

## The Competition Myth – Why Competitive Tendering Fails

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### Abstract

Competitive tendering (bidding) is a widely used procurement method. The idea behind competitive tendering is that it forces suppliers to compete and consequently the purchaser will gain better “value for money”. This paper challenges that belief by examining both the advantages and disadvantages of competitive tendering. The paper also proposes a procurement approach that is superior to competitive tendering.

### Introduction

This paper will explain why the result of competitive tendering is often an inferior, poorer quality product or service. It will:

- List the perceived advantages of competitive tendering.
- Outline the disadvantages of competitive tendering.
- Discuss who is generally blamed when competitive tendering produces bad results.
- Propose a better procurement model.
- Discuss potential criticisms and challenges associated with the improved procurement model.

The paper builds on the work of the late Dr. W. Edwards Deming. Deming was an eminent scholar and teacher in American academia for more than half a century. He was a trusted consultant to influential business leaders, powerful corporations and governments around the world.

Deming wrote important sections on customer/supplier relationships. Most relevant to this paper is Deming’s comment in *The New Economics* that states, “The idea of several suppliers for any one item, competing with each other for lower prices (as advocated by some authors), makes good talk, but as a practical matter it is only talk, even under long term contracts. It destroys any possibility of a good relationship between customer and supplier. The losses would be one of those unknowable figures”.

### Competitive tendering (what is it?)

Competitive tendering involves a purchasing organisation advertising business and requesting tenders to supply that business. In some countries the tendering process is called “bidding”.

Competitive tendering can be broken into two main types:

1. Open competitive tendering is where the invitation to tender is publicly available for all interested suppliers to respond. This method is often used in government organisations.
2. Closed competitive tendering is where the invitation to tender is issued to a restricted number of suppliers.

In some countries the use of competitive tendering is mandatory for government agencies. For example, most Australian government agencies are required to go to tender if they intend to make purchases over eighty thousand Australian dollars (1). Tenders are generally advertised via a website called ‘AusTender’.

### The advantages of competitive tendering

Competitive tendering is often considered to have the following five benefits:

1. It promotes competition between suppliers, resulting in best “value for money” for purchasers and users. This point will be challenged in this paper.
2. It “offers a kind of transparency that helps mitigate favouritism and corruption” (2).
3. In the case of open tendering, it gives all suppliers the opportunity to win the business that is advertised.
4. Another potential advantage of mandatory open competitive tendering is that when a tender is advertised it may bring an otherwise hidden issue to the public’s attention. For example, in October 2018, the Queensland government called for tenders for private accommodation leases in three Queensland National parks. This call for tenders was publicly disclosed on Queensland’s Q-Tenders website. As a consequence of the disclosure, campaigners were alerted to the government’s plans and were able to launch a campaign to protect the National Parks from inappropriate accommodation leases.
5. A new potential supplier may submit a bid at cost or just below cost in the hope of winning the tender and also winning future long-term contracts with a purchaser.

The author acknowledges that points two, three, four and five are potential benefits of competitive tendering. These benefits need to be considered and weighed against the disadvantages and factors raised next in this paper.

### The disadvantages of competitive tendering

Competitive tendering has many disadvantages. Because there are different types of competitive tendering, not all of the disadvantages outlined below will apply in every situation. Factors such as: whether open or closed competitive tendering is used; or whether competitive

tendering is being used by a private or government organisation will determine if these disadvantages apply. The disadvantages include the following:

*Leading suppliers may not tender.* Most Australian government procurement guidelines only allow suppliers who actually tender to be considered for a procurement decision. If the leading supplier or suppliers do not tender, the purchaser can only consider bids from suppliers who do tender. If leading suppliers are not considered, the purchaser may end up buying an inferior product or service.

There are several reasons leading suppliers may not submit a bid. These include:

- The expense of the tendering process. Some complex tenders can involve high costs that are not reimbursed to the bidder. In 2011 it was reported that an engineering company called Downer EDI refused to submit a tender to build new trains in Queensland. The Australian Broadcasting Corporation reported that the company refused to submit a tender because the terms of the bid and contract were “too onerous” and the tender costs would exceed \$10 million (3). In an unfortunate twist, the supplier that eventually won the tender built trains that were not compliant to the Queensland rail system. The non-compliant trains resulted in the government having to perform expensive refits to correct the non-compliant features of the trains. It is possible that if the Queensland government had approached a trusted supplier and negotiated a fair price, the supplier would have built compliant trains. In addition to the expensive refit costs, the Queensland government ordered a taxpayer funded commission of inquiry to try to determine the root cause of the problem (4).
- Suppliers may not believe that the tendering process is fair.
- Suppliers may already be heavily committed to other customers and may not need the business that is being advertised by the purchaser. The supplier may be so popular that it has a waiting list.

