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# **The Policy-Practice Divide and SME-friendly Public Procurement**

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## **Abstract**

Policies aimed at supporting small and medium-sized enterprises (SMEs) are now standard in public procurement. Interest in these policies has yet to be matched by evidence on their implementation. Using an institutional perspective, we examine the extent to which public buyers have complied with SME-friendly policy recommendations. The results, which are based on the self-reported behaviours of 436 respondents, show that public buyers are complying with some but not all policy measures. Compliance is high on measures including open tendering, provision of feedback, and self-declaring financial capacity but low on measures which impose higher transaction costs, such as dividing contracts into lots and encouraging consortium bidding. Further analysis reveals that involvement in procurement, policy familiarity, and perceived importance of SME access act as positive predictors of compliance; being part of a semi-state/utility company, local authority or education institution has the opposite effect. Possibilities to increase compliance and bring about a more SME-friendly tendering system are discussed.

Keywords: procurement; SMEs; policy; practice; compliance

## **Introduction**

Recent years have witnessed various lines of inquiry opening up at the intersection of SMEs and public procurement. Among these has been debate over what policy actions governments should take to facilitate SME access to public procurement. Loader (2013) recently undertook a comprehensive review of the evidence in this area. She concluded that the literature has been dominated by two streams: discussion and empirical findings on the barriers experienced by SMEs when tendering and proposed policy solutions to these same barriers. An area which has received far less attention is compliance with SME-friendly policy. In spite of the presence of SME-friendly policy in most jurisdictions as well as increasing scholarly interest in the benefits and limitations of such policy, there has been little attempt to investigate whether public buyers have complied with it. This is a significant omission because it is what happens in practice that affects SMEs' likelihood of competing for and winning public sector contracts, not what is contained in policy statements (Fee et al., 2002). We should not assume that because something is articulated by elected representatives and codified in policy means that it will become a reality in everyday procurement (Murray, 2012). Proposing solutions to SME problems is relatively straightforward. It is getting these solutions implemented that poses the real challenge (Bennett, 2008).

The importance of public buyers responding positively to SME-friendly policy cannot be overstated. Research undertaken across a number of jurisdictions has captured SMEs' frustrations with perceived bureaucracy and anti-competitive practices in public sector tendering (Fee et al., 2002; Greer, 1999; MacManus, 1991). At the same time it is known that SMEs are eager to do business with public sector organisations, place a high premium on public sector contracts, and recognise the opportunities that come from involvement in public sector supply

chains (Bovis, 1996; Loader, 2005). Policies have been rolled out with increasing frequency to address this problem and ensure that a level playing field exists on which suppliers of all sizes can compete (Kidalov and Snider, 2011). The goal of these policies is to make it easier for SMEs to search, bid for and win public sector contracts. As policy implementers public buyers are critical to achieving this goal (Beyer et al., 1983). Their behaviour acts as a significant determinant of how accessible public procurement is for SMEs in the first place and, after that, the likelihood of them securing public contracts. In particular, public buyer compliance with SME-friendly policy suggests progress towards a procurement system in which the potential of the SME population is fully exploited. On the other hand, non-compliance implies a persistence of the status quo.

Research on other aspects of public procurement has found that public buyers and their organisations have either been unwilling or unable to fully translate policy into practice. For example, several studies have detected non-compliance by public buyers with European Union (EU) Procurement Directives (Gelderman et al., 2006; Martin et al., 1999). Gaps between policy and practice in environmentally sustainable procurement have also been highlighted by Cogburn and Rahm (2005), Morgan (2008), Preuss (2007), Thomson and Jackson (2007) and Walker and Brammer (2009). In much the same way Murray (2011) observed that policies designed to increase public sector engagement with not-for-profit suppliers have largely failed to translate into practice. Perhaps most noteworthy is data from the United States indicating that federal agencies have consistently fallen short on their targets for the number and value of contracts to be awarded to SMEs (Clark and Moutray, 2004). ‘Implementation deficits’ have also been identified outside public procurement in areas including climate protection (Jordan, 1999; Krause, 2011; Pitt, 2010), waste management (Nilsson et al., 2009) and rural planning (Gilg and

Kelly, 1997). Most recently, Randhawa and Marshall's (2014) case study of an Indian water management project demonstrated how implementation practices often end up bearing little resemblance to what is contained in government action plans. Evidently, there is nothing inevitable about policy translating into practice, whether in procurement or in any other domain.

The question here is whether a policy-practice divide characterises SME-friendly procurement. A traditional institutional perspective assumes that policy determines practice (Berger and Luckmann, 1966). More recent perspectives challenge this view, arguing that institutional pressures are not always deterministic and compliance is never guaranteed (Oliver, 1991). The purpose of this inquiry is to investigate the extent to which SME-friendly procurement policy is eliciting compliance from public buyers. The factors that promote or inhibit policy compliance are also examined. To our knowledge this study represents the first systematic survey of compliance with SME-friendly procurement policy. A number of reasons might explain why evidence has not been forthcoming. Firstly, there has been a general failure on the part of policy makers to monitor implementation or even to set down criteria and standards against which procurement policy can be assessed. The result has been a lack of publicly available data for researchers to work with and uncertainty over how policy and its effects should be measured. Compounding this problem is the challenge facing researchers when trying to access the public buyer population. Many organisations do not have a dedicated purchasing officer or purchasing unit but instead delegate responsibility to a number of individuals whose primary role is not procurement. The dearth of quantitative data on SME-friendly procurement practices also appears to be part of a wider issue of management scholars not paying sufficient attention to the impact of policies on SMEs (Mason, 2009).

