved in order to encompass the additional high-priority goals within public procurement, such as transparency, non-discrimination, fair treatment, and accountability. The instruments to secure these goals are traditionally associated with the design of the legislative and regulatory framework, the institutional set-up, and the mechanisms for control and complaints. Input indicators can only be assessed by means of “*subjective criteria*” based on qualified judgments by independent procurement professionals. Typical examples of input indicators are various procurement statistics (e.g. proportional share of the use of the open procedure and number of annual complaints) and perception indexes (e.g. user-satisfaction index).

4. Methodologies for measuring performance at different levels of the public procurement system

The following section sets out some examples of methodologies which could be used to determine performance at the three levels previously identified.

4.1 Methodologies at the national (meta) level

Peer Reviews and Assessments: A peer review is an instrument for diagnosing public sector operations, including public procurement, which was developed by the OECD and has been used for a long time. The peer review team consists of international senior experts with extensive background and expertise in the area under review. The purpose is to identify strengths and weaknesses (performance review) in the procurement system, with special focus on the main components, such as legislative and institutional frameworks, procurement organisations in terms of capacity and capability, and markets. Based on the analysis and conclusions, the peer review team provides recommendations for improvements where needed, but it is entirely a matter for the country to decide on the actions to be taken following the recommendations.

Regulatory Impact Assessment (RIA): The role of a regulatory impact assessment (RIA) is to provide a detailed and systematic appraisal of the potential impacts of a new law or regulation in order to assess whether the regulation is likely to achieve the desired objectives. EU member states are required to implement the Procurement Directives, where those apply, in the public procurement law and to ensure that all other specific national provisions comply with the fundamental rules and principles of the EC Treaty (now TFEU), but there is significant freedom as to how a member state chooses to implement these requirements in detail.

The need for RIA arises from the fact that regulation commonly has numerous impacts, which are often difficult to foresee without detailed study and consultation with affected parties. Economic approaches to the issue of regulation also emphasise the high risk that regulatory costs may exceed benefits. The RIA is primarily a methodology to be used before the adoption of new legislation, but there is nothing to prevent the use of a RIA in relation to existing legislation as a means of initiating regulatory reform. The OECD has published a number of documents on the use of the RIA methodology (see Further reading below). The European Commission's green book process is another example of a regulatory impact analysis.

Stakeholder Surveys: Regular surveys can be carried out addressing important areas and issues connected to the performance of the public procurement system. The survey should be disseminated, as appropriate, to a selection of contracting authorities, business associations and individual economic operators, audit institutions, universities and other important stakeholders with an interest in public procurement. The survey could be prepared and managed by the public procurement office of the country or by an independent organisation or academic institution. If the survey is repeated on a regular basis, there is a possibility of capturing the differences in opinions from one survey to another. The results of the surveys should be used by the government as a basis for considering changes in the procurement system in areas where problems have been identified.

External Audit Institutions: External audit institutions have important tasks, on an ex post basis, in the identification of strengths and weaknesses in the execution of public procurement operations at the level of contracting authorities. These audits aim to determine the extent of compliance or non-compliance with laws and regulations as well

as the performance and achievements that have been made in relation to the objectives and targets set for a procurement activity.

4.2 Methodologies at the contracting authority (macro) level

The methodologies at this level are prepared with the objective of providing a “good practice” basis for contracting authorities on how to measure the performance of their procurement operations. Governments may also use the data emanating from the performance assessment at this level for the purpose of monitoring and evaluating public procurement operations and with a view to drawing conclusions on the impacts of the legal and institutional frameworks. The results of a performance measurement system at the contracting authority level may provide valuable input into national aggregate achievements, such as budget savings and general quality improvements in the delivery of public services.

Setting performance targets: The performance targets used should have the following qualities:

- *Relevant* to what the organisation is aiming to achieve;
- *Attributable* – the activity measured must be capable of being influenced by actions that can be attributed to the organisation, and it should be clear where accountability lies;
- *Well-defined* – with a clear, unambiguous definition so that data will be collected consistently and the measure will be easy to understand and use;
- *Timely*, producing data regularly enough to track progress and quickly enough so that the data is still useful;
- *Reliable* – accurate enough for its intended use and responsive to change;
- *Comparable* with either past periods or similar programmes elsewhere;
- *Verifiable*, with clear documentation supporting it, so that the processes producing the measure can be validated.