*Barriers to communication between supplier and customers.* When making significant purchases, frank and open communication between potential supplier and customer is crucial. Competitive tendering is not conducive to open communication. “Practitioners have recognized that competitive tendering stifles valuable coordination between the procurer and potential supplier before the plans and specifications are finalized. To see this, note that the primary information that the procurer receives from suppliers in a competitive tender is their bid. A supplier has no incentive to offer the procurer advice on how to improve the plans or avoid certain pitfalls. In fact, the supplier would have the incentive to keep any findings of this kind to itself as they offer it a competitive advantage over its rivals in a competitive tendering process” (2). However, when more effective procurement methods are used “the procurer and supplier typically spend a good deal of time discussing the project before the work begins. During such negotiations the procurer can elicit the supplier’s views about where the designs and specifications can be improved” (2). Potential problems and pitfalls with the proposed work can also be discussed.

*The cost-plus phenomenon.* Competitive tendering often results in strictly worded contracts between supplier and procurer. Deviations to contractual terms can be expensive. This can create a situation that is sometimes referred to as “cost-plus”. Dr Deming describes the situation in *Out of the Crisis*: “There is a bear-trap in the purchase of goods and services on the basis of price tag that people don’t talk about. To run the game of cost plus in industry, a supplier offers a bid so low that he is almost sure to get the business. He gets it. The customer discovers that an engineering change is vital. The supplier is extremely obliging but discovers that this change will double the cost of the items. It is too late for the customer to try and make other arrangements. Production is under way and must be continued without interruption. The vendor comes out ahead”.

*Use of cheaper, poor quality or unsuitable materials or components.* A supplier forced to play the competitive tendering game may come under pressure to keep costs down to ensure the supplier earns a satisfactory profit margin. One way a supplier can lower costs is by using cheaper materials or components. If the cheaper materials are of poor quality, the procurer will often end up with unsuitable or poor-quality products or services.

*Use of cheap, low-quality labour.* One way a company can significantly lower a competitive tendering bid is by only hiring inexperienced employees. The head of an Australian hospital physiotherapy department expressed concern that the department he managed would be privatised and the service put out to competitive tender (5). This department head claimed that a private physiotherapy firm could successfully win the tender by employing mainly new physiotherapy graduates. The new graduates would be paid significantly less than their current highly experienced physiotherapy team. Hiring the inexperienced physiotherapists would cause a decline in the quality of physiotherapy care provided to the hospital patients.

*Safety shortcuts.* Another area where suppliers may be tempted to lower costs is safety standards. In 2010, the Queensland Electrical Trades Union (ETU) called for a rethink of the tendering process for government electrical work. ETU spokesman Stuart Traill said that intense competition for State Government work had led to some companies cutting workmanship and safety to lower their prices. “These subcontractors have poor safety standards, poor past performance on government jobs, but still continue to win State Government jobs,” he said. “If there are prices coming in at twenty to thirty per cent lower than the vast majority of the decent companies, the alarm bells should start ringing” (6).

*Competitive tendering can be slow.* When government agencies use competitive tendering, it can take several years to choose a successful bidder. The result is the customer can wait years for product or service that may be required quickly. By comparison, the use of direct sourcing procurement can take a fraction of that time.

In 2013, the BBC reported that the construction of Brazil’s proposed bullet train rail network had been delayed after only one consortium submitted a tender on the £16.7 billion scheme. The rail line linking Sao Paulo and Rio de Janeiro was originally planned to be completed in time for the 2016 Olympics in Rio. According to the BBC, an earlier 2011 procurement process failed to attract any tenders (7).

The lengthy timeframes associated with competitive tendering mean that it is not a suitable procurement method when products or services need to be procured rapidly. In early 2020, the Covid-19 virus was spreading quickly throughout the world. Governments needed to purchase personal protective equipment (PPE) rapidly to try to stop the spread of the virus. Competitive tendering would not have been able to procure this PPE as quickly as direct sourcing could.