The paper is structured as follows. The next section deals with an emergent SME-public procurement nexus and the role of policy therein. This is followed by an examination of SME-friendly policy as an institutional pressure bearing on public buyers and their likely response to it. Thereafter, a description is given of the design and execution of the research, including: measuring policy compliance, predictors of compliance, data collection, response rate, representativeness of respondents, and characteristics of respondents. Findings as they relate to the extent of policy compliance among public buyers and the factors predicting compliance are then set out. The final section of the paper discusses the contribution of the research and ways through which compliance can be improved.

### **Public Procurement and SMEs**

Public procurement makes up a significant part of the economy. Across OECD countries it accounts for, on average, 12.8% of GDP and 29% of total government expenditure (OECD, 2013). At various times over the last century the economic weight of public procurement has been leveraged to support goals seemingly unconnected to purchasing, such as the promotion of civil rights and minority inclusion (McCrudden, 2007). This trend has continued to the present day. In addition to its primary goal of securing supplies and services at the most economically advantageous terms, public procurement is associated with an array of ‘horizontal policies’ (Arrowsmith, 2010). Indicative of these ‘horizontal policies’, since 2008 the European Commission has issued procurement guidelines relating to SMEs, social inclusion, environmental protection and innovation. In turn, these policies and norms have percolated down to EU Member States. Ireland, for example, has integrated its procurement policy with SME growth, innovation and environmental sustainability in recent years (Department of Finance, 2010) and the UK’s Public Services (Social Value) Act 2012 requires public buyers to consider

the economic, social and environmental implications of their procurement decisions (HM Government, 2014).

It is in relation to SMEs that procurement as a policy lever has generated most interest. The reason for this is grounded in economic competitiveness. SMEs are now recognised as central to the future growth and economic prosperity of developed economies, exemplified in The Small Business Act for Europe and its principle of ‘think small first’ (European Commission, 2008a). Between 2002 and 2010 SMEs were responsible for creating 85% of new jobs across Europe (EIM, 2011). Yet as the same study pointed out, SMEs are more vulnerable than large firms during economic downturns. To underpin their competitiveness and ensure their full economic potential is realised, policy makers have become increasingly proactive in supporting small firms (Smallbone et al., 2002; Williams, 2013). Public procurement is viewed as key to this strategy of SME-led growth (Preuss, 2011). The public sector marketplace offers SMEs opportunities for growth and professionalization; and public sector contracts come with the advantages of payment certainty, reputation enhancement through contracting with large public sector organisations, and the possibility of fostering long-term commercial relationships (Bovis, 1996; Loader, 2005; Withey, 2011). Nor is the relationship one way. The public sector and, by extension, the delivery of public services stands to gain from the entrepreneurship, flexibility and customer responsiveness that characterise many small suppliers (Woldesenbet et al., 2012).

For all the above, public procurement presents major challenges for SMEs. Research has shown that suppliers view the tendering process negatively (MacManus, 1991) and perceive greater value benefits from supplying private firms than public sector organisations (Purchase et al., 2009). Frequently documented SME criticisms include excessive bureaucracy and too much weighting on cost (Cabras, 2011), difficulties with identifying opportunities and navigating the

procedural aspects of tendering (Fee et al., 2002; Greer, 1999; Loader, 2005), financial and time demands of tendering (Flynn et al., 2013a), too large contract sizes and information asymmetries (Bovis, 1996; Smith and Hobbs, 2002). Added to this is evidence that small-scale suppliers often lack the administrative capacity and legal expertise to succeed in tendering (Karjalainen and Kemppainen, 2008), have fewer human resources to devote to tendering, and are less proactive in engaging with public buyers (Flynn et al., 2013b). The effects of these systemic barriers and capacity constraints are apparent in low success rates for SMEs. The most recent data available indicates that SMEs' share of above EU-threshold contracts stood at 33% as against their 99.8% presence in the population of EU enterprises (GHK, 2010).

Policies created for the benefit of SMEs are predicated on there being some type of market failure (Bennett, 2008). SME-friendly procurement policy is no exception. It attempts to address the under-representation of small firms in the public sector marketplace (Anglund, 1999). In a 2012 survey of 32 OECD countries, 11 had enacted policies or made specific legislative provision to encourage greater SME involvement in public procurement, and only 3 countries had no substantive measures in place (OECD, 2013). These legislative and policy provisions vary in their content and objectives depending on the jurisdiction. The United States uses a mix of coercive and normative pressures to support SMEs in public sector tendering (Kidalov and Snider, 2011). In respect of the coercive dimension, federal agencies are legally obliged to allocate a percentage of their total procurement spend to SME suppliers, an arrangement overseen by the US Small Business Administration. Support for SMEs throughout the EU is normative in form and limited to policy guidance; legally binding Directives preclude the use of discriminatory practices such as set-asides for SMEs (Bovis, 1998). Consequently, policies at



national level throughout the EU emphasise equality of opportunity but stop short of equality of outcome.

Using policy to promote SMEs' interests in public procurement is not without its own problems. A number of scholars have pointed to the potential for conflict between SME-friendly procurement objectives and the commercial and regulatory realities facing public buyers. In this vein Pickernell et al., (2011, page 641) spoke of an "uneasy mixture of different policy legacies" characterising the public procurement environment in the UK and Schapper et al., (2006) identified a performance-conformance tension in the procurement function of public sector organisations. The tension between cost reduction targets and facilitating SME suppliers has received particular attention (Cabras, 2011; Erridge, 2007; Loader, 2007; Preuss, 2007; Walker and Brammer, 2009). Trends towards consolidated purchasing across the public sector are likely to amplify these tensions in the coming years (Loader, 2013; Smith and Hobbs, 2002). Notably, these issues have also been reported by public buyers themselves. In the US Qiao et al., (2009) found them to be circumspect over the intent of SME-friendly policy while their equivalents in the UK expressed uncertainty over how to reconcile SME-friendly policy with pressures for cost minimisation and adherence to EU Directives (Glover, 2008). The conclusion drawn by Loader was that "...while procurement officers would like to do business with small firms, in practice their primary aim is to achieve value for money" (2007, page 313).

