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**Public Procurement**

# Performance Measurement

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Authorised for publication by Karen Hill, Head of the SIGMA Programme

## What is the rationale for measuring performance in public procurement?

Public procurement contracts represent a major share of any country's gross domestic product (GDP) and public expenditure budget. According to the European Commission's *Annual Procurement Implementation Review 2013*, public procurement in the European Union (EU) accounted for 19% of EU GDP in 2011. These levels of expenditure alone provide sound reasons for analysing the performance of public procurement operations at all levels.

The overriding objective of a state's public procurement system is to deliver efficiency and "value for money" in the use of public funds, while adhering to EU requirements and to national laws and policies. Performance measurement seeks to answer the fundamental question of whether the procurement system and operations ultimately deliver in accordance with the main objectives set.

Three different levels of performance measurement within a public procurement system are broadly identifiable<sup>1</sup>. There are close links between the three levels in terms of performance interdependency. However, the needs, objectives and methodologies for measuring performance can differ.

- **National (meta) level** – assesses the performance of the national public procurement system;
- **Contracting authority (macro) level** – assesses the performance of contracting authorities' operations;
- **Contract management (micro) level** – assesses the delivery of an individual contract.

## What are the benefits of effective performance management?

The main benefits of effective performance management are outlined below, with reference to the three different levels of performance measurement, as identified above.

**National (meta) level:** Good quality information on the performance (standard or quality) of the public procurement system at the national level:

- assists policy makers in understanding how various policy goals interact and how policy impacts on the overall performance of the procurement system;
- enables governments and parliaments to improve the quality of decision making and to take constructive and long-term actions that will most effectively develop their public procurement systems (for example, in terms of procurement policy and regulatory reform, institutional development and capacity strengthening);
- provides governments with stronger incentives to improve their public procurement system and help them to set priorities for reform actions in the area of public procurement and to monitor progress against the objectives set;
- provides valuable information for the assessment of the public expenditure system.

**Contracting authority (macro) level:** A good performance measurement system can assist contracting authorities in the effective implementation of their operational goals and strategies and in decision making as it:

- provides information that puts them in a better position to determine the degree of efficiency and effectiveness of their procurement operations as a whole and at the level of individual projects, such as major infrastructure projects;

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<sup>1</sup> The Contact Committee of the Supreme Audit Institutions of the European Union introduced the meta, macro and micro levels in the Public Procurement Audit booklet (2010).

- identifies strengths and weaknesses in their procurement operations and monitors progress over time, thereby assisting in setting the correct priorities and in taking the appropriate actions to improve weak areas;
- forms an integral part of long-term strategic and operations planning, which includes the annual budget process, management and staff development.

**Contract management (micro) level:** Contract management at individual contract level, with its linkage to payment mechanisms:

- provides incentives for the improved and higher-quality delivery of contract requirements;
- assesses whether a contract works efficiently and delivers “value for money”;
- provides valuable feedback and confirmation of the extent to which the procurement process has been efficiently planned and managed, in particular with regard to:
  - design of technical specifications or terms of reference;
  - choice of contracting strategy and contract model;
  - choice of procurement procedure;
  - setting of selection and award criteria;
  - conduct of the tender evaluation;
  - award of the contract;
- will generate good arguments and incentives for change and improvement of all parts of the procurement process and of internal and external relationships through the continuous review of lessons learned;
- will ensure, where benchmarking is used as a performance measure, that a contracting authority is in a position to compare its own performance and results with the contracting authorities responsible for similar types of operations.

### How to measure performance?

**Challenges:** Setting up and running effective performance management systems is a complex matter that can raise a number of challenges. It is helpful to understand these challenges in advance and take them into account when planning and implementing performance measurement systems. The following challenges are common to performance measurement systems at all of the three levels outlined above:

- **Consistent policy goals and objectives:** Policy goals and objectives that change or are inconsistent can render performance measurement systems meaningless and can act as a constraint on opportunities to maximise the economic outcome and efficiency of public procurement operations. Consistency in policy and objectives is therefore a critical element in ensuring effective performance assessment and management.
- **Accurate and reliable statistical information:** Performance assessment and management is dependent on good quality, relevant and appropriate data, which must be collected in a robust and consistent manner and based on strong research methodology. Significant efforts need to be made to ensure that the information collected is of practical use.
- **Defined and measured efficiency:** Performance measurement often seeks to measure “efficiency”, but there is no single definition or way in which to measure

efficiency. Care therefore needs to be taken to ensure that a clear definition is agreed and applied consistently.