Some examples of performance targets, indicators and measurement at contracting authority level

I. Measuring the Economic Efficiency

- **Annual cashable savings:** For goods and services for which the price does not fluctuate with the market. Based on a representative basket of contracts with an identical composition (product or service-wise and in number) that ensures consistent calculation over time and is not subject to rapid specification changes, the price and cost development are determined with reference to year 1 and is applied to the whole procurement volume.
- **Individual price analyses:** For goods and services that are subject to rapid price fluctuations and specification changes, such as IT and utilities, individual price analyses should be carried out, with reference to the baseline year, in order to determine the extent of savings or losses.
- **Annual cashable efficiencies in the procurement function (other than price):** Measurement of verifiable, cashable savings by carrying out comparative cost/benefit analyses from year X to year Y of the procurement function. Efficiencies include the same or improved results with fewer resources, transforming efficiency gains, through improvements either in output (e.g. technology improvements) or input (e.g. collaboration, logistics and processes).
- **Project/contract implementation efficiency:** For one-off projects, such as capital investment and infrastructure projects, the feasibility study (business case), together with a detailed set of performance targets including costs and implementation deadlines, constitutes the baseline against which the performance of the project is measured.

II. Measuring the Quality of the Procurement Function and Procedures

Examples of possible indicators:

- The average period for planning and preparation should not exceed X days;
- The average cost for the planning and preparation of tenders should not exceed EUR X)
- Competitive procedures, such as the open and restricted procedures, including competitive procedures below EC thresholds, should be used in no less than X% of the total number of procedures (and X% where the threshold(s) exceed

EUR X);

- Non-competitive procedures, such as the negotiated procedure without prior publication of a contract notice (and direct awards), should be kept to a minimum and should not exceed X% of the total number of procedures;
- The average participation rate in connection with open invitations during a calendar year should not be fewer than X tenderers or applicants;
- The number of contracts awarded to SMEs should normally not be fewer than X% of the total number of contracts awarded during a calendar year;
- The number of complaints during a calendar year should not exceed X% of the total number of tender procedures conducted;
- The percentage of e-procurement should be no less than X% of the total number of tenders during a calendar year, starting from X year;

III. Measuring the Standard of External and Internal Relations and Collaboration

Methods of measurement:

- An annual Supplier Satisfaction Survey aims to ensure that the majority of suppliers are satisfied with the collaboration with the contracting authority.
- An annual Internal Customer Survey aims to ensure that the majority of internal clients are satisfied with the services of the procurement organisation.

Possible indicators:

- The composite index on Supplier Satisfaction shall be more than X on an agreed scale and should increase by Y% per year.
- The composite index on Internal Customer Satisfaction shall be more than X on an agreed scale and should increase by Y% per year.
- Procurement spending that is channelled through a *collaborative framework* contract/agreement issued by the contracting authority should not be less than X% of the total procurement volume.

Benchmarking: Benchmarking that involves the comparative study or analyses of successful procurement systems of all or a number of contracting authorities can be an excellent method of assisting with the definition of performance targets. Benchmarking data may also be made available nationally to ensure the use of a uniform performance

measurement system throughout the country, which may also facilitate comparisons at a national level.

Benchmarking is also a method by which a contracting authority may compare its own operations in various aspects with comparable external undertakings, such as a similar contracting authority known for its excellence. Benchmarking can also be used for various other comparisons, such as prices or service levels.

4.3 Methodologies at the contract implementation (micro) level

Procurement Brief 22 – Contract Management outlines methodologies that may be used for performance management of individual contracts, divided into three broad areas: delivery management, relationship management and contract administration. Performance measurement is part of the contract management process. Performance measurement of individual contracts will follow essentially the same route as described above by setting out methods for information and data gathering, defining performance areas, performance targets, baselines, indicators, measures and methods of analysis.

Further reading:

- The Contract Committee of the Supreme Audit Institutions of the European Union published guidelines on public procurement audit in 2010.
- World Bank, OECD/DAC – Methodology for Assessing Procurement Systems (MAPS)
- [OECD Publications on Regulatory Impact Analysis: Regulatory Impact Analysis: A Tool for Policy Coherence \(2009\)](#)
- [Introductory Handbook for Undertaking Regulatory Impact Analysis \(2008\): Building an Institutional Framework for Regulatory Impact Analysis: Guidance for Policy Makers \(2008\)](#)
- [Indicators of Regulatory Management Systems \(2007\)](#)
- [RIA in OECD Countries and Challenges for Developing Countries \(2005\)](#)
- [RIA Inventory \(2004\)](#)
- [Regulatory Impact Analysis – Best Practices in OECD Countries \(1997\)](#)
- [Ten Good Practices in the Design and Implementation of RIA \(1997\)](#)
- Recommendation of the Council of the OECD on Improving the Quality of Government Regulation