### **An institutional perspective on SME-friendly procurement**

To gain a more theoretically-informed understanding of public buyers' responses to SME-friendly procurement an institutional perspective is used here. This models SME-friendly policy as an institutional pressure bearing on public buyers and their organisations. The policy itself comprises one part of the institutional 'rules of the game' laid down by the state, which proscribe

some courses of action while actively promoting other courses of action (Jepperson, 1991). Individuals are said to signal their compliance with institutional rules out of concern for their social legitimacy (Dowling and Pfeffer, 1975). Legitimacy is achieved and maintained by behaving in a way that is “....desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman 1995, page 574). To openly contravene institutional rules is to jeopardise legitimacy and possibly incur sanctions from the institutional rule setters (Meyer, 1979). The importance of social legitimacy notwithstanding, individuals do not always comply with the rules, whether by choice or by necessity. As institutional theorists have discovered, gaps invariably open up between abstract institutional templates and the daily demands of organisational life (Barley, 1986).

Traditionally, institutional pressures were understood as “given, unalterable, and self-evident” (Berger and Luckmann, 1966, page 56). As far as individual and organisational behaviour was concerned, institutions had the status of social facts and had to be complied with on this basis (Meyer and Rowan, 1977). More recent perspectives offer a qualified take on institutional determinism. Firstly, they reason that the ability of institutions to determine the behaviour of individuals depends on their being consensus and clarity around the ‘rules of the game’ or a sense of institutional balance (Rowan, 1982). Without this institutional balance, and where multiple and competing institutional forces are at play, the ability and willingness of actors to show compliance is reduced (D’unno et al., 1991). The second proviso relates to interest and agency on the part of individuals subject to institutional pressures (DiMaggio, 1988). There is now acceptance that, to varying degrees, actors are able to exercise choice over how they respond to institutional pressures, which includes not only compliance but also compromise, avoidance and outright defiance (Oliver, 1991). As a recent example of this, Vega et al., (2013)

reported how officials were able to exercise informal discretion over the implementation of enterprise policy in spite of procedures in place to govern their behaviour.

The extent to which institutional pressures determine actor behaviour depends on a number of factors (Oliver, 1991). Among these are questions over: why the organisation is being pressured to conform to institutional rules? Who is exerting the institutional pressure? And by what means are institutional pressures being exerted? When these questions are asked of SME-friendly procurement, it is clear that there are pressures for and against compliance. Pressures for compliance include the high level of social legitimacy that can accrue to public buyers by engaging with SME suppliers, the consistency of the SME-friendly procurement agenda with the goals of public sector organisations, and the dependency of public sector organisations on the state for their continued existence. Acting against these pro-compliance pressures are the previously referred to tensions within the institutional ‘rules of the game’ for public procurement, the normative as opposed to coercive nature of SME-friendly policy (Kidalov and Snider, 2011), and the constraints SME-friendly policy imposes on public buyers’ discretion. Weighing up these opposing forces, it seems unlikely that SME-friendly policy will be fully deterministic of public buyer behaviour. At an individual level buyers could find themselves either unable or unwilling to exhibit the level of compliance envisaged by policy makers.

### **Research design**

An index comprising ten individual support measures is used to examine SME-friendly procurement by public buyers (table 1). These measures are adapted from Irish government policy on facilitating SME involvement in public procurement (Department of Finance, 2010). Irish policy is derived from the European Code of Best Practices Facilitating Access by SMEs to Public Procurement Contracts (European Commission, 2008b). As such, the individual measures

and the index itself typify efforts at EU level and across Member States to address barriers experienced by SMEs when tendering for public sector contracts. Individually and collectively these measures are aimed at increasing SMEs participation and success rates in public procurement by helping them to overcome difficulties relating to too large contract sizes; widening access to available opportunities; alleviating the administrative burden; easing eligibility criteria; and addressing information asymmetries among tenderers. Individual measures are scored either 0 or 1 depending on public buyers' self-reported behaviours: 0 if the measure is not implemented and 1 if the measure is implemented. Measures 1,2,8,9 and 10, as numbered in table 1, allow for a score of .50, which denotes partial implementation. These measures are articulated in policy in such a way as to leave open the possibility that compliance could be one of degree.

Two of the measures that comprise the index are given a double weighting: dividing contracts into lots and encouraging SME consortium bids. The former aims to reduce contract size to match SMEs' capabilities while the latter aims to increase SMEs' capabilities to match contract size (European Commission, 2008b). This approach is justified on the following basis. The available evidence shows that contract size is commonly regarded as the main impediment to SME involvement in public procurement (Loader, 2013). It follows that measures directly addressing the problem of contract size are likely to have a greater impact than other measures. In line with best practice recommendations (Hsu et al., 2013), input from a select group of experienced public buyers was also obtained. The consensus view of this group was that measures addressing contract size should have the most salutary effect on SME involvement. Furthermore, their recommendation was for the two measures to be double weighted.

Equivalence of impact is assumed for the other eight support measures. The result is a ten-item index of SME-friendly procurement that is scaled 0-12.

