

# Transparency in public procurement processes – a case study of a Swedish public procurement process in the consultancy market

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**KTH Industrial Engineering  
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**Abstract**

This thesis explores the transparency in public procurement processes in Sweden. The purpose of the thesis is to evaluate the procurement process in the case of framework agreements on consultancy services and the focus is on exploring perceptions on the procurement process from both suppliers and procurers. The thesis contributes with findings to a research area that is not well studied, and where there is a need for more research. Previous research has focused on evaluating the regulations rather than the process.

The results suggest that the specific procurement process studied is perceived to work well and being transparent. There might be information asymmetries present in the process which could potentially threaten the transparency. To further improve the procurement process both suppliers and procurers would like to see more room for dialogue and less focus on following the regulations to the letter.

**Key-words**

Public procurement, efficiency, information asymmetries, framework agreement, Kammarkollegiet, transparency

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# 1 Introduction

Whenever a public agent (government, agency or other authority, in this thesis I will refer to them all as authority) is to purchase something they have to follow certain rules. For public agents it is just not to go out on the market and buy whatever service or product they need as private agents can. For countries within the EU there are several procurement rules public agents have to apply when purchasing goods or services. (Directive 2014/24/EU)

This means that a large customer group in the EU could be hard to reach for a supplier if you don't know how the rules and regulations concerning public procurement works. Each year public authorities across the EU spend around 18 percent of GDP on purchasing goods and services (Europa.eu). To make it somewhat equal across the countries within the EU, the EU law has set minimum harmonized rules called the Directives of Public Procurement (Europa.eu). These rules often serve as a base for national rules of public procurement in each EU country.

Public procurement in Sweden is regulated primarily by the Swedish Public Procurement Act (LOU), the law on procurement in the water, energy, transport and postal services sectors (LUF), and the Law on procurement of defense and security (LUFSS) (Upphandlingsutredningen, 2013). Each year, public procurement in Sweden has a turnover of somewhere between 550 and 600 billion SEK (Upphandlingsutredningen, 2013). Despite the large turnover there has been little research done in the area of public procurement in Sweden and there is also a lack of data connected to the issue (Upphandlingsutredningen, 2013).

LOU stipulates in different ways how governmental organizations can organize their procurement. One frequently common way to conduct public procurement is to use a so called framework agreement. The Regulations define a framework agreement as: "An agreement or other arrangement between one or more contracting authorities and one or more economic operators which establishes the terms under which the economic operator will enter into one or more contracts with a contracting authority in the period during which the framework agreement applies." (OGC Guidance 2008 p. 3)

A framework agreement (FA) set out the terms and conditions for subsequent call-offs but place no obligations on the procurers to buy anything, hence one authority can do the procurement of the FA and other authorities can use it by making a call-off from the FA. This makes the FAs very convenient to use.

In Sweden there are three authorities that procure governmental FAs: the Swedish National Financial Management authority (ESV), the National Procurement Services (which is a department within the central government authority Kammarkollegiet) and the Swedish National Debt Office. (ESV's website, Kammarkollegiet's website & the Swedish National Debt Office's website) All these authorities are supervised by the Swedish Competition Authority (KKV) when procuring (KKV's website).

All authorities in Sweden are required to use a FA and can only during special circumstances<sup>1</sup> be allowed to conduct their own procurement of a service/good where there is a FA already in

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<sup>1</sup> According to the regulation (1998:776) of the government procurement coordination an authority can choose to departure from a FA if they find another contract that is better in total. A departure is accepted if the existing FA does not meet the needs of the authority or that the authority will get a better contract if conducting procurement in the area themselves.

place (Regulation (1998:796) of the government procurement coordination). This means that companies who have a FA with one of the three authorities mentioned above have a huge potential customer group, all authorities in Sweden. Hence, many companies want to secure a FA with the government.

It is therefore important that the procurement process is transparent and fair. These conditions have to be met in order for the government to be able to procure high-quality efficient goods and services for the tax payers' money.

