

Steven Van de Walle + Amandine Lerusse
Amandine.lerusse@kuleuven.be
August 2018

WHEN THE PUBLIC SECTOR CHOOSES A PRIVATE PARTNER: ALL ABOUT PRICE?

1. Working with the private sector: who is a desirable partner?

The public sector collaborates with many private partners to deliver public services, either through contracting out or through some kind of public-private partnership. It can choose from a wide range of potential collaborators, ranging from small local organisations to large multinational service companies. It can also attach value to different characteristics of the private partner: how expensive it is, whether the private partner has a good track record, whether or not the partner is innovative and socially and environmentally conscious etc. The purpose of the third work package of the TROPICO project is to study which characteristics of private companies make them desirable collaboration partners for the public sector, and how much the public sector values these characteristics.

2. Creating public value through collaboration

Collaborations between the public and private sector almost always require some kind of contracting. At the most basic level, this is done following a public procurement procedure. Traditionally, price has been the main or even only criterion to award contracts to private firms. Increasingly, however, the public sector can decide to look at other criteria when awarding contracts. Through formulating non-price requirements, the public sector can use public procurement as a policy tool to create public value (Keulemans and Van de Walle, 2017). It can for instance request that the company hires long-term unemployed persons or

that the company adheres to certain environmental criteria.



Source:

https://europa.eu/newsroom/events/conference-strategic-public-procurement-procuring-sustainable-innovative-and-socially_fr

This has been referred to as 'linkage' (McCrudden, 2007) whereby government contracting is linked to the achievement of other public values and objectives in the economic, social or environmental domain (Loosemore, 2016). A choice for a certain private collaboration partner then reflects the desire to work with a partner who shares a commitment to these values. Still, due process as well as economy, remain guiding principles of public procurement.

3. Collaborating for innovation

A recent addition to the debate on government procurement is procuring for innovation. A typical concern with traditional price-based tendering is that it does not stimulate or reward innovation. In



This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No.726840

Follow us online www.tropico-project.eu

Follow us on Twitter @tropico_project

order to support innovation, the public sector needs to take a more risk-based approach in its collaboration, or even to make markets where these do not exist through its purchasing behaviour. This requires new way of collaborating with the private sector.

4. Digitalising the public sector

A specific case of procuring for innovation is where government tries to stimulate digitalisation. Procurement can then be a way of adopting new digital tools not yet available to the public sector but offered by private companies, or it can be a way of collaboration with the private sector to stimulate the development of such new tools.

5. Is government ready?

Many civil servants still see price as the sole or most important criterion for awarding contracts. They see it as their duty to wisely spend government money, and have doubts about the legality of attaching too much value to non-price criteria.

With this information in mind, we set up an experiment to identify which criteria civil servants consider to be important when procuring services, and how much they are willing to compromise on price in order to achieve other desirable social outcomes.

6. A discrete choice experiment in five countries

We organised a discrete choice experiment in five countries (Belgium, Estonia, Germany, Norway and Spain) to test how important price is for public officials when selecting a new private partner (Lerusse and Van de Walle, 2018). The experiment focused on the procurement of bulky waste collection services at the municipal level, which is a very tangible service that allows for international comparison. In the experiment, the heads of the environmental department and the environmental advisors of the municipality were asked to state their preferences over a number of choice sets of

two options. In discrete choice experiments, each option has a number of attributes which are composed of characteristics that set them apart.

The private company profiles presented to respondents contained information about the price, the environmental, social and innovative aspects of the service. They for instance refer to whether the service offers a smartphone app, proposes an environmentally sustainable fleet of vehicles and fosters the professional integration of long-term unemployed.

7. Main findings and further research

Data collection is ongoing, but preliminary findings already offer some take-away lessons for the public sector. They suggest that price remains one of the dominant criteria for civil servants, but that they are willing to compromise on price in exchange for more innovation. Social and environmental criteria, however, do not play a significant role in their choices.

The study will in 2019 be replicated in a different collaboration setting. This will either be a procurement of service delivery, or a setting related to policy design.

More information and results from the experiment is available from: <http://tropico-project.eu/work-packages/>

8. References

- Keulemans, S. & Van de Walle, S. (2017). Cost-effectiveness, domestic favouritism and sustainability in public procurement: A comparative study of public preferences. *International Journal of Public Sector Management*, 30(4): 328-341
- Lerusse, A. & Van de Walle, S. (2018). Local civil servants' stated preferences when contracting-out: Results from a discrete choice experiment. Paper for the 2018 EGPA Conference, Lausanne, 5-7 September.
- Loosemore, M. (2016). "Social procurement in UK construction projects", *International Journal of Project Management*, Vol. 34 No. 2, pp. 133-144.
- McCrudden, C. (2007), *Buying social justice: Equality, government procurement, and legal change*, Oxford University Press on Demand, Oxford.



This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No.726840

Follow us online www.tropico-project.eu

Follow us on Twitter @tropico_project