Table 1 Index of SME-friendly procurement

<p><b>Overcoming difficulties relating to too large contract size</b>  Measure 1: Divide contracts into lots where appropriate and practical and without compromising efficiency and value for money  Measure 2: Show openness to SME consortium bidding by, for example, drawing attention to this possibility in the contract notice or publishing prior information notices</p>
<p><b>Widening access to opportunities</b>  Measure 3: Follow open tendering procedures in the case of contracts for supplies &amp; services up to €125,000 (i.e. no pre-qualification before submission of tenders)  Measure 4: Follow open tendering procedures in the case of contracts for works &amp; related services up to €250,000 (i.e. no pre-qualification before submission of tenders)</p>
<p><b>Alleviating the administrative burden</b>  Measure 5: Allow applicants to self-declare their financial capacity and seek evidence of same in the event of applicant being short-listed  Measure 6: Allow applicants to self-declare their insurance cover and seek evidence of same in the event of applicant being short-listed  Measure 7: Use standard documentation and tender templates</p>
<p><b>Easing eligibility criteria</b>  Measure 8: Be flexible over the type of proof of financial capacity that applicants can provide  Measure 9: Ensure that financial capacity levels and insurance requirements are relevant and proportionate to the circumstances of the contract</p>
<p><b>Addressing information asymmetries</b>  Measure 10: Constructively de-brief unsuccessful bidders in line with current policy and their obligations under the EU Remedies Directive 2007/66/EC</p>

### Predictor variables

Predictors of compliance with SME-friendly procurement policy are also examined as part of this study. As with public buyers' compliance with SME-friendly procurement policy generally, survey-based evidence has yet to be put forward on the factors that promote or inhibit compliance. In total 12 variables are tested against the index of SME-friendly procurement (see appendix). Seven of these variables relate to the characteristics of public buyers: procurement experience; procurement qualification; procurement training; policy familiarity; perceived importance of SME access; involvement in procurement; and occupational group. In respect of the first of these variables, the assumption is that more experienced public buyers have the skills

and confidence to act on new policy recommendations. A procurement qualification is taken to denote public buyer professionalism. Several studies have linked professionalism to increased compliance in procurement activity (de Boer and Telgen, 1998; Glover, 2008). Conversely, low levels of purchasing professionalism have been associated with non-compliance. Morgan (2008), for example, highlighted under-developed skill-sets among public buyers as the reason for sustainable procurement policy not translating into practice. It has also been noted that less qualified public buyers are more likely to deviate from standard procedures and engage in maverick buying (Karjalainen et al., 2009).

Training in procurement is believed to promote policy compliance. Training can educate public buyers about policy expectations and raise awareness over what actions they should take to translate these same expectations into practice (Coggburn and Rahm, 2005; Mwakibinga and Buvik, 2013). Familiarity with SME-friendly policy is also taken to be linked to compliance.

Gelderman et al., (2006) showed that familiarity with EU Procurement Directives was related to regulatory compliance. Lack of familiarity with policies and regulations can yield the opposite effect. Surveyed about barriers to acting on environmentally sustainable procurement policy, public buyers in the US cited lack of awareness as the main impediment (NIGP, 2001). Perceived importance of SME access to public procurement among public buyers is also considered to promote compliance. So too is involvement in procurement. It is reasoned that the greater the involvement in procurement the more time, motivation and career interest public buyers have in acting on SME-friendly policy recommendations. Supportive of this prediction, Pitt (2010) showed that having an employee specifically assigned to climate planning had a positive impact on policy adoption while Preuss (2011) concluded that reliance on 'devolved buyers' was not conducive to getting procurement policy implemented. For similar reasons

occupational group is tested. Compared to dedicated procurers, public buyers belonging to other occupational categories are assumed to have less motivation and interest in complying with SME-friendly policy.

Five organisation variables are also tested. These are public sector organisation type, level of service provision, organisation size, centralisation of procurement, and category management. Organisation type is understood to be important as regards the range of opportunities available to SME suppliers. Local authorities, in particular, are more inclined to embrace the socio-economic dimension of public procurement, which includes contracting with SME suppliers (Walker and Brammer, 2009). Tangential to this is the geographic level of an organisation's operations - local, regional, or national. Analysis of the UK public procurement market by Pickernell et al., (2011) found that small, locally focused firms were more likely to find business opportunities with local sources of public sector demand. This would suggest that organisations operating at the local level are more receptive to SME suppliers. As in other studies of policy implementation (e.g. Krause, 2011) larger organisations are expected to be better resourced to manage and comply with new policies. Finally, having a centralised procurement system is assumed to be conducive to getting policy implemented on account of greater control over procurement. A similar logic applies to organisations that manage procurement by category.

### **Data collection**

Data from the Irish public sector is used to investigate compliance with SME-friendly procurement policy. In February, 2013 an electronic questionnaire was distributed to all public sector employees registered on Ireland's national e-procurement portal, eTenders,. A reminder email with an embedded questionnaire link was sent out 1 week after the initial mailing. The questionnaire instrument conformed to best practice recommendations set out by Dillman (2007)

in terms of its length, design and user-friendliness. The questionnaire was pre-tested with five experienced public buyers and found to be acceptable, allowing for minor revisions to terminology and sentence structure. Ireland provides an interesting context in which to examine SME-friendly procurement. SMEs have become central to public procurement discourse in Ireland, mainly owing to the effects of an unprecedented period of recession. Between 2007 and 2010 employment in Irish SMEs fell by 15%, final output decreased by 18% and overall economic contribution went from 53% to 48% (European Commission, 2013). Efforts to leverage public procurement for the benefit of SMEs were re-doubled as a result. This culminated in Facilitating SME Access to Public Sector Contracts, which was adopted as official state policy in August, 2010 (Department of Finance, 2010). It makes SME access an explicit consideration in public procurement and creates a new set of institutional pressures for public buyers to manage. Approximately 30 months had elapsed between the adoption of SME-friendly policy in Ireland and our testing of it.

### **Response rate**

Seven hundred and seventy-six responses (776) were received from the 4000<sup>1</sup> public sector employees registered on eTenders and who received the e-questionnaire. This yielded a response rate of 19.4%. All responses were screened prior to conducting statistical analysis. Of these, 67 had no role in procurement and were eliminated on this basis. Thereafter, 273 substantially incomplete responses were eliminated. A response was deemed incomplete if questions on compliance with SME-friendly procurement measures were not answered. The final number of usable responses was 436.