*A supplier who wins the tender but is unable to meet the contractual requirements.* A problem that compounds the problem of competitive tendering's lengthy timeframe is when a selected supplier is unable to meet the requirements of the contract they have successfully tendered for. A prominent example of a successful tenderer failing to provide a service occurred in the weeks preceding the 2012 London Olympics. A company called G4S won the security contract for the Olympic Games. Sixteen days before the games were due to begin, G4S informed the Games organisers that they could not supply the required number of security staff (8) (9). Fortunately, the British government was able to use the British armed forces to cover the shortfall in security personnel (9). In some situations, there may not be another organisation or alternative supplier that is available to supply the service at short notice. As a consequence, the lengthy competitive tendering process may have to be repeated.

Because of the prominence of the Olympic Games, the problems with the Games security contract came to the attention of the media and the public. Other examples of successful tenderers being unable to supply a product or service would not necessarily come to the public's attention.

*The 300% mess around tax.* Sometimes private sector companies will go to tender simply to determine if the price they are paying is a fair market price. Companies with a reputation for doing this are often the recipients of what has been anecdotally referred to as a "300% mess around tax". Because the bidder knows the "purchaser" is not genuinely interested in making a purchase, the bidder submits a heavily inflated bid with a 300% loading added. In this type of situation, the supplier's time is being wasted.

*Insufficient profit margin to allow for investment in research and development, new technology or equipment.* Many companies have made important contributions to society by investing wisely in research, development and technology. In many cases, these advances were possible because the organisation made a healthy profit. As previously mentioned, competitive tendering can force a supplier to accept a very slim profit margin. These low margins can result in a supplier having little or no money to spend on research and development, new technology and equipment. The result? Society loses out.

*Costly re-work or write offs.* When competitive tendering produces poor quality results, the purchaser may be required to perform expensive and time-consuming re-work to try to correct the problems. An example was the Paradise Dam in central Queensland. The dam was completed in 2005 at a cost of \$240 million after a closed competitive tendering process.

The dam was unexpectedly damaged by flooding in 2010, 2011 and 2013. As a consequence of this damage, repairs costing \$65 million were required between 2013 and 2017 (10). In addition, the Queensland government established a taxpayer funded inquiry in 2020 to examine

the causes of the damage. The commission found that the width of the dam apron was insufficient and that it did not protect the area immediately downstream of the dam apron from scouring during floods (10).

The commission also examined whether the dam would be able to withstand future, larger flooding events. It reached the following conclusion: “In circumstances that are no more severe than those experienced in the 2011 and 2013 [flood] events, the Dam is stable. Uncertainty, however, attends the prospect of much larger floods. A stability assessment for more severe loads depends upon assumptions about which the experts disagree (10).”

Based on safety concerns, the dam’s owner, Sunwater, lowered the dam wall by 5.8 metres. This lowering of the spillway wall reduced the dam’s capacity to 42% (11) and cost approximately \$100 million (12).

On 8 February 2022, the Queensland government announced that, contingent on Federal government funding, the dam would be rebuilt at a cost of \$1.2 billion (13). A summary of the Paradise dam construction, repair and re-build costs can be found in Table One.

	<b>Dam construction and repair costs</b>
<b>Original cost of dam (2005)</b>	\$240 million
<b>Cost of 2013 dam repairs</b>	\$35 million
<b>Cost of 2017 dam repairs</b>	\$30 million
<b>Cost of Paradise Dam Commission of inquiry (2020)</b>	Approximately \$6 million (14)
<b>Cost of lowering the dam wall in 2021</b>	Approximately \$100 million
<b>Cost to society – from the loss of water caused by lowering the dam wall by 5.8 metres in 2021</b>	Unknown
<b>New dam (budgeted cost)</b>	\$1.2 billion
<b>Total</b>	\$1.611 billion (plus the cost of lost stored water caused by the 5.8 metre reduction in the height of the dam wall)

Table One: Summary of Paradise Dam construction, repair and rebuild costs (2003 to 2023)

The Queensland government wasted taxpayer funds when they initially constructed the Paradise Dam. If the dam had failed, there would have been flooding, potential loss of life and

destruction of property. Instead of using competitive tendering, the Queensland government should have used a procurement process that guaranteed a better designed and safer dam was constructed.