- **Introduction of a performance-driven culture:** Regulatory and institutional mechanisms may offer few incentives to contracting authorities to strive for improved efficiency or better performance, although these authorities may seek such improvements if driven by economic imperatives or by concerns relating to improvements in quality. Consideration therefore needs to be given to the way in which regulatory and institutional mechanisms support positive performance assessment.
- **Strong central support and guidance:** Many of the above factors are dependent on strong central support and guidance, both at central government level and within particular institutions. A broad information campaign may be required, led by organisations with a clear mandate and with national-level guidance documentation and support. A national-level policy decision may also be required, obliging contracting authorities to implement meaningful performance management systems and to provide relevant information for the purposes of collecting national data.
- **Available information:** Information that is not disseminated widely may be of little practical use, and therefore the reporting of achievements and results is important. The results and findings should be presented in an annual report and made accessible in a transparent manner within the public administration for comparative and benchmarking purposes, as well as to the general public. With reference to the fundamental objectives set for the operations and procurement measurement system, the report should 1) describe the main findings in terms of strengths and weaknesses of public procurement operations, and 2) define a list of recommended actions for improvement of the system. The results should form part of strategic planning in the short and medium terms.

**Note:** Baseline requirements, output indicators, and input indicators

It is important for the measurement of performance at all three levels to establish baseline requirements and to set performance indicators. The following note provides some information on these activities.

**Baseline requirements:** One key activity is to prepare a *baseline* against which performance will be measured, where the baseline represents a chosen standard under each indicator, against which the assessment will be made and compared. In principle, the baseline represents the level of performance (acceptability or outcome) that should be achieved at a certain point in time. It also constitutes the starting point for measuring the degree of progress over a specific period, for example one calendar year.

**Indicators:** Performance can be measured by various means, depending on the nature of the indicator used. Output indicators can normally be measured by means of a numerical system (for example, economic savings achieved), while input indicators, such as the quality of the procedural framework, normally require a systematic assessment by qualified assessors, which may be complemented by surveys and similar data-gathering tools.

**Performance targets:** The final component of the assessment system is the setting of performance targets in words or figures and/or a combination of both. The government will set some of these targets as part of the overall objectives for public sector development and budget implementation, for example in terms of financial savings and efficiency improvements in public service delivery. Such (nationally set) goals will have to be implemented by contracting authorities, while the management of contracting

authorities will set the operational goals that are exclusive to those authorities.

A general ambition has been the development of systems based on performance indicators, which is a common methodology in the economic field, in order to provide information and guidance on the quality or performance of public procurement. Usually, the selection of performance indicators is associated with *output indicators*, where quantifiable factors are used to a large extent to measure the performance of a system. Output indicators show whether a system works in accordance with a given standard set of factors, but they do not attempt to explain why a certain result is achieved. An example of an output indicator in the procurement field is the value of monetary indicators, such as savings and efficiency improvements. However, relying solely on output indicators is not a sufficient method to measure the standard and progress of a public procurement system.

It is equally important to include *input and process indicators*, since they lay the foundation for the generation of economic output within a public procurement system. It is very important to be able to control and/or understand how this output has been achieved in order to encompass the additional high-priority goals within public procurement, such as transparency, non-discrimination, fair treatment, and accountability. The instruments to secure these goals are traditionally associated with the design of the legislative and regulatory framework, the institutional set-up, and the mechanisms for control and complaints. Input indicators can only be assessed by means of “*subjective criteria*” based on qualified judgments by independent procurement professionals. Typical examples of input indicators are various procurement statistics (for example, the proportional share of the use of the open procedure and the number of annual complaints) and perception indexes (for example, the user-satisfaction index).

## Methodologies for measuring performance at various levels of the public procurement system

The following section sets out some examples of methodologies that could be used to determine performance at the three levels identified above.

### Methodologies at national (meta) level

- **Peer reviews and assessments:** A peer review is an instrument developed by the Organisation for Economic Co-operation and Development (OECD), which has been used for a long time for diagnosing public sector operations, including public procurement. The peer review team consists of international senior experts with extensive background and expertise in the area under review. The purpose is to identify strengths and weaknesses (performance review) in the procurement system, with special focus on the main components, such as legislative and institutional frameworks, procurement organisations in terms of capacity and capability, and markets. Based on the analysis and conclusions, the peer review team provides recommendations for improvements where needed, but it is for the country to decide on the actions to be taken.
- **Regulatory impact assessment:** The role of a regulatory impact assessment (RIA) is to provide a detailed and systematic appraisal of the potential impacts of a new law or regulation in order to assess whether the law or regulation is likely to achieve the desired objectives.

