

Nordic Workshop on Health Management and Organization
“Redrawing Boundaries within Healthcare”

Sub-theme 4: Across the public/private divide: emerging organizational forms and new identities for health care providers and patients in marketized healthcare

COMPETENCES IN PUBLIC PROCUREMENT PROCESS

**A Case Study from Finnish Municipal Procurements in Social and Health
Care Services**

Pinja Rantanen (M.Sc.Tech) & Päivi Haho (Lic.Sc.Tech)
Helsinki University of Technology, Department of Computer Science and Engineering,
SimLab, P.O.Box 9220, 02015 TKK, pinja.rantanen@tkk.fi

1 Motivation and Objectives

The need for social and health care services grows as the population ages. At the same time the proportional number of taxpayers decreases. In order to guarantee the elderly adequate and high quality services in the future, the service organization needs to be rationalized. As the municipalities cannot respond to the growing need for social and health care services, the amount of services bought from the private sector grows. The municipalities' service procurement is regulated by the public procurement law.

The transformation from service provider to service organizer requires new kinds of competences among municipalities. Participation to a public procurement competition requires special competences also from the private service providers. The new competence requirements change identities and roles that the organization members adopt. The study aims to describe the public procurement process of municipalities' elderly services, define what kinds of competences are needed, and define what kinds of new identities the organization members will have.

2 Theoretical Background

The theoretical background of this study covers two sections. The first one describes what is outsourcing and what it means in the context of public health care procurement. The second one discusses classifying competences according to process phase and competence criticality.

2.1 Outsourcing

Outsourcing means “transforming operations and processes that were previously performed internally, to another organization with whom a service contract is concluded”. Before making the decision of outsourcing the organization needs to contemplate what kind of capabilities are critical for its functioning. The non-critical capabilities are potential targets of outsourcing. (Hannus 2004, 369) Procuring health care services from the private sector instead of producing them oneself is municipality's way of outsourcing.

In outsourcing the public organization does not have to know how the services are produced but instead create a strategy, make requirement specifications, select suitable contract, price and right suppliers as well as administer the contract after the signing of the agreement

(Kelman 2001). The organizations need to develop new competences in order to fulfil the requirements of the new role.

2.2 Competence Classification

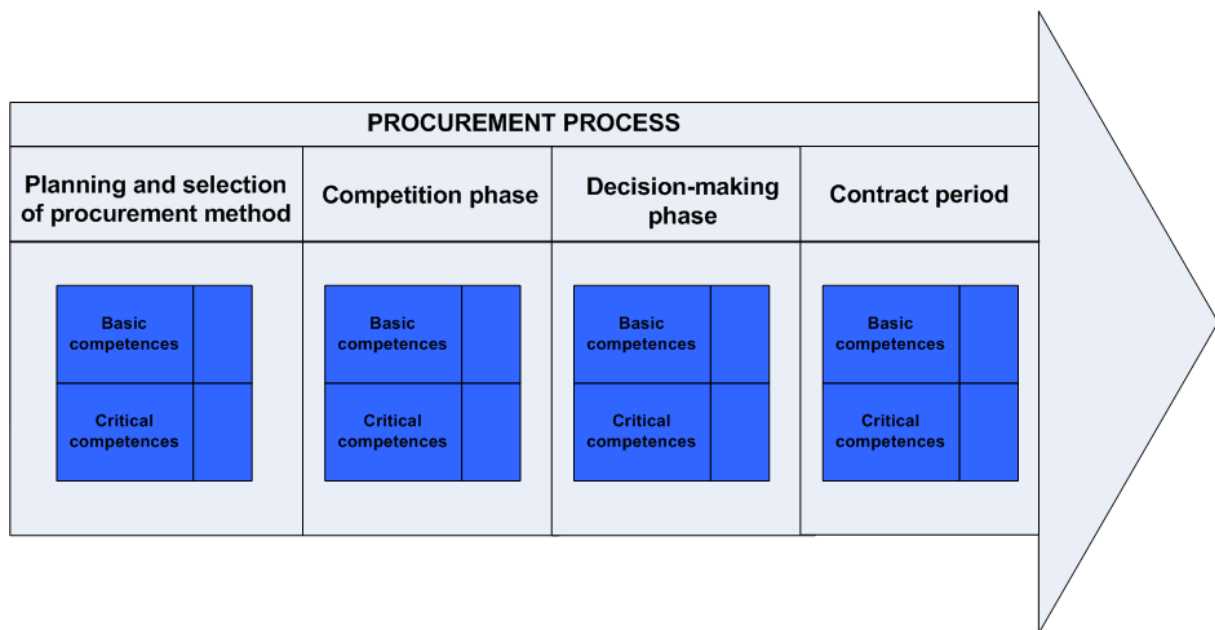
Competences can be classified in many ways. In this research the competences are classified in two different ways: by process phase and by criticality. Even though the process is a procurement process only from municipalities’ viewpoint the concept is the sole concept used because it has gained ground also among the private service providers. In this study the procurement process is defined widely to cover the planning phase preceding the actual procurement as well as the contract period following the procurement. The four phases of the public procurement process are 1) planning and selection of procurement method, 2) competition phase, 3) decision-making phase and 4) contract period.