*The costs of publicly funded inquiries.* Costly taxpayer funded inquiries have arisen from two flawed procurement processes mentioned in this paper. These two inquiries are:

- Commission of inquiry into New Generation Rollingstock trains (Report handed to government in December 2018). Queensland, Australia (15).
- Commission of inquiry into Paradise Dam. (Completed in April 2020). Queensland, Australia (11).

*Too many tenders received.* Open competitive tendering can sometimes result in too many tenders being received. This oversupply of tender submissions can result in the purchaser having to spend large amounts of time assessing hundreds of potential suppliers instead of three or four. In 2009, the Sydney Morning Herald reported that a Master Builders Association's recent Building Trends survey “found that bidding builders often face tremendous pressures, including too many builders vying for the same project, poor documentation provided by clients and inadequate tendering periods causing cost estimates to be rushed” (16). Using a limited competitive tender process may eliminate the problem of too many tenders.

*Delays caused by insufficient numbers of tenders.* In November 2006, the BBC reported that a tendering exercise to supply a Scottish West Coast ferry service was delayed because there were no bidders. This lack of bids occurred despite three firms being invited to submit tenders for the ferry route. The BBC article implies that the reason no bidders were received was that the ferry route could not be operated profitably without a government subsidy, and that no subsidy was included in the initial request for tenders. The article also reported that the tender process was expected to be re-run, but this time on the basis of providing a subsidised service (17).

This example shows how a lack of bids can increase the time it takes for the user to receive the product or service. Instead of using competitive tendering, the Scottish government could have approached the two leading ferry operators, discussed any issues associated with the proposed service and asked for proposals to supply the service. Such an approach would have avoided any wasteful delays associated with using a tendering process that drew no bids.

*Competitive tendering may attract tenders from financially strapped organisations.* A financially strapped organisation may be desperate to win a large contract to increase the organisation's chances of survival. Consequently, that organisation may submit a tender that is so low that it has a high chance of winning the contract. If the company wins the contract and then collapses it increases the number of potential problems associated with supply of the contracted product or service.

The complexity of these problems may increase if the successful bidder is partway through the design, construction or delivery of the product. In February 2018, the BBC reported that a

company that had successfully tendered to build the Royal Liverpool Hospital had collapsed with debts of £1.5 billion. The company named Carillion was partway through the construction of the hospital.

The BBC also reported that a representative of the organisation in charge of the build, Hospital Company (Liverpool), was trying to work with existing sub-contractors and former Carillion staff “because they have the best understanding of the work that is required to finish the job”. However, that representative said “highly complex” negotiations were taking time because many were facing financial difficulties as a result of Carillion's collapse. The representative also explained that the Carillion collapse would cause a significant delay to the completion of the hospital (18).

Purchasers valuing transparency more highly than efficiency and effectiveness. Some government organisations place a great deal of emphasis on the transparency of their procurement process. However, a serious problem arises if transparency is given a higher priority than the effectiveness and efficiency of the procurement process. A procurement process that is incredibly transparent but is ineffective and inefficient is not in the user's or society's interests.

The Victorian government's ‘Buying Victoria’ website contains a section on “Ensuring auditability, transparency and accountability”. This section states that “accountability and transparency are fundamental to the work of agencies and public officials” (19). The webpage then provides a definition of the meaning of transparency and accountability. There is no mention of the effectiveness and efficiency of the procurement process on this website.

A better approach for Buying Victoria would be to make a statement like: “Efficiency and effectiveness are the primary goals of our procurement philosophy. When striving to achieve these goals, we also aim to make our procurement processes as transparent as possible”. Such a statement would show that, whilst transparency and accountability are important, they do not replace efficiency and effectiveness as the primary goals of the procurement process.

Destroying collaboration between social and community service providers. In Australia, competitive tendering has been used by governments to procure social and community services. Some examples of these services include:

- Disability medical assessment services.
- Provision of community support for children with complex medical conditions.
- Disability placement and support programs (20).

In a 2016 submission to the Australian Productivity Commission, Laura Williams (on behalf of Nepean and Community and Neighbourhood Services) argued that “in highly disadvantaged communities you need service providers who are motivated to work collaboratively” with other service providers. Williams also explained that “competitive tendering destroys relationships and erodes trust between service providers (21).” This erosion of trust occurs because providers are sometimes forced to compete for the same work (22). Without trust, community



service organisations are less likely to share information and collaborate on projects that require them to cooperate.