### **1.1 Purpose and Research question**

The purpose of this thesis is to evaluate the public procurement process in the consultancy market. This is a market where the government has a lot of FAs compared to other markets such as administrative systems. According to Kammarkollegiet (2013) the FAs had a turnover of between 62 - 350 million SEK. This shows that the FAs in this area are among the most used FAs in Sweden (Kammarkollegiet's website). The perceptions of the efficiency of the procurement process of both the firms participating in the process and the government agency responsible for the procurement will be evaluated.

The following research questions will be studied:

- What are the difficult steps in the process, according to the firms participating in the process and the government agency, respectively?
- Do the firms participating in the process perceive that they have sufficient information for providing a high quality offer and do they think the process is transparent?
- Which suggestions do firms participating, as well as Kammarkollegiet, have for improving the process further?

There are several reasons for studying these questions. Some of the procuring authorities in Sweden have been criticized for rigging contracts in the procuring process so that only one supplier will be awarded the contract (Computer Sweden, 2014). There might also be problems connected to asymmetric information in the public procurement process and this could potentially have negative effects on the competition between the firms competing for the FAs. There could also be that the potential information asymmetry prevents the procuring authorities from procuring the most efficient goods or services, and that the information asymmetry therefore causes market failures (more about this in section 3).

Previous research within this field has focused more on evaluating the regulations and not so much the process itself. There have also been studies on how to get more innovative firms to participate in the procurement process. I found that there is a lack of research that evaluates the procurement process. Overall, the procurement area is not very well studied and there is a need for more research within the field. Hence I believe this thesis will help increase the knowledge when it comes to the Swedish public procurement process.

### **1.2 Research method**

I used a both quantitative and qualitative research approach for this thesis. I did conduct five interviews and one survey.

By conducting a qualitative research approach it increases my chance of getting a deeper knowledge in the studied area, without the need of large amount of data. A qualitative research approach is also what is most suitable for answering my research questions.



I was however able to collect a small amount of empirical findings through my survey and could hence pursue a quantitative method to help answer some of my research questions. A more detailed methodology discussion is found in section 4.

### **1.3 Delimitations**

In this thesis I am focusing on one specific procurement process and not procurement process in general. Hence no conclusion on the procurement processes in general can be drawn. The purpose of this thesis is to investigate the specific procurement process and the perceptions of firms participating. Therefore no general conclusions will be drawn.

### **1.4 Structure of the thesis**

The thesis is structured as follows; in section 2 I give a brief overview of the procurement process in Sweden and general information about framework agreements. In section 3 I present theories connected to public procurement and I also present previous research within the field of public procurement. This is followed by section 4 where I present the chosen research methodology. In section 5 the framework agreements at Kammarkollegiet are presented. In section 6 I present the result from the interviews and the survey. In section 7 I present my analysis of the data and results from the interviews and in section 8 I present my conclusions and ideas for further research.

## 2 The Procurement Process

In this section I will give a brief overview of how the procurement process is organized for most procurement. This will help the reader understand where in the process different challenges may arise and how to deal with them in the best way.

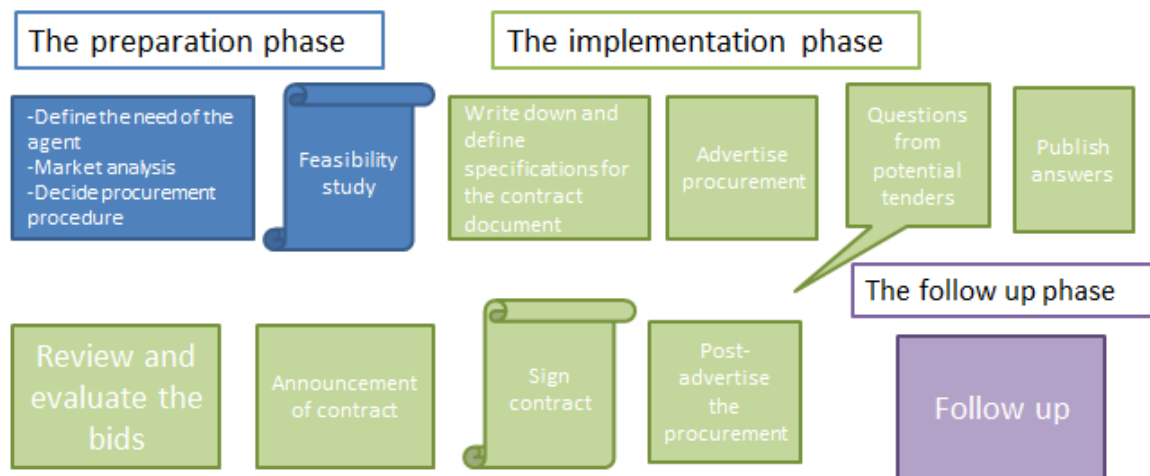
### 2.1 The procurement process – a brief overview

