Building blocks to better procurement

by Bryan Shane and Patricia Lafferty

The procurement measurement index underpins procurement measurement systems

PROCUREMENT IS part of a crucial infrastructure supporting the business-line operations of government by providing essential products and services in a fast, simple, cost effective and ethical manner. Yet the need for a federal public sector procurement system that acquires goods and services from third party suppliers in a transparent, accountable and fiscally responsible way is beset with a number of problems.

One of the most important issues is the need to prove the business value of its products and services using more effective performance measurement practices. This feedback is essential to demonstrate that procurement is indeed providing the needed goods and services at the best prices, in a reasonable period of time, and with a high degree of compliance to procurement regulations.

There are few effective procurement performance measures that are valid, reliable, timely and comprehensive. Measures that do exist are plagued with problems.

For example:

- Organization-wide information on cost savings on good/services, throughput time, internal procurement costs are often lacking. Performance information related to client satisfaction with procurement and supplier performance is universally absent.
- Often the procurement organization measures what is available rather than what is important. Available information is used as proxy for "required information" to make procurement decisions involving millions of dollars.
- Management decisions are almost always reduced to intuitive decision making based upon experience, values and interests.
- Mechanisms to determine procurement performance targets such as baseline information, service standards and benchmarks, are difficult to obtain. Without such information, it is impossible to provide a comparative analysis of procurement from a service delivery, client satisfaction and supplier performance perspectives
- Developing a Procurement Performance Measurement System (PMS) may be expensive. Many procurement organizations fail to recognize the need and/or make the necessary investment to develop an effective PMS. Without such, decisions are made based on routine administrative data with no relation to procurement objectives or strategies.
- Often, financial and administrative information systems are developed without reference to needed performance measures, and upgrades to these existing systems are complex and expensive. After the fact consideration of required procurement performance measures tends to be the norm rather than the exception.
- Often the procurement organization does not have the knowledge or skills necessary to build a PMS from within.

These technical, financial and institutional obstacles make the measurement of the public sector procurement function difficult, expensive to develop and maintain.

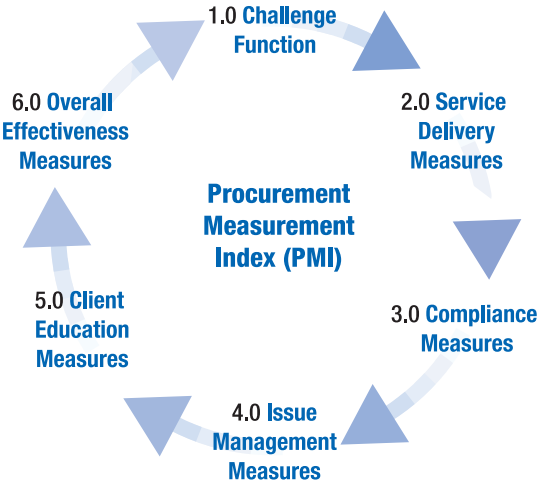
However, experience shows that it can be accomplished with dramatic results. Reduction in the cost of goods and services, radically improved throughput times, increased compliance, improved client and supplier relations are the benefits. The PMS developed in the Material Management Directorate of CRA, referenced in *Summit*, "Measuring Up, CRA Develops Performance Measurement System," March 2005 attributed these and other benefits to a completed and effective PMS.

This article focuses on the Procurement Measurement Index (PMI)[1] and how it is used to develop an effective PMS.

The PMI is an integrated and index based performance measure comprised of eight component performance measures each with a number of performance indicators. It allows the combination of qualitative and quantitative information yet provides the ability to quantify both so that all component measures become output/results oriented. An overall rating can be given to each element of the PMI and to the PMI as a whole.

The PMI has several component performance measures including:

- **Challenge Function**: This measure is used to challenge the necessity of any goods procurement or large scale projects. The objective is to provide checks and balances in purchasing to ensure that the client organization receives value for the funds expended prior to contracting. Formal diagnostics can be conducted for standard and custom procurements or informal diagnostics for less complex and costly goods and services. The results of the diagnostics determine whether the procurement would be approved, amended or disapproved.
- **Service Delivery Measures:** This consists of three components.
  - **Cost of Goods and Services** refers to the volume change and cost savings obtained through the centralized and standardized purchase of goods and services.
  - **Throughput Time to Acquire Goods and Services** refers to changes in the average throughput time it takes to conduct a procurement. Throughput time is measured for different types of commodities and procurement vehicles.
  - **Internal Procurement Costs** refers to the internal procurement organization costs of acquiring goods and services and includes staff and OM costs**.**
- **Compliance** refers to the role of protecting the interests of the government and the taxpayer, while facilitating the delivery of quality procurement services. Indicators focus on the degree of compliance to government contract rules such as number and percentage of competitive contracts over $25K or the number of "after the fact" contracts.
- **Issue Management** consists of the identification, analysis and resolution of strategic issues that can impede the functioning of procurement operations when dealing with clients or suppliers on short, medium or long term basis. These include internal organizational issues and those related to client satisfaction and supplier performance.
- **Client Education** refers to educating and communicating the latest procurement policies, strategies, new approaches or success stories to clients in an attempt to forestall non-compliance by increasing awareness, understanding and effective use of existing and new procurement rules and regulations.
- **Overall Effectiveness** of procurement operations. This is determined by examining the degree of success of each of the eight sub-components of the PMI and making a judgement as to its overall effectiveness on the procurement function at any point in time.



The PMI is used to provide the feedback at all levels – strategic, tactical or operational. It provides the essential feedback to improve procurement decision-making within the organization by enabling proactive problem solving and by institutionalizing continuous improvement.

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[1] The "Procurement Management Index (PMI)" has been used successfully to provide a balanced/systematic assessment of the public sector procurement function from multiple points of view including, challenge function, cost of goods and services, throughput time, internal procurement costs, compliance to procurement regulations, issue management and client education, and overall effectiveness.