Before deciding what procurement method to use, purchasers should consider if their current suppliers/providers work together and also consider what impact competitive tendering will have on those providers working together and the quality of the services they supply.

*Potential for legal action against a purchasing organisation.* An issue that is worth serious consideration by purchasers is whether the procurement method it chooses is more likely to result in legal action against the purchaser. One author has described the law surrounding tendering in Canada as being a “legal minefield” (23).

The document ‘Everything you wanted to know about tendering, but were afraid to ask’, provides many examples of legal cases that have arisen between purchasers and suppliers (or potential suppliers). This comprehensive document details over 35 legal cases; at least thirty of these cases involve the purchaser using competitive tendering or a similar process.

Competitive tendering can involve organisations following strict rules contained in a detailed ‘request for tender’ process. Deviations from this process – even if well intentioned – may result in legal challenges by unsuccessful bidders.

For example, a potential bidder phones the purchaser to seek clarification of some details in the ‘Statement of Requirements’. The purchaser then provides a small amount of information to assist the potential bidder. If the information given to the potential bidder is not made available to all potential bidders, one or more of them could take legal action against the purchaser.

It is possible that principles like the ones discussed in the final sections of this paper might reduce the likelihood of legal action being taken against the purchaser.

#### False claims that competitive tendering increases competition

It is sometimes argued that competitive tendering increases competition and therefore benefits the purchaser. Competitive tendering does not increase competition. It does, however, reduce choice. If there are six suppliers of a product or service and three of those suppliers submit a tender, competition has not increased. The number of suppliers the purchaser has available to choose from has reduced from six to three.

#### Who gets the blame when competitive tendering produces bad results?

When the results of competitive tendering are bad for the purchaser, a scapegoat is often found. Someone will claim that the ‘Statement of Requirements’ was written poorly. The ‘Statement of Requirements’ is the document that defines the product or service that is being put to tender. The claimant may argue that critical information was omitted or that the requirements were

poorly worded. This scapegoating generally shows a misunderstanding of several crucial points.

Dr Deming stated in *The New Economics*, “Any supplier worthy of consideration possesses specialized knowledge about its products – more than the customer can hope to have, even though the customer will be the user of the supplier’s product”. As it is the purchaser who writes the ‘Statement of Requirements’ (often without the input of potential suppliers), it shouldn’t be a surprise that these requirements are not written as well as they could be. As previously mentioned, crucial communication between supplier and purchaser is already stifled or prevented as part of the competitive tendering process. Furthermore, Deming pointed out in *Out of the Crisis*, that from his experience “94 percent of the problems come from the system, rather than the worker”. Blaming the person who writes the ‘Statement of Requirements’ is a case of blaming the worker, instead of working to improve the system.

### A better approach to procurement

The type of solution to competitive tendering will vary depending on several factors. These factors may include:

- The type of industry.
- The complexity of the product.
- The price of the purchase.
- Whether the purchase is a one-off or a long-term, on-going supply relationship.
- Whether quality problems can be corrected quickly in the event of problems and safety risks.

It is impossible to examine every different procurement scenario. A car manufacturer procuring vehicle components as part of an ongoing supply relationship may consider different issues compared to a government contracting to build a dam. To illustrate how the complexity of a procurement decision can vary, Dr. Deming provides three different procurement ‘worlds’ (scenarios) at Appendix A.

In Deming’s world one, the potential harm caused by competitive tendering may be minimal. However, the tendering process may be slow. Deming’s worlds two and three involve purchasing decisions that are more complex than world one. In worlds two and three, quality of service, price over the life of the product and other factors need to be taken into consideration. For the reasons discussed in earlier sections of this paper, competitive tendering has the potential to maximize the harm caused to the purchaser if it is used in situations similar to worlds two and three. Consequently, competitive tendering should not be used in these sorts of scenarios.

Selection of suppliers should, instead, be based on the following key principles:

- Efficiency.
- Effectiveness.
- Thorough research of the purchasing requirement and/or alternatives.
- Open communication with current or potential suppliers.
- Purchasing decisions based on a relationship of trust.
- Where applicable, developing a long-term and healthy relationship with a reputable supplier or suppliers.
- Paying the supplier a fair profit margin.

Of the three procurement methods – direct sourcing, open competitive tendering and closed competitive tendering – direct sourcing is the only method that can conform to all seven of these principles. Toyota uses a direct sourcing procurement method that embodies all seven of these principles.