According to Tomasko (1993) the four criticality categories are 1) support competences, 2) core competences, 3) critical competences and 4) cutting edge competences. Similar classification has been made by Hannus (2003). In this context the classification is simplified to two categories: basic competences and critical competences. Table below (Table 1) defines the concepts from the viewpoint of municipalities and service providers.

Table 1. Definition of basic and critical competences

	<i>Basic competence</i>	<i>Critical competence</i>
<i>Municipality</i>	Indispensable competence in order that the municipality is able to procure services	Competence, by means of which the procured services are lucrative and of high quality
<i>Service provider</i>	Indispensable competence in order that the service provider can be chosen to provide the services for the municipality	Competence that brings competitive advantage and by means of which the service provider will be chosen with profitable conditions

The theoretical framework classifies the competences needed in a public procurement process according to the process phase and the competence criticality. The picture below (Picture 1) illustrates the classification.



Picture 1. Competence classification by process phase and by competence criticality.

3 Research Process

3.1 Methods

The research methods are action research and case study where a qualitative content analysis is exploited. The action research implies that the researcher participates actively in developing the organization besides researching. A case study aims to create a comprehensive picture of the phenomenon by focusing on a specific research subject. (Anttila 1998) The SimLab process simulation method (see e.g. Haho & Smeds 1997) is used in the data collection.

3.2 Data

The data was gathered in three steps: 1) a simulation project with the city of Turku, 2) a modelling with public procurement experts and 3) a testing of created models with private service providers. In the first phase a pre-understanding of public health procurements was created by modelling how the city of Turku procures long term health care for elderly people. The phase included 12 semi-structured interviews covering 16 people and a facilitated simulation day. In the second phase the understanding was deepened by discussing with three public procurement experts and reviewing how the created process model could be generalized. The number of modelling discussions was eight. Finally in the third phase the created general public procurement process model was tested in a facilitated simulation day

with representatives from five companies and five associations that provide social and health care services as well as representatives from municipalities.

In total the data consists of interview notes and tapes, notes and reviewed process models from the expert modellings, as well as the simulation notes and tapes.

4 Results

A theoretical framework is advanced that analyzes the competences in the public procurement process. The framework divides competences by process phase and competence criticality. The results of the study include: generic public social and health care procurement process model, procurement process description, and competence classification based on the framework. The empirical results adduce contingency factors of the procurement process, which influence the process success. The contingency factors have a connection with the type of competences needed in the procurement process and the span when the competences need to be developed.

The appearing competence requirements contribute to what kinds of new identities the public and private actors take on. The new roles require changes in organizational structures.

