

Handbook of Procurement

How can organizations ensure that they can get best value for money in their procurement decisions? How can they stimulate innovations from their dedicated suppliers? With contributions from a number of leading academics and professionals, this handbook offers expert guidance on the fundamental aspects of successful procurement design and management in firms, public administrations, and international institutions. The issues addressed include the management of dynamic procurement; the handling of procurement risk; the architecture of purchasing systems; the structure of incentives in procurement contracts; methods to increase suppliers' participation in procurement contests and e-procurement platforms; how to minimize the risk of collusion among sellers and of corruption of procurers' agents; pricing and reputation mechanisms in e-procurement platforms; and how procurement can enhance innovation. Inspired by frontier research, it provides practical recommendations to managers, engineers and lawyers engaged in private and public procurement design. It will also be a key reference text for MBA courses related to procurement design and supply chain management.

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Preface

The present volume originates from the interaction between top public procurement practitioners and economists working at, and with, the Research Unit of the Italian Public Procurement Agency, Consip.

It is based on the belief that procurement, while representing a large share of the GDP of developed and less developed economies and occupying a substantial share of employment in the private and public sectors, suffers still from a limited variety of discussions, outside of the academic arena, on strategic economic choices regarding the optimal set-up of a tender for purchasing.

Economic research on optimal procurement design has made gigantic steps in recent decades. Still, public and private procurement centres around the world, that are often involved in a large number and variety of acquisitions, can seldom afford to hire expert consultants to allow for an optimal case-by-case procurement design (informed by frontier research). In the many relatively small acquisitions where time and financial constraints make expert economic advice and ad hoc design impossible, practitioners take crucial decisions on procurement design without guidance from recent research in the field, most of which is phrased in too technical terms to be accessed by non-researchers.

This is why in 2002 Consip, the centralized Italian Agency for Procurement of Goods and Services, created an internal Research Unit dedicated to both research and internal consulting on procurement design. To perform and facilitate both these tasks, the unit started ‘translating’ into accessible ‘best practices’ the most robust findings of recent theoretical, empirical, and experimental economic research on procurement design. This handbook grew somewhat unexpectably out of this much less ambitious project, mostly thanks to the enthusiastic encouragement and hard work of the group of top-notch external experts that ended up co-authoring it.

The activity of Consip’s Research Unit comprises scientific support and internal consulting focused on the practical problems of everyday

procurement design, including the choice of scoring rules in different forms of competitive tendering, the determination of number and size of lots into which to divide each supply, optimal incentive contracting to ensure quality and cost-effectiveness, methods favouring participation and preventing collusion, the management of risky bids, and issues related to market structure evolution. This focus on practical procurement issues is directly reflected in the structure of the volume, as all chapters are motivated by major problems in practical procurement design and management. Consip's Research Unit coordinates the activities of the European Union Learning Lab on Public Procurement, whose members, Europe-wide procurement organizations, regularly meet to discuss strategic choices to foster competition and carry out benchmarking exercises.

Consip and a number of top-level external world experts strongly supported the idea of a volume that could help bridging the gap between advanced research and the practice of procurement, and support practitioners when expert advice, the best choice whenever possible, is not feasible. They all readily saw how valuable could be such a reference for Consip's professionals, for all other procurement managers employed in the public and private sector, and for undergraduate and MBA students and teachers engaged in strategic procurement/sourcing courses. For these reasons the editors are extremely grateful to Consip, and even more to the authoritative external experts who kindly agreed to contribute to what later turned out to be a quite ambitious project.

All chapters are original, unpublished work containing non-technical analysis of procurement design problems and practical recommendations – summarized in 'practical conclusions' – that procurers may want to consider to support decision making in their professional activity when they believe the relevant circumstances apply. Given the complexity of procurement decisions, our practical conclusions should not be used as mechanical rules, as this might lead to serious mistakes. Rather, they should be intended as an inspiration and help for intelligent and responsible procurement design, where optimal choice cannot be based on a passive implementation of recipes, but must be the outcome of a smart and creative act.

The book is intended mainly for professionals, economists, and lawyers. The volume can also be used as reference for MBA courses in procurement or, in general, courses related to supply chain management. Advanced undergraduates and first-year graduate students in economics and in law

can also find in the book an interesting and useful reference for courses related to procurement design.

Procurers and other readers are likely to find in the chapters of this handbook many instances and examples of which they have had some significant experience they can share with or question the authors about. We welcome and encourage interaction with procurers, who can write to us at ufficiostudi.consip@tesoro.it.

Enjoy the reading!

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