- EU Member States are required to implement the procurement directives<sup>2</sup> in the public procurement law, where those directives apply, and to ensure that all other specific national provisions comply with the fundamental rules and principles of the Treaty<sup>3</sup>. A Member State nevertheless has significant freedom in the way in which it chooses to implement these requirements in detail.
- The need for RIA arises from the fact that regulation commonly has numerous impacts, which are often difficult to foresee without detailed study and consultation with the affected parties. Economic approaches to the issue of regulation also emphasise the high risk that regulatory costs may exceed benefits. The RIA is primarily a methodology to be used before the adoption of new legislation, but there is nothing to prevent the use of an RIA in relation to existing legislation as a means of initiating regulatory reform. The OECD has published a number of documents on the use of the RIA methodology (see below in the section on further information).
- **Stakeholder surveys:** Regular surveys can be carried out, addressing important areas and issues connected to the performance of the public procurement system. These surveys should be disseminated, as appropriate, to a selection of contracting authorities, business associations and individual economic operators, audit institutions, universities and other important stakeholders with an interest in public procurement. The surveys could be prepared and managed by the public procurement office of the country or by an independent organisation or academic institution. If surveys are repeated on a regular basis, there is a possibility of capturing the differences in opinions from one survey to another. The results of the surveys should be used by the government as a basis for considering changes in the procurement system in the areas where problems have been identified.
- **External audit institutions:** External audit institutions have important tasks, on an *ex post* basis, in the identification of strengths and weaknesses in the execution of public procurement operations at the level of contracting authorities. Their audits aim to determine the extent of compliance or non-compliance with laws and regulations as well as the performance and achievements that have been made in relation to the objectives and targets set for a procurement activity.

### Methodologies at contracting authority (macro) level

The methodologies at this level are prepared with the objective of providing a “good practice” basis for contracting authorities on how to measure the performance of their procurement operations. Governments may also use the data emanating from the performance assessment at this level for the purpose of monitoring and evaluating public procurement operations and with a view to drawing conclusions on the impacts of the legal and institutional frameworks. The results of a performance measurement system at the contracting authority level may provide valuable input into national aggregate achievements, such as budget savings and general quality improvements in the delivery of public services.

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<sup>2</sup> Directive 2014/23/EU on the award of concession contracts, 26 February 2014; Directive 2014/24/EU on public procurement and repealing Directive 2004/18/EU, 26 February 2014; Directive 2014/25/EU on procurement by entities in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC, 26 February 2014; Directive 89/665/EEC on the coordination of the laws, regulations and administrative provisions relating to the application of review procedures to the award of public supply and public works contracts, 21 December 1989, as amended.

<sup>3</sup> Treaty on the Functioning of the European Union – consolidated version of the Treaty on the Functioning of the European Union, *Official Journal of the European Union*, C 326, 26 October 2012. The Treaty is referred to in the Procurement Brief as “TFEU” or “Treaty”.

**Setting performance targets:** The performance targets used should be:

- *relevant* – to what the organisation is aiming to achieve;
- *attributable* – it must be possible to influence the activity measured with actions that can be attributed to the organisation, and it should be clear where accountability lies;
- *well-defined* – with a clear, unambiguous definition so that data will be collected consistently and the measure will be easy to understand and use;
- *timely* – producing data both regularly in order to track progress and rapidly so that it is still useful;
- *reliable* – accurate enough for their intended use and responsive to change;
- *comparable* – with either past periods or similar programmes elsewhere;
- *verifiable* – with clear documentation supporting them, so that the processes producing the measure can be validated.

## Some examples of performance targets, indicators, and measurement at contracting authority level

### I. Measuring economic efficiency

- **Annual cashable savings:** For goods and services for which the price does not fluctuate with the market – based on a representative basket of contracts with an identical composition (product-wise or service-wise and in number) that ensures consistent calculation over time and is not subject to rapid specification changes – the price and cost development are determined with reference to year 1 and are applied to the whole procurement volume.
- **Individual price analyses:** For goods and services that are subject to rapid price fluctuations and specification changes, such as information and communication technology (ICT) and utilities, individual price analyses should be carried out, with reference to the baseline year, in order to determine the extent of savings or losses.
- **Annual cashable efficiencies in the procurement function (other than price):** The measurement of verifiable, cashable savings by carrying out comparative cost/benefit analyses from year X to year Y of the procurement function. Efficiencies include the same or improved results with fewer resources and transforming efficiency gains, through improvements either in output (e.g. technology improvements) or input (e.g. collaboration, logistics and processes).
- **Project/contract implementation efficiency:** For one-off projects, such as capital investment and infrastructure projects, the feasibility study (business case), together with a detailed set of performance targets, including costs and implementation deadlines, constitutes the baseline against which the performance of the project is measured.