4.1 Connection between Competence Types and Contingency Factors

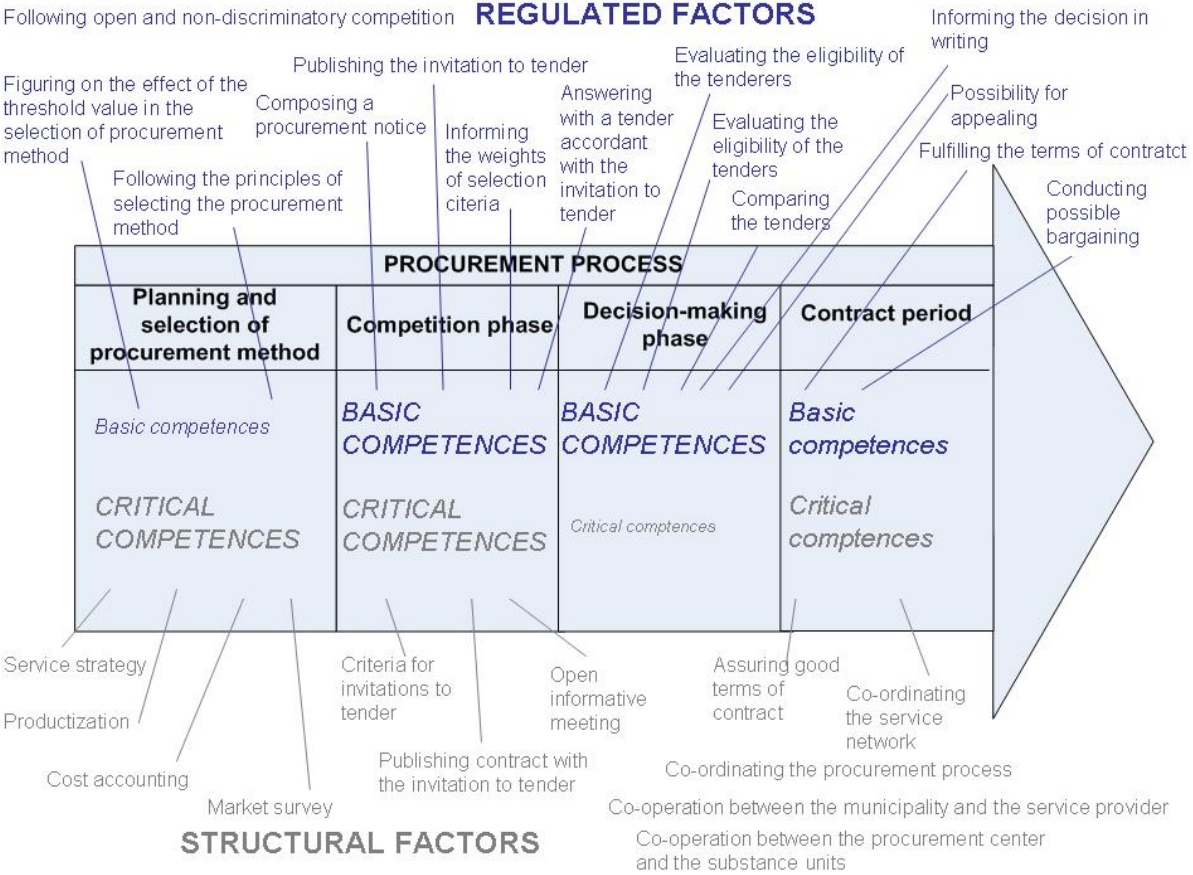
Analysis of competences needed in different phases of the procurement process reveals that in some phases the importance of the basic competences is emphasized whereas in others the critical competences are more essential. The critical competences are most significant in the planning and selection of the procurement method contrary to the decision-making phase where mostly basic competences are needed. In other two phases, the competition phase and the contract period, there is an equivalent need for basic and critical competences.

Two kinds of contingency factors affect the success of the procurement process: the regulated factors and the structural factors. The regulated factors originate from laws and regulations. They can not be contributed but their existence and their effect on the process must be taken into account. The structural factors instead can be modified by the actors involved in the

process. Some examples of the structural factors are the service strategy and the criteria for invitations to tender.

Closer examination of the phases of the procurement process and the influencing contingency factors exposes a connection between basic competences and regulated factors: basic competences are needed in those phases that are strongly influenced by the regulated factors. Respectively critical competences are needed when structural factors play a big role.

The picture below (Picture 2) pulls together the contingency factors of different process phases as well as the importance of different types of competences. The regulated factors are above the picture whereas the structural factors appear below. The font size indicates the importance of the competence in question.