#### A focus on Toyota

Toyota is a manufacturer of automobiles, materials handling equipment, textile machinery and finance provider. As of 2021, Toyota was the world's largest auto maker. It has developed an enviable reputation for quality since the company was founded in 1937. Toyota developed this reputation because of its outstanding management. An important component of outstanding management is knowing how to develop excellent supplier relationships.

Toyota's relationship with its suppliers is based on trust. It does not use competitive tendering, but instead uses direct sourcing to choose its automobile components suppliers. Toyota views new suppliers cautiously and issues them only small orders. New suppliers must prove their sincerity and commitment to Toyota's high-performance standards for quality, cost and delivery. If they demonstrate this for early orders, they will get increasingly larger orders. Toyota will teach them 'the Toyota way' and adopt them into 'the family'. Once inside, suppliers are not booted out except for the most egregious behaviour. "Simply switching supplier sources because another supplier is a few percentage points cheaper (a common practice in the auto industry) would be unthinkable" (24). A Toyota Australia logistics manager has indicated that Toyota may consider using competitive tendering to choose a supplier that provides a product or service that is not Toyota's core business, such as a stationary supplier.

Toyota does not use competitive tendering because it understands that tendering has the potential to negatively affect the quality of their vehicle components and assembly equipment. Toyota prefers to build mutually beneficial relationships with its suppliers according to the spirit of mutual trust. According to Toyota, they "cherish their ties with suppliers who proactively embrace and jointly promote our story: *'Customer First, Dealer Second, Manufacturer Third'*" (25).

Toyota is also well regarded by its suppliers. According to Plante Moran's 21<sup>st</sup> annual OEM-Supplier Working Relations Index, Toyota is ranked first in supplier reputation. The index tracks supplier perceptions of working relations with their automaker customers in which they rate them across eight major purchasing areas broken down into 20 commodity areas. Automakers' scores on the Working Relations Index are tied to efforts to reduce costs, even though that may not be reflected in vehicle prices. Since the Working Relations Index was launched in 2002, Toyota has taken first place every year except 2009 and 2010, when Honda was rated No.1 (26).

The index shows trust and communication are the foundation of good working relations in a currently uncertain business environment with billions of dollars and thousands of jobs at stake.

Toyota's procurement strategy is openly displayed on its company website. <https://www.toyota-industries.com/company/procurement/> (27). Any potential Toyota supplier can make a submission to supply a product or service at any time. A flowchart summary of the Toyota procurement process is located at Appendix B.

Not all organisations have the procurement expertise, staffing and resources of a company like Toyota. For this reason, some guidelines to help small to medium sized organisations with purchasing decisions are provided at <https://www.infoentrepreneurs.org/en/guides/supplier-selection-process/> (28).

The Toyota direct sourcing approach would not be suitable for every procurement scenario. This paper does not aim to provide a detailed direct sourcing process for every possible procurement situation. Instead, the paper provides seven principles that management can use to improve their procurement practices. Ultimately it is up to each organisation's management as to how they implement the seven principles described in the previous section.

### Potential criticisms and challenges associated with the new approach

Using procurement approaches like the ones discussed in this paper may attract some criticism and challenges that need to be managed. These include:

*Not every supplier will get the opportunity to participate.* When using open competitive tendering everyone would have the opportunity to submit a bid. Depending on what alternative procurement method is selected, it is possible that not every supplier will get the opportunity to submit a bid. It may be challenging to convince the relevant decision makers to move from an approach that is 'open to everybody to tender' to a system that is not. In government organisations, procurement methods are influenced by politicians. For a politician, transparency is incredibly important. If a procurement process produces a poor result, a politician can say "the organisation conducted a thorough and transparent procurement process. All suppliers that tendered were carefully considered". Convincing politicians to adopt an approach with less transparency and that does not allow all potential suppliers to tender will be challenging. However, this is what must occur to achieve improved procurement results.

*The solution requires effort.* Researching the best and most trustworthy suppliers of a product or service may take research and investigative work. Some managers and purchasing staff may not have the skills and motivation to perform such a task. If an organisation conducts inadequate research into a potential supplier, the purchaser may overpay or end up with a low-quality product or service. The solution? Educate staff making purchasing decisions and hire motivated management. Use the approaches discussed in earlier sections of this paper.