The procurement process can be divided into three large phases;

- preparation (1),
- implementation (2) and
- follow up (3).

These different phases are in turn divided into several different activities and parts.

(Upphandlingsprocessen steg för steg 2011)



#### *The preparation phase*

The preparation phase is the easiest of the three. Here the procuring agent has three main activities. They have to 1. define the need of the agent, 2. carry out a market analysis and 3. decide what type of procurement procedure they will use (Upphandlingsprocessen steg för steg 2011). When this phase is over, the procuring authority most often has published a document called a feasibility study from which the next phase will continue.

#### *The implementation phase*

The second part of the process is the part where most work and resources are needed. Here the procuring agent has to perform several actions during a relative short amount of time. First of all the procuring agent has to write down the specifications for the contract documents. After this the agent has to advertise the procurement (Upphandlingsprocessen steg för steg, 2011). For Swedish public procurement it is custom that we advertise the procurements above the threshold value<sup>2</sup> in TED, which is a web-tool that all countries in the European Union can use, and hence a procuring agent reaches all possible suppliers, not just the suppliers in the procuring agents home country. (Kammarkollegiet's website)

During the period of advertisement, which usually is somewhere between 22 to 52 days (LOU), the potential tenders are able to ask all kinds of questions about the specifications of the contract documents to the procuring agent. To make sure all suppliers are being treated the

<sup>2</sup> The threshold value is 505 800 SEK for procurements following LOU and 939 342 SEK for procurements following LUF/LUFS

same, a procuring agent usually publish the questions asked by one supplier for all other to see. This will decrease the risk of suppliers feeling unfairly treated (Upphandlingsprocessen steg för steg, 2011).

When the advertisement period is over, the procuring agent should have received several tenders from suppliers who want the contract. The procuring agent now goes through all the tenders and sees which of the suppliers fulfill all the specifications of the contract document. It is common that most of the suppliers fulfill the specifications and therefore potentially could get the contract with the procuring agent. The procuring agent therefore has two different award strategies when evaluating the tenders, the most economically advantageous tender or the tender with the lowest price (Upphandlingsprocessen steg för steg, 2011). The two award strategies are used for different types of procurements. If a procuring agent is to procure papers to their office they most likely will use the lowest price strategy since the quality of the paper is not that important. But if the agent is to procure consultancy services it is most likely that they will use the most economically advantageous strategy when procuring, since there are other criteria, such a knowledge and quality, rather than price that are more useful when procuring services. The award strategy chosen should be stated in the specifications of the contract documents so that the suppliers know before sending their tender. (Upphandlingsprocessen steg för steg, 2011)

As the procuring agent is reviewing the tenders they might find inaccuracies or flaws in the tenders. In some cases the procuring agent can send the tender back to the supplier and ask them to revise their tender and send it in again. This is only allowed if it is an obvious mistake, such as a misspelling or a miscalculation. The procuring agent can also ask for a clarification or complement to the tender, but if this is done the procuring agent has to make sure the clarification won't affect the competition or otherwise discriminate the supplier. (Upphandlingsprocessen steg för steg, 2011)

A supplier must be excluded from competing for the contract if the supplier has or has been found guilty of economic crime. A supplier can be excluded from competing for the contract if they are bankrupt, or is subject of an application of bankruptcy or have been found guilty to crime connected to their profession. (Upphandlingsprocessen steg för steg, 2011)