Picture 2. The contingency factors and the criticality of competences in different process phases

The basic competences are necessary in order that the municipality is able to procure services. By means of the critical competences the procurement process is likely to succeed. This means that the procured services are lucrative and of high quality as well as the service

providing is profitable for the service provider. Thus the basic competences have to exist before the critical competences have any importance. In other words the short run competence needs include basic competences. In the long run the critical competences have to be developed in addition. The table below (Table 2) recaps the connection between the contingency factors, the competence types and the implication for competence management.

Table 2. The effect of contingency factors to the competence management

<i>Contingency factor</i>	<i>Competence type</i>	<i>To be noticed in the competence management</i>
Regulated factor; can not be affected	Basic competence	Short run competence needs; to be developed immediately
Structural factor; can be changed	Critical competence	Long run competence needs; to be developed in the future

4.2 New Identities and Changes in Organizational Structures

The new competence requirements cultivate the identities that the actors at public and private organizations adopt. They become service coordinators, strategy developers and change managers. This in turn leads to changes in organization structures.

When speaking of public procurement process the municipality is often seen as one individual player even though it involves several actor groups. In the context of services for elderly people the most important actors are: the social and health care services as substance expert and the centralized procurement centre. At the moment the procurement of the health care services is carried out almost totally in the social and health care services. According to the participants of the research the procurement centres lack sufficient understanding of the characteristics of health care procurements. On the other hand the social and health care services rarely possess adequate procurement competences. One solution to these challenges would be to gather up a group including members both from the procurement centre and the line of business.

One major challenge in procuring successfully is inappropriate organizational structures of the municipalities. During decades the municipalities produces themselves all the required social and health care services. The municipalities were producer organizations, where the

majority of personnel was producing the services e.g. taking care of elderly people or cooking in school canteen. The organizational structures and the ways of action supported the situation.

Nowadays the municipalities have started to buy the services increasingly. The responsibility of producing transfers to the service provider and the municipality is left with the responsibility of co-ordination. The personnel in the municipalities is needed more and more to assure that the procurements evoke desired outcome. The number of employees can not be reduced in direct proportion to the amount of outsourced services because people are needed to co-ordinate the procurement process, conduct the procurement competition and monitor the quality of bought services.

5 Conclusions

The study brings a new approach to the public procurements and competences required in the procurement process; the competences are examined from a process view. The classification of competences by process phase and by criticality proved to be useful because it helps to illustrate the differences between the process phases and the consequential effects on competence management.

The managerial implications of this study benefit both municipalities and private service providers. The public procurement process model helps to understand the totality of the procurements and the required phases. The list of competences needed is a practical tool for enhancing competence management. The contingency factors describe the factors that affect the success of the procurements and make a distinction between those that can be changed and those that can not. Connecting contingency factors to competence management consolidates the formation of an overall picture.

The theoretical implications include the successful combining of process viewpoint to competence analysis. A new model linking the contingency factors of the procurement process to competence criticality and to the implications of competence management is created. The model can be used in analysing what kinds of competences are needed in a certain phase and how they should be managed when the influencing contingency factors are known.

It would be interesting to research what kinds of benefits can be achieved when using the model in practice. Does the created model help municipalities and service providers in creating and managing competences? Another interesting theme for research would be to compare differences between the competences needed in a public procurement process and the competences needed in a private procurement process.

List of references

Anttila, P. (1998) Tutkimisen taito ja tiedonhankinta. [Online] <http://www.metodix.com>. [Referred 26.5.2006] In Finnish.

Haho, P. & Smeds, R. (1997) The Softmatch-method: Enterprise transformation through simulation games. In: Saunders, P & Cox, B. (ed.) *The International Simulation and Gaming Yearbook*, 5, 48-63.

Hannus, J. (2004) *Strategisen menestyksen avaimet*. Tehokkaat strategiat, kyvykkyydet ja toimintamallit. (in Finnish) Jyväskylä: ProTalent Oy. 397 s. In Finnish.

Hannus, J. (2003) Verkostoituneen liiketoiminnan johtaminen. *HETKY* 2/2003, Helsingin Tietojenkäsittely-yhdistys ry, 21-23. In Finnish.

Kelman, S. (2001) Putting contracting at the core. *Government Executive*; Aug 2001; 33, 11; ABI/INFORM Global, 16.

Tomasko, R.M. (1993) *Rethinking the Corporation: The Architecture of Change*. New York: Amacom. 213 s.