*Bias, conflicts of interest or corrupt behaviour.* Procurement decisions are fertile ground for conflicts of interest or corrupt behaviour. For example, a procurement decision maker secretly receives gifts or other benefits from a potential supplier, in return for selecting that supplier for a contract. It is possible that using a procurement method less transparent than competitive tendering may increase the chance of conflicts of interest or corrupt behaviour. An organisation would need to have measures to minimise the chances of corruption and conflicts of interest. Examples of some practices that may prevent corruption include:

- Ensuring staff employed in procurement decision making are trustworthy.
- Ensuring staff know what to do if they are ever offered gifts or other benefits.
- For some procurement decisions, an organisation may want to have a panel of people making the procurement decisions.
- For some procurement decisions, it may be prudent to have more than one person on the panel who has a strong knowledge of the products or services being purchased.

It is the responsibility of management to manage the challenges discussed above. The potential beneficiaries of replacing competitive tendering with a superior procurement method include users, purchasers, suppliers and taxpayers.

### Conclusion

The exact amount of damage done by competitive tendering is unknown and unknowable. To bring about improvement, organisations' requirements for effectiveness and efficiency will need to outweigh their requirements for their procurement business to be open and available to all suppliers. This paper recommends that competitive tendering be abolished in most situations. Where possible, long term, mutually beneficial relationships should be developed with trusted and reputable suppliers. Selection of these suppliers should be based on thorough research. The selected suppliers should be paid a fair profit margin for the quality product or service they provide.

## Notes

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## Appendix A

The following is an adapted extract from W. Edwards Deming's book, *The New Economics*. The extract describes three different purchasing 'worlds' or scenarios. These three different scenarios show that different purchasing requirements may call for different purchasing strategies. All of the procurement principles listed in earlier sections of this paper are applicable in all three scenarios. But the principles are more relevant in scenarios two and three.

### World 1

1. The customer knows what it wants, and conveys to a supplier its needs in terms of specifications or other description.
2. The price paid is the only cost to consider: no other cost involved.
3. Several suppliers can, without question, meet the specifications, right down the middle.
4. The only difference between the suppliers is the prices quoted. One is lowest, including the transportation and the cost of doing business with the supplier.
5. The customer has no scruples nor prejudice against any of them.

In this world, anyone would be a fool not to do business with the lowest bidder.

We sometimes find ourselves in this kind of world. A homely example is food in a package. Of three grocers handy, one sells it at lower price. That Grocer will get our business.

### World 2

1. The customer knows what it wants, and can convey to a supplier its needs in terms of specifications or other description.
2. Several suppliers or jobbers can without question supply the material requested.
3. They all quote identical prices.
4. One of them, however, provides better service than the others. This supplier has inventory. Or access to inventory. The supplier's delivery is dependable. When the supplier says that material will be delivered this Thursday, it is delivered this Thursday, not just some Thursday. The material will come in the right kind of car, and the car will be clean. The supplier will have an employee on the customer's receiving platform to give advice to the customer on how to unload the material, and how to store it, if there be risk of handling damage, risk of warp or of aging from wrong temperature, wrong humidity, wrong way to stack the pieces.

In World 2, the customer will do business with the jobber that provides the best service.

A possible example is sugar. No-one cares what company made the sugar. Sugar is sugar, no matter who made it, no matter who sells it; 998 parts in 1000 are sucrose, the

other parts are other kinds of sugar. All six jobbers will quote the same price, the price posted this hour on the Commodities Exchange.