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<sup>1</sup> The National Procurement Service of Ireland confirmed that 4000 individuals were registered on eTenders at the time of the survey taking place.



### **Respondent representativeness**

The extrapolation method is used here to test for non-respondent bias (Armstrong and Overton, 1977). Extrapolation assumes that late respondents can be used as proxies for non-respondents on the basis that the same reasons that explain non-response also explain late response. By comparing early and late respondents it becomes possible to infer if the respondent sample is representative of the population from which it was drawn. A lack of available population data ruled out the use of other representativeness tests, such as comparing respondents against known population characteristics for public buyers. The first 100 respondents constitute ‘early respondents’. They completed the questionnaire within 24 hours of receiving it. The last 100 respondents constitute ‘late respondents’. They took between 7 and 19 days to submit their response and then only after receiving a reminder email notification. Independent sample t-testing reveals no statistically significant differences between early and late respondents on five of the six variables tested (table 2). The one exception is perceived importance of SME access to public sector contracts. On this variable late respondents have higher scores than early respondents. Overall, the results instil a degree of confidence that public buyers who volunteered their answers are representative of the population.

Table 2 Early versus late respondents

Variable	Sig. (2-tailed)
Experience in procurement	.428
Involvement in procurement	.840
Perceived importance of SME access	.003
SME-friendly policy compliance	.282
Organisation size	.221
Level of service provision	.815

Equal variances assumed in all cases

### **Respondents**

The characteristics of the 436 public buyer respondents and their organisations are as follows (see appendix for full profile). Indicated by their occupational groups, procurement is the

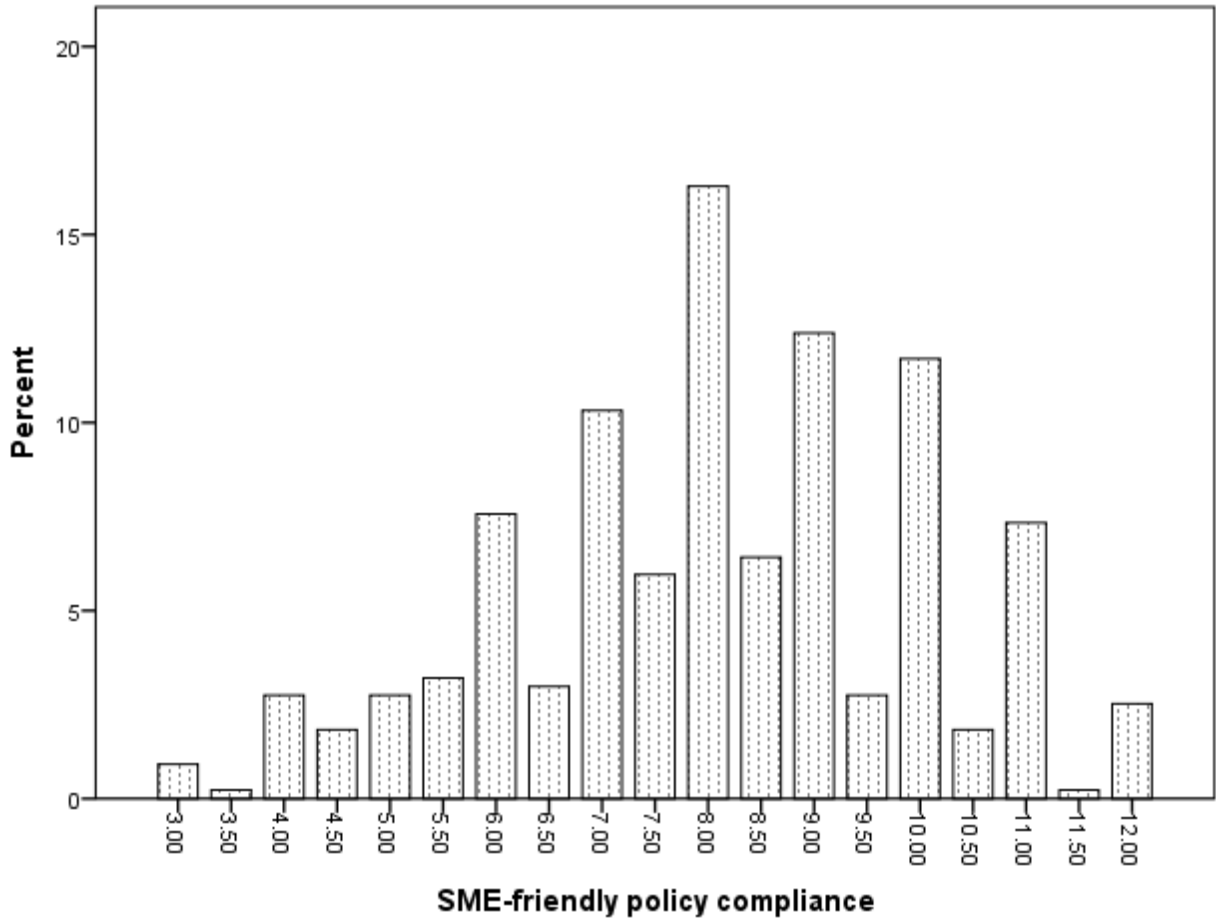
responsibility not only of procurers but also specific professions, executive officers, managers, and other occupational groups. Related to this is the finding that only 12.8% are exclusively employed as procurers. Average procurement experience is 12 years (std. dev. 7.7). Less than one in three has a procurement qualification, just over half have completed some type of procurement-related training and 71% are familiar with SME-friendly policy. In terms of organisation characteristics, central government and local government each account for 23% of respondents and over 60% of respondents are employed in large organisations. Just under half of respondents' organisations are delivering services at national level, with 38% delivering services at local level and 13% at regional level. Finally, 40% of respondents' organisations have a centralised procurement function and 77% manage procurement by category.

