

## **Accelerating the SME economic engine?**

Glover 2008 identifies a number of reasons why SMEs (or small and medium) businesses find it difficult to participate and win business in the public sector. The report requested by the Chancellor of the Exchequer covers a wide range of different issues but fails to address many of the key aspects of procurement practice.

Public sector buyers have a number of obligations and requirements placed upon them driven primarily by EU Public Procurement Regulations. Notably buyers in trying to objectively establish capability and capacity or manage risk invariably cannot distill the requirements of a contract or the specification to meaningful factors against which to test individual suppliers. Unimaginatively they revert to generic and in some cases quite meaningless highly subjective prequalification exercises. This means that biggest is best or even who we have worked with before will usually win out at the expense of smaller or unfamiliar suppliers. However, big in itself may be quite a tenuous link in terms of the capabilities that a supplier has versus the specific contract requirements. Guess what? Bigger suppliers with more turnover and longer track records tend to score better in prequalification exercises. So much for interesting new guys who have just started up! An unwillingness or inability to demonstrate clearly how decisions have been arrived at also adds to the bemusement and lack of trust that many suppliers have in public procurement processes and outcomes.

It is important that buyers objectively test capability and capacity. However, most PQQs are not sensitive enough to contract specific requirements and the tendency and drive to standardise pre-qualifications with one size fits all on line tools will be a disaster for both buyers and suppliers and do nothing to help engage more SMEs in public procurement. Many public bodies define requirements for suppliers that they do not meet themselves. For sure there are many aspects that can be standardised, or should at least be considered as part of a minimum expectation, but a standard approach is not fit for purpose for the majority of tenders.

Another interesting aspect of the discussion is that more transparency will help SMEs to access contracts through a portal. SMEs need to wake up and realize that they will get nothing for nothing and there is an investment required here to play in this space. There are many SMEs with outstanding capability and sufficient capacity to deliver significant contracts and not just low value bits and bobs as implied in the report but this is a market like any other with its own requirements and idiosyncrasies. All public contracts above the various defined thresholds for goods, works and services should already be published via the European Journal. The latest directive 2004/18/EC encourages the use of Tenders Electronic Daily for sub threshold contracts which can be publicised widely and with no access costs creating a truer market place rather than one that is increasingly becoming dominated by intermediaries. Rather than supporting intermediaries the public sector might spend its money more productively by using already existing channels and making SMEs aware of how to access the information. How many public bodies have published their buyer profile and contract register with renewal dates? That might be the start of some real transparency and useful information for suppliers.

What would accelerate the SME economic engine would be better managed procurement processes that have properly developed sourcing strategies, frameworks with properly structured lots and requirements that were more clearly defined with objective criteria and decision making and unambiguous minimum criteria. That should be normal practice from any buying organisation. Better educated and more informed buyers would also help.

There are many courageous public sector buyers who quite literally are fighting their own internal practices and trying to introduce good procurement practice in terms of defining end users, specifiers and buyers requirements and to improve accountability and responsibility with respect to procurement decision making and good contract management. The tendency to centralise and standardise in the name of transparency and innovation has the potential to undermine their efforts and responsibilities as well as to engage with SMEs and local businesses if and when appropriate.

Contracting entities should develop their own portals as subsets of their existing web pages to publicise contracts and link to the European Union portal as well as publicise sub threshold and small or low contracts. This will also mean that we have a market with many customers as well as suppliers rather than a single portal or platform where inevitable aggregation and consolidation will be compounded and dominated by relatively few suppliers – the key issues that Glover is trying to address – at the expense of SMEs. Collaboration is also seen as a key tool for public bodies but again this is only useful if leverage and economies of scale are the drivers. Again there is huge potential to distort markets through the abuse of buyer power and many cases there is a fine line between collaboration and competition issues.

There is strong evidence for this in many aspects of public procurement where supposed economies of scale have actually distorted the market place and introduced dis-economies scale. In these cases rather than the public sector creating vibrant demand and competition the market place has been distorted and innovation has been reduced.

There is no need to re-invent the wheel. The infrastructure and technology are already available to properly manage public procurement exercises. What is required is that public bodies should follow and utilise existing procurement guidelines, channel and rules and improve their procurement profile and capability.

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