### World 3

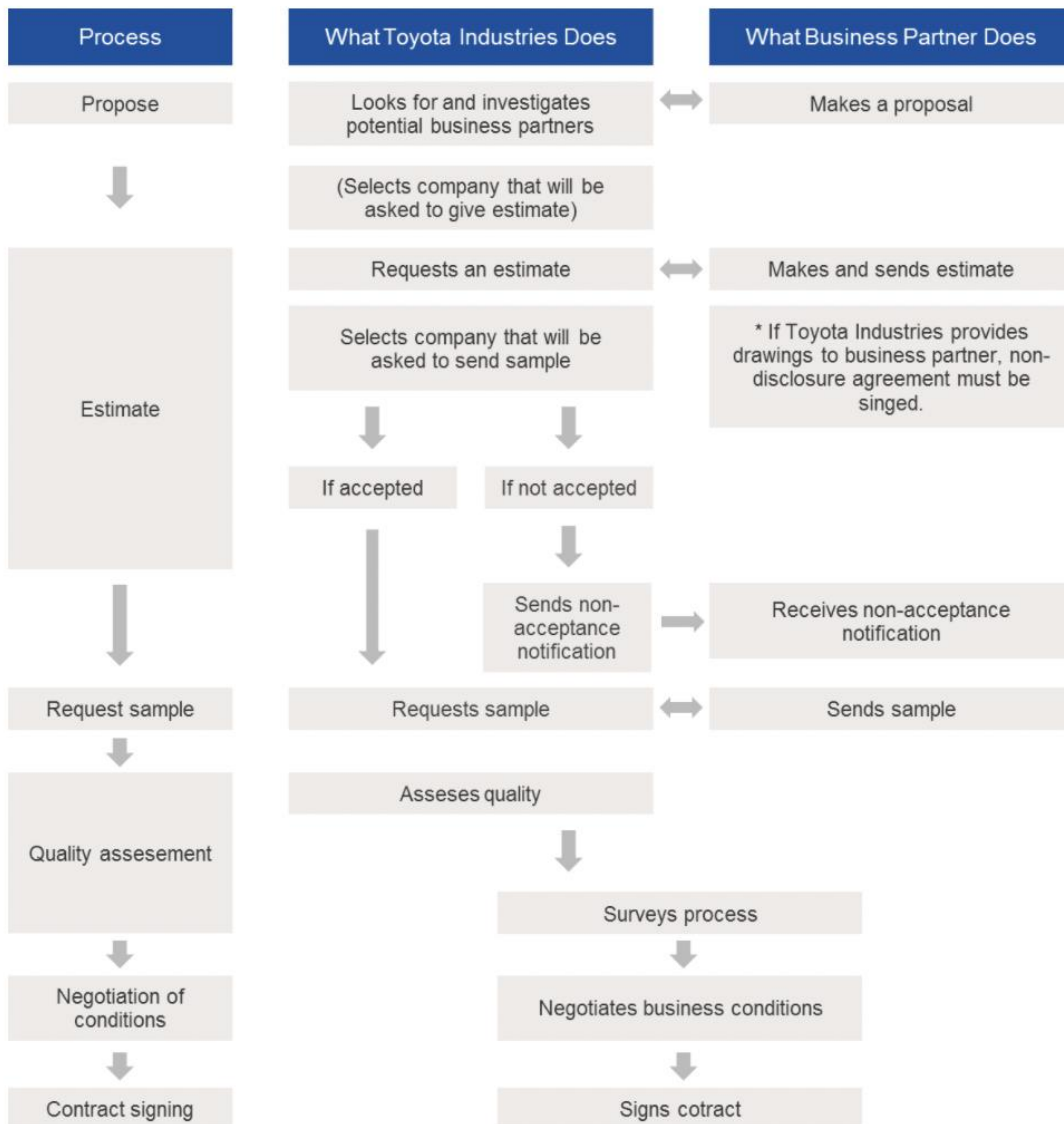
1. As in World 1 and 2, the customer knows what it wants, and can convey to a supplier its needs in terms of specifications or other description. However, the customer will listen to advice from a supplier. Some changes in specifications might be worthy of thought.
2. The price paid is not the only cost. There is also cost of use, predictions on how the material will work in manufacturing, along with consideration of the final quality that will go out the door.
3. Several suppliers tender their proposals, all at different prices, all different in other ways. One or more of them will be concerned about quantities at each delivery, fluctuations on demand, and about the number of days allowed from order to delivery. One or more of them will propose a long-term arrangement. With the aim to follow the customer's use of material (which might of course be a subassembly) in its various stages of manufacture and onward, with the possibility that small changes from time to time, arrived at through joint effort, might turn out to improve performance and decrease overall costs for the consumer.

In World 3, the choice may be difficult. The customer might be wise to divide the business at the outset between two or three suppliers, for further study.

The customer's ultimate aim is continual improvement of quality along with lower costs. Judicious reduction in the number of suppliers, with long-term contracts for any one item may seem to offer tempting advantages.

Appendix B

Flow Chart of the Purchasing Process



Note: If Toyota Industries Corporation decides that the products are not acceptable at some point after the quality assessment stage, we will inform the company at that time.