When the tenders have been evaluated the procuring agent decides who gets the contract and announces this to all suppliers who did send in a tender. Now the procuring agent is to sign the contract with the supplier who won it. After the announcement of the contract there is a ten days standstill where the procuring agent and the supplier can't do anything. This is to give the suppliers who didn't get the contract a chance to go through everything and decide whether or not to make an appeal to court to have the tender revised again. (Upphandlingsprocessen steg för steg, 2011) If no supplier files an appeal within the ten days the procuring agent and the supplier can sign the contract and the second phase of the procurement is almost over. All that is left is for the procuring agent to file all documents from the process and do a post-advertisement in TED which just states that the procurement is over. (Upphandlingsprocessen steg för steg, 2011)

### *The follow up phase*

The last part of the procurement process is about follow up and evaluating the supplier and the goods or services provided. This is done continuously as long as the contract is valid. (Upphandlingsprocessen steg för steg, 2011) And then, after a period of time, when the contract is expired, the procuring agent has to, once again, start the procurement process.

## 2.2 Framework agreements – a special kind of procurement

The procurement process explained above describes how a majority of all procurement is pursued. There are special kinds of procurement as well, framework agreements is one of them. In this section I will give some general information about framework agreements to help the reader better understand how they are different from regular agreements.

As stated above a framework agreement (FA) is: “An agreement or other arrangement between one or more contracting authorities and one or more economic operators which establishes the terms under which the economic operator will enter into one or more contracts with a contracting authority in the period during which the framework agreement applies.” (OGC Guidance 2008, p.3)

A FA can be awarded to either one supplier only, or to more than three suppliers (Spagnolo, 2009), hence through a framework agreement the government can create a monopoly situation when contracting to only one supplier. Apart from the contract formulation, the process of procuring FAs is pretty much organized as the process described in section 3.1.

There are three different forms of FAs:

1. FA with one supplier where all conditions for call-offs is set.
  2. FA with several suppliers where all conditions for call-offs is set.
  3. FA with several suppliers where all conditions for call-offs is not set.
- (Upphandlingsstödet’s website)

The *first type* of FA is binding on both parties. That means that it is not possible for either the procuring authority or the supplier to deviate from the FA. If one of them does, the party is guilty of breach of contract which may result in liability of damages. (Upphandlingsstödet’s website)

For the *second type* of FA the same holds as for the first. The FA is binding on both parties. What differs in this type of FA is that the suppliers are ranked at different suppliers could then win an order depending on how the different call-offs are being specified. A supplier who is ranked number one in this kind of FA may be entitled to damages for failure to call off if the supplier hasn’t been asked about an order that is in accordance with the FA while a lower ranked supplier has. (Upphandlingsstödet’s website)

The *third type* of FA is not mutually binding since the contract is not considered a contract according to LOU. The supplier is not generally bound by such a FA since the supplier can refrain from bidding in the re-tendering. The procuring authority can choose to regulate the supplier’s obligation to deliver upon a call-off in the contract specifications, and then the supplier is bound by the FA. (Upphandlingsstödet’s website)

An authority is always bound by a FA, also in cases where it is not agreed upon the supplier’s obligation to deliver, as mentioned above. So, in that case the FA is only binding on behalf of the authority. This means that an authority which purchases goods or services covered by the FA from another supplier makes itself guilty of breach of contract. (Upphandlingsstödet’s website)

According to the regulation (1998:776) of the government procurement coordination an authority can choose to departure from a FA if they find another contract that is better in total. Before making any such decision the authority has to do a careful analysis which should result

in either that the FA does not meet the needs of the authority or that the authority will get a better contract if doing a procurement in the area themselves. (Kammarkollegiet's website)

By departure from an existing FA they authority has to make sure that they procure an new contract in accordance with LOU. Most authorities also send a notification of departure to the procuring authority when they decide to departure form a FA. If a departing authority does not follow LOU, there is a risk that the authority will be found guilty of illicit direct award of contract and that could be subject to a review by the administrative court or claims in the district court. (Upphandlingsstödet's website)