### II. Measuring the quality of the procurement function and procedures

Examples of possible indicators:

- The average period for planning and preparation should not exceed X days.
- The average cost for the planning and preparation of tenders should not exceed

EUR X.

- Competitive procedures, such as open and restricted procedures, including competitive procedures below EU thresholds, should be used in no less than X% of the total number of procedures (and X% where the threshold(s) exceed(s) EUR X).
- Non-competitive procedures, such as the negotiated procedure without prior publication of a contract notice (and direct awards), should be kept to a minimum and should not exceed X% of the total number of procedures.
- The average participation rate in connection with open invitations during a calendar year should not be fewer than X tenderers or applicants.
- The number of contracts awarded to small and medium-sized enterprises should normally not be fewer than X% of the total number of contracts awarded during a calendar year.
- The number of complaints during a calendar year should not exceed X% of the total number of tender procedures conducted.
- The percentage of e-procurement should be no less than X% of the total number of tenders during a calendar year, starting from X year.

### III. Measuring the standard of external and internal relations and collaboration

Methods of measurement:

- An annual “supplier satisfaction survey” aims to ensure that the majority of suppliers are satisfied with the collaboration with the contracting authority.
- An annual “internal customer survey” aims to ensure that the majority of internal clients are satisfied with the services of the procurement organisation.

Possible indicators:

- The composite index on “supplier satisfaction” should be more than X on an agreed scale and should increase by Y% per year.
- The composite index on “internal customer satisfaction” should be more than X on an agreed scale and should increase by Y% per year.
- Procurement spending that is channelled through a collaborative framework contract/agreement issued by the contracting authority should not be less than X% of the total procurement volume.

**Benchmarking:** Benchmarking that involves the comparative study or analyses of successful procurement systems of all or a number of contracting authorities can be an excellent method of assisting with the definition of performance targets. Benchmarking data may also be made available nationally so as to ensure the use of a uniform performance measurement system throughout the country, which may also facilitate comparisons at a national level.

Benchmarking is also a method by which a contracting authority may compare its own operations in various aspects with comparable external undertakings, such as a similar contracting authority known for its excellence. Benchmarking can also be used for various other comparisons, such as prices or service levels.

### **Methodologies at the contract implementation (micro) level**

SIGMA Public Procurement Brief 22, *Contract Management*, which outlines methodologies that may be used for performance management of individual contracts, is divided into three broad areas: delivery management, relationship management, and contract administration. Performance measurement is part of the contract management process. Performance measurement of individual contracts will follow essentially the same route as described above, by setting out methods for information and data gathering and by defining performance areas, performance targets, baselines, indicators, measures and methods of analysis.

## Further information

### Publications

SIGMA (2015), *Public Procurement Training Manual – Module G*, OECD Publishing, Paris, <http://www.sigmaweb.org/publications/public-procurement-training-manual.htm>

### Public Procurement Briefs

<http://www.sigmaweb.org/publications/key-public-procurement-publications.htm>

SIGMA (2016), *Contract Management*, Brief 22, OECD Publishing, Paris

### Other sources

OECD (2012), *Recommendation of the Council on Regulatory Policy and Governance*, OECD Publishing, Paris, <http://www.oecd.org/gov/regulatory-policy/2012-recommendation.htm>

OECD (2012), “Discussion Paper on Public Procurement Performance Measures”, OECD Publishing, Paris, [http://www.oecd.org/gov/ethics/Discussion%20paper%20on%20public%20procurement%20performance%20measures%20GOV\\_PGC\\_ETH\\_2012\\_1.pdf](http://www.oecd.org/gov/ethics/Discussion%20paper%20on%20public%20procurement%20performance%20measures%20GOV_PGC_ETH_2012_1.pdf)

The Contract Committee of the Supreme Audit Institutions of the European Union published guidelines on public procurement audit in 2010, <http://www.tcontas.pt/pt/publicacoes/outras/PublicProcurementAudit.pdf>

World Bank/OECD-DAC, *Methodology for Assessing Procurement Systems (MAPS)*, <http://www.oecd.org/dac/effectiveness/45454394.pdf>

OECD’s webpage on a wide range of issues concerning regulatory impact assessment (RIA), <http://www.oecd.org/gov/regulatory-policy/ria.htm>

OECD’s webpage on key performance indicators for public procurement, <http://www.oecd.org/gov/ethics/procurement-key-performance-indicators.htm>

European Commission’s webpage on better regulation, [http://ec.europa.eu/smart-regulation/impact/index\\_en.htm](http://ec.europa.eu/smart-regulation/impact/index_en.htm)