### **Findings: extent of compliance**

Public buyers' compliance with SME-friendly procurement policy is represented in Figure 1. Evident from the distribution, only a small percentage of public buyers (2.5%) have an index score of 12, which signifies full policy compliance. All other public buyers exhibit varying degrees of compliance. The distribution of index scores is positively skewed ( $z = -2.08$ ). The mean score is 8.08 (std. dev. 1.93) and the 95% confidence interval for the estimated population mean is between 7.90 and 8.26. The minimum index score is 3, indicating that all public buyers are adhering to at least two of the recommended measures. These findings suggest that institutional pressures to make public procurement more accessible to SMEs are deterministic to an extent. Based on their self-reported behaviours public buyers are responding to the agenda for SME-friendly procurement but in a way that represents a compromise on what is prescribed in policy. This is consistent with the theoretical prediction made earlier that total compliance is

likely to be difficult to achieve because of forces acting for and against SME-friendly procurement.

Figure 1 Distribution of index scores (n=436)



An analysis of compliance for each of the ten individual measures reveals wide variation. In the case of some measures a majority of public buyers are in compliance. For other measures the opposite is the case. At the upper end of compliance are measures advocating the use of open tendering procedures, allowing tenderers to self-declare their financial capacity and insurance cover, using relevant and proportionate qualification criteria, and providing feedback to unsuccessful tenderers. To illustrate, approximately 75% of public buyers are using open

tendering and over 80% are allowing tenderers to self-declare their financial capacity and insurance cover to undertake contracts. Similarly high rates of compliance are evident in the use of relevant and proportionate qualification criteria (86%) and the provision of feedback to unsuccessful tenderers (88%). On these five measures there is a close alignment between what is recommended in policy and what public buyers are claiming to do throughout the procurement process.

Moderate to low levels of compliance are reported on other policy measures. Just under half of public buyers are using standard tender documents or showing flexibility over the type of proof of financial capacity that suppliers can furnish during a tender competition. Most notable, however, is the low level of compliance with measures designed to address the size disadvantage of SMEs when competing for public sector contracts. Only one in three public buyers are dividing contracts into lots or encouraging SME consortium bids. Hence, compliance is lowest on what are judged to be the two most important measures for facilitating SMEs. What the evidence suggests is that public buyers are complying with the more explicit and observable policy measures, such as use of open tendering and allowing firms to self-declare their financial capacity. These are also the measures that impose minimal time and resource costs on public buyers. In contrast, measures over which public buyers are able to exercise discretion, that are less visible in implementation terms, and which carry higher transaction costs are not being complied with. The division of contracts into lots, for example, requires knowledge of contract design as well as the ability to analyse the costs and benefits of using several small suppliers in preference to one large supplier.

### **Findings: predictors of compliance**

The second phase of the analysis involves testing predictors of compliance. Twelve variables are included as part of a predictive model. There is no evidence of multi-collinearity among the variables, as indicated by the high tolerance and low VIF values (table 3). The model is significant:  $F(19, 325) = 4.556, p < .001$  and explains 16.4% of the variance in compliance (Adjusted R Square = 16.4 R Square = .210). Four of the twelve variables are statistically significant. Three of these relate to individual characteristics of the public buyer: involvement in procurement, policy familiarity, and perceived importance of SME access. Each has a positive impact on compliance. The fourth significant variable is organisation type. It is negatively related to policy compliance. None of the other eight variables are statistically significant. The standardised coefficients and significance levels for all twelve variables are listed in table 3.

Indicated by effect size, involvement in procurement has the greatest positive impact on policy compliance. This is consistent with the prediction that increased involvement makes adherence to the institutional norms of public procurement more salient and career-relevant to public buyers. The assumption that compliance with policy presupposes a degree of familiarity is also supported. Likewise, public buyers that perceive public procurement as having a key role to play in supporting SMEs are more likely to comply with SME-friendly policy. Contrary to hypothesised predictions, neither experience, qualifications nor training are found to be significant in predicting compliance. The relevance of these attributes in contributing to effective procurement notwithstanding, they do not appear to act as enablers of SME-friendly policy compliance. Evidently, adhering to SME-friendly policy is less to do with skills and experience and more to do with awareness of what is expected and then having the commitment and interest to act on this awareness. Also inconsistent with predictions is the non-significant impact of

occupational group on compliance. Those outside the procurement occupational group are just as likely to comply with SME-friendly policy as those within it.

Of the organisation variables, public sector organisation type emerges as significant. Specifically, semi-state/utility, local government, and education institutions are found to be significantly and negatively associated with compliance. The finding concerning semi-state and utility companies is not surprising. These organisations operate along quasi-commercial lines and their public buyers could well interpret SME-friendly policy as conflicting with commercial prerogatives. Moreover, semi-state and utility companies enjoy greater autonomy than other public sector organisations and, as a result, are less susceptible to institutional pressures for the facilitation of SMEs. The finding concerning local government is contrary to expectations. Based on foregoing research it was anticipated that operating at local level implied greater engagement with small, local suppliers and a concomitant receptiveness to SME-friendly procurement measures. The opposite is found to be the case. Related to this is the finding that policy compliance is not affected by the geographic level at which the organisation operates. Organisation size has no significant effect on policy compliance, which contradicts the assumption that formalised systems and a large resource base act as antecedents of better policy management. The structural configuration of procurement, centralised or decentralised, and management of procurement on a category basis are also non-significant.

