

# Evaluating supplier performance



Kevin McGuinness



Stephen Bauld

**N**O ONE LIKES TO do business with a firm that has provided poor service in the past. Unfortunately, awarding contracts by way of tender does little to develop the type of strong supplier relationship that leads to outstanding supplier performance. Since a current supplier usually has no advantage in any future bid opportunity, there is little reason for the supplier to invest its resources in ensuring that the customer is happy once the contract has been won.

Accordingly, nearly every level of government has considered incorporating into their bid opportunities a statement that the purchase decision will take into account prior performance. Actually enforcing that statement faces a series of major obstacles: there is little uniformity concerning such basic questions as to what standards of assessment should be applied, how the process of assessment should be carried out, and the consequences that should flow from a poor assessment.

Generally, substandard supply cannot be remedied by a price adjustment. Different types of poor service may be relevant to the assessment of a particular source of supply. Serious concerns include evidence of dishonest dealing (normally considered a sufficient reason for disqualification for further contracts) and a poor track record of frequent contractual disputes, particularly where these disputes lead to making claims under bonds or other performance security. Other considerations are less striking, but not necessarily less relevant: the ability to deliver goods (or services) on time; the reliability of the goods supplied; performance within the agreed contract price; and so forth. To put this information in perspective, one supplier's performance must be compared against other suppliers.

A public sector organization seeking to rely upon past performance must be able to overcome two conflicting realities. To have any validity, performance evaluations must be systematic and fair, and based upon explicit criteria of which the supplier has notice. Key considerations include creating legitimate performance measures and developing a reliable reporting mechanism. The supplier must also have some opportunity to respond to any assessment given.

As well, a major problem for most public sector organizations to overcome in introducing a formal supplier evaluation process is finding the human resources required to make the system work. In principle, a comprehensive system of supplier evaluation is worth the time invested because a considerable portion of staff time is usually invested in dealing with precisely the type of "bush fire" that a good system of evaluation will mitigate. Unfortunately, such advice may be likened to the suggestion that the solution for the problems of the poor is for them to save more – it does little to explain how.

To illustrate the problem, here is a sample of a municipal supplier performance evaluation provision:

- (1) The city and supplier shall carry out a periodic performance review (on such dates as the city's purchasing manager may direct) in accordance with this section concerning the performance of work and the provision of services by the supplier.
- (2) Performance shall be assessed by reference to the following criteria:
  - (a) general responsiveness of the supply relationship;
  - (b) conformity of the goods supplied with the specifications;
  - (c) general dependability/quality of the goods supplied; and
  - (d) timely delivery and timely correction of identified problems (e.g., warranty work).
- (3) Where a performance review is conducted under this section, each of the foregoing aspects of performance shall be ranked by the city at one of the following standards for city suppliers:
  - (a) excellent (performance well above general standard);
  - (b) good (performance above general standard);
  - (c) satisfactory (performance in accordance of general standard);
  - (d) poor (performance below the general standard);
  - (e) unacceptable (performance well below the general standard).
- (4) The supplier shall be entitled to identify any aspect of the city's operations that is undermining the supplier's ability to deliver at least a satisfactory level of performance with respect to some criteria of assessment, and where the city concludes that this is in fact the case, the ranking given to the supplier with respect to that criteria of assessment.
- (5) Where at a performance review carried out prior to the completion of the project, one or more criteria of assessment are ranked as satisfactory, poor or unacceptable the parties shall agree at the time of the conduct of the review, or within 10 business days thereafter, on the measures to be taken by the supplier during the ensuing contract review period to improve its performance to at least a good standard.

The problems with this approach almost leap from the page. Performance evaluation systems require reliable records to be maintained concerning actual performance. Unfortunately, most organizations do not have a process in place to do this; it is labour intensive. *In our opinion* without a commitment of resources, performance evaluation, while seemingly sensible, is largely doomed to failure.

In our next column, we will discuss how to carry out the assessment. *MM*

---

*Steve Bauld is purchasing manager at the City of Hamilton, and Kevin McGuinness is a lawyer with Ontario's Attorney General.*