Table 3 Predictors of policy compliance

Model			Standardized Beta	t	Sig.	Collinearity Stats	
	B	Std. Error				Tolerance	VIF
(Constant)	7.114	.703		10.120	.000		
Occupation group: managerial <sup>a</sup>	.524	.310	.097	1.690	.092	.741	1.349
Occupation group: executive officer <sup>a</sup>	-.161	.305	-.032	-.529	.597	.686	1.458
Occupation group: profession-specific <sup>a</sup>	-.095	.278	-.022	-.342	.732	.566	1.766
Occupation group: other <sup>a</sup>	-.608	.410	-.082	-1.485	.139	.799	1.252
Involvement in procurement	.555	.174	.203	3.190	<b>.002</b>	.599	1.669
Experience in procurement	-.102	.118	-.045	-.860	.390	.889	1.125
Qualification in procurement	.105	.263	.026	.398	.691	.585	1.709
Undertook training in procurement	.322	.222	.085	1.449	.148	.709	1.410
Policy familiarity	.699	.240	.167	2.912	<b>.004</b>	.741	1.350
Perceived importance of SME access	.267	.074	.183	3.593	<b>.000</b>	.933	1.072
Level of service provision	-.198	.150	-.097	-1.322	.187	.446	2.240
Centralised procurement	-.252	.223	-.064	-1.128	.260	.744	1.343
Category managed	.068	.227	.015	.298	.766	.918	1.089
Organisation type: local government <sup>b</sup>	-.750	.372	-.167	-2.016	<b>.045</b>	.355	2.819
Organisation type: state agency <sup>b</sup>	-.284	.295	-.061	-.962	.337	.603	1.659
Organisation type: semi-state/utility <sup>b</sup>	-1.855	.420	-.277	-4.413	<b>.000</b>	.618	1.617
Organisation type: education institution <sup>b</sup>	-.840	.379	-.148	-2.218	<b>.027</b>	.544	1.840
Organisation type: other <sup>b</sup>	-.240	.359	-.042	-.669	.504	.629	1.590
Organisation size	-.092	.119	-.045	-.771	.441	.723	1.383
F = 4.556							
R Square = .210							
Adjusted R Square = .164							
a Occupation group 'procurement' is the reference category							
b Organisation type 'central government' is the reference category							
Reference categories were determined by highest frequency							

## Discussion and implications

This paper provides among the first comprehensive survey evidence of how public buyers have responded to SME-friendly policies in public procurement. In doing so it helps to move debate beyond policy rhetoric and towards the everyday reality of procurement as it concerns SMEs. What the findings reveal is a divide between official policy expectations and what public buyers are able or willing to do. Evidently, saying SMEs should be better facilitated when tendering for public sector contracts is easier than making it happen in practice. While it is clear that few

public buyers are complying with all policy recommendations, it is also clear that few are acting in open defiance of them. Instead, most seem to be pursuing the compromise approach to institutional compliance identified by Oliver (1991). This involves adhering to some measures but not to others. In some respects the overall response of the public buyer population is akin to a form of satisficing or what Van de Ven (1983) called ‘reasonable administrative behaviour’. What should be of concern to all public procurement stakeholders is that the two most important measures for helping SMEs overcome barriers to tendering – dividing contracts into lots and encouraging consortium bids – have the lowest levels of compliance among public buyers. If this trend continues, the result will be a truncated form of SME-friendly procurement. Efforts to increase SMEs’ participation and success in public sector tendering are likely to be diminished as a result.

Are there possibilities for enhancing compliance with SME-friendly policy? The results of the predictive model indicate that there are. Three of the predictive factors identified as significant - involvement in procurement, policy familiarity, and perceived importance of SME access – can be managed with a view to increasing policy compliance. The significance of the first factor suggests the desirability of having more dedicated buyers with the time, resources and career interest to cope with the various demands and complexities of public procurement; something previously advocated by others (e.g. McCue and Gianakis, 2001). The tendency within public sector organisations is for procurement responsibility to be diffused across departments. Moreover, procurement generally forms an ancillary part of managers, administrators and professionals’ occupational roles: hence the quip ‘anyone can buy’. To move beyond this setup requires, in the first instance, senior management recognition of procurement as a discrete organisational function staffed by dedicated buyers. This implies a more prominent, clearly



defined role for procurement within the organisational hierarchy and a centrally controlled rather than devolved purchasing system. Case study evidence has shown that making this change can improve regulatory and policy compliance (Flynn et al., 2012). Integral to the success of this transition is maintaining open channels of communication with end users so that control and institutional compliance are not achieved at the expense of responsiveness to the purchasing needs of the organisation. It also requires that more public sector employees assume full-time procurement roles. The provision of training and education supports will need to form part of this process.

Increasing policy familiarity and altering perceptions around the importance of SME access to public procurement are the other two levers to influence compliance. In the case of the former, the onus is on the state to ensure that all public buyers are made fully aware of their obligations and are up-to-date with SME-friendly policy initiatives. Lines of communication should be maintained through, for example, national e-procurement sites, used by the public buyer population. Where necessary, local or regional workshops could be organised to discuss the implications of SME-friendly policy and to clarify any issues public buyers might have about it. In the case of the latter, SME access to public procurement can assume greater priority status for public buyers if it is framed more in terms of a competitive imperative and less in terms of public sector organisations lending assistance to small firms. By re-framing the issue in this way and highlighting the competitive benefits of using SMEs as suppliers, including their agility, customer-responsiveness and competitive pricing (Woldesenbet et al., 2012), public buyers are more likely to accord greater weight to SME access. The desirability of public buyers having a larger and more diverse pool of suppliers from which to select is also part of changing the terms

of the debate (Caldwell et al., 2005). Put simply, public sector organisations' self-interest in engaging with SMEs needs to be brought to the fore.

As well as its contributions, acknowledgement needs to be made of this study's limitations. For a start, not all potential predictors of policy compliance are explicated or empirically tested. For example, do public buyers perceive a conflict between simultaneous pressures for cost reduction and facilitating SMEs, and is this significant in explaining policy compliance? It is recommended that future survey-based research captures public buyers' assessment of the forces acting for and against SME-friendly procurement and includes these as part of any predictive model. Secondly, the inquiry is confined to a single country. Whether the findings are reflective of public buyer behaviour in other countries is moot. There does appear to be a degree of consistency with the limited evidence that has been produced to date. Studies from the UK have provided qualitative evidence on a gap between policy expectation and actual SME-friendly procurement practice (Loader, 2007) while it is known that US federal contracting authorities often fail to meet their targets for awarding a certain percentage of contracts to SMEs (Clark and Moutray, 2004). More survey-based evidence from other countries is still needed. The compliance index developed here is a useful starting point for such investigation, allowing for some adjustments in respect of idiosyncratic national policies.

Some other design issues in this study merit further comment. Public buyers self-reported behaviours are used to inform the research. As policy implementers public buyers should be the primary source of information on SME-friendly procurement practices. That said, solely relying on public buyers is not without its drawbacks and issues around social desirability bias and self-selection bias cannot be discounted. Although, in the case of the latter, representative testing does indicate that survey respondents are typical of their population. To strengthen findings on

SME-friendly policy compliance, and in line with advice by Murray (2009), future research should aim to triangulate public buyers' responses with SMEs' reported experiences and/or use objective measures of SMEs' participation and success rates in contract competitions. As the inquiry concerned issues around compliance, respondents were not asked to furnish any details that could identify them or their organisations. The downside to this approach is that multiple respondents from the same public sector organisation are not controlled for. The decision over whether respondents should be identified in any future research needs to be balanced with consideration of its likely effects on response rates and self-selection bias. Finally, our inquiry tests compliance approximately two and a half years after policy was officially adopted. It is possible that an even longer time period is required before practice fully adjusts to changes in the institutional 'rules of the game' governing public procurement. Researchers might, therefore, wish to consider using more longitudinal research designs.

Amid growing academic interest in a SME-public procurement nexus, issues surrounding the implementation of SME-friendly policy have been largely overlooked. Our research shows that there is nothing inevitable about public buyers acting in accordance with policy recommendations. Cases of a divide between policy and practice have previously been identified in environmentally sustainable purchasing (Morgan, 2008; Thomson and Jackson, 2007) and in various domains outside public procurement (Nilsson et al., 2009; Randhawa and Marshall, 2014). Now added to this body of scholarship is evidence of the same phenomenon in SME-friendly procurement. Questions over what can be done to increase SME involvement in public procurement remain firmly on the political agenda. Among the most recent initiatives in the UK has come from the Labour Party, with its recommendation that 25% of the total value of government contracts should go to SMEs (Labour Party, 2013, pages 46-49). Precisely how this

is to be achieved is not altogether clear, however (Bennett, 2014). Moreover, UK businesses have previously stated that the priority for Government should be to make procurement more transparent, simple, and strategic rather than establishing a target market share for SMEs (Glover, 2008). Against this backdrop, the focus should be on ensuring existing SME-friendly policy is put into practice; admittedly, this is something which the Labour Party initiative also stresses. Otherwise, we are left with a situation where the same policies are re-packaged and recycled year-on-year, while the problem of SMEs' under-representation in public procurement persists.

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## Appendix

	Variable	Measure	Scale
1	Procurement experience	Length of time involved in procurement	Number of years
2	Qualification in procurement	Qualified in procurement or cognate area	No Yes
3	Trained in procurement	Undertook procurement-related training within last 3 years	No Yes
4	Policy familiarity	Familiar with content of Facilitating SME Access to Public Sector Contracts	No Yes
5	Importance of SME access	Importance of SME access when procuring goods and services	Not important [1] to highly important [5]
6	Involvement in procurement	Extent to which procurement constitutes work role	Procurement forms no part of my role Procurement is a minor part of my role (less than one third of work time) Procurement is a major part of my role (more than one third of my work time but less than full-time) Sole role is to procure
7	Occupation group	Belong to which occupational group	Procurement Managerial Administrative officer Profession-specific Other
8	Public sector organisation type	Employed in which type of public sector organisation	Central government Local authority State agency Semi-state /utility Education institution Other
9	Geographic scope of operations	Delivers public services at what geographic level	Local Regional National
10	Organisation size	Number of employees in the organisation	1-9 10-49 50-249 250+
11	Structural configuration of procurement function	Procurement is centralised	No Yes

12	Operational management of procurement	Procurement is category managed	No Yes
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Respondent characteristics	Respondent %
Occupational group	
Procurement	33
Manager/asst. principal/department head	14.9
Executive officer/financial officer	17
Profession-specific (incl. engineering, IT & education)	26.3
Other (incl. facilities management & project management)	8.8
Involvement in procurement	
Procurement is a minor part of work role	44
Procurement is a major part of work role	43.2
Dedicated buyer	12.8
Procurement experience	
0-5 years	28.4
6-10 years	29.6
11+ years	42
Procurement qualification	
Yes	29.4
No	70.6
Procurement training	
Undertook procurement training within last 3 years	53.7
Did not undertake procurement training within last 3 years	46.3
Policy familiarity	
Familiar with SME-friendly procurement policy	71.9
Not familiar with SME-friendly procurement policy	28.1
Organisation type	
Central government	23.7
Local government	23.7
State agency	19.1
Semi-state/utility	7.4
Education institution	12.3
Other (incl. external consultants)	13.8
Geographic scope of operations	
Local level	38.2
Regional level	13.4
National level	48.4
Organisational size	
1-9 employees	6.5
10-49 employees	11.1
50-249 employees	20.7
250+ employees	61.8

Structure of procurement function	
Centralised	40.2
Decentralised	59.8
Management of procurement function	
Category managed	77.7
Not category managed	22.3