According to the Swedish competition authority one third of all public procurements were procurements of FAs in 2013. FAs do also get more bids on average compared to other kinds of contracts. (Siffror och fakta om offentlig upphandling, 2014)

### **3 Theory**

In this section I will begin with introducing the concepts of asymmetric information, moral hazard and adverse selection. I will also introduce different strategies firms can use when bidding for contracts. I will conclude this section with a review of some previous research done in this area. As mentioned before there has not been much research done concerning the procurement process. Nevertheless I think it is valuable to present some of the previous research to help the reader understand difficulties and complex issues regarding procurement in general. By beginning with some theory and then summing up with previous research I think it is easier for the reader to understand the challenges of procurement and how different market failures might appear in the procurement process.

To be able to study my research questions, I have chosen to look at how the market functions in terms of information exchange between actors in the market. In my case it is the information between the procuring agent and the firms bidding for the contract, but also the information exchange between the different firms competing for the contract. By using theories of asymmetric information and opportunistic behavior I intend to identify where in the procurement process the flaws are present, and also what could be improved in order to maximize profit and utility for all parties involved.

#### **3.1 Asymmetric information**

In neoclassic theory of consumer and firm behavior an assumption is made that both consumers and firms have perfect information. This leads to markets with prices at equilibrium and optimal welfare levels. (Jehle & Reny, 2011) But in reality consumers and suppliers don't have perfect information all of the time, hence we cannot develop a similar equilibrium theory for situations in which the agents have imperfect information unless we take account of the strategic opportunities available to the agents involved (Jehle & Reny, 2011).

A situation where agents possess different information is called a situation of asymmetric information. The strategic opportunities arising in these situations often lead to inefficient markets. In the presence of asymmetric information the competitive outcome in a market may not be efficient and cause a situation in which both consumers and suppliers are worse off and the opportunities for Pareto improvements go unrealized (Jehle & Reny, 2011).

Asymmetric information can be present in public procurement situations. According to Perloff (2008) a situation of asymmetric information can be present whenever one party of a transaction knows something that the other party doesn't. In the procurement process this can be at several stages and the information asymmetry can be present between different actors. One example where asymmetric information may be present is when the procuring authority is to write the specification for the contract documents. If they lack knowledge about what is available at the market, they might write a contract where they unintentionally favor a supplier that they have had a contract with or have experience working with. Hence there is asymmetric information between the suppliers (especially those who have experience with or established contacts with the procuring authority) and the procuring authority since the procuring authority has to rely on the supplier to get the information they need when writing the contract specifications. (Israelsson & Gustafsson Rydberg, 2013; Upphandlingsutredningen, 2013)

The asymmetry here can also lead to a situation of asymmetric information among the suppliers bidding for the FA. The more experienced suppliers might know how the process

works and hence know how to push prices down and what to ask and not ask the procuring authority, to get an advantage over the less experienced supplier (see more about the procurement process in section 4). This might lead to the less experienced suppliers finding it too difficult or too expensive to even bother to participate in the bidding of the FA (Caldwell et al., 2005; Israelsson & Gustafsson Rydberg, 2013).

Asymmetric information could potentially lead to problems of opportunism. That is when an informed actor benefits at the expense of the less informed actor. (Perloff, 2008) This could also be connected to the issues in the procurement process explained above.

When buyers (in the procurement case, the procuring authority) can't completely judge the quality of the good or service they are procuring before procuring it, low-quality, but cheap, products (lemons) may win the FAs and hence drive the high-quality, but more expensive, products out of the market (or in this case the bidding for a FA). Because there is asymmetric information in the market, firms do not produce as much of the high-quality goods even though that is what the consumers want. (Perloff, 2008) This is a huge problem for the procuring authorities. Since they are very restricted, due to LOU, in how they can formulate the specifications in the contract documents it is hard to make sure that the firm with the best quality get awarded the FA and that the low-quality firms don't. (Israelsson & Gustafsson Rydberg, 2013) Markets where asymmetric information is present may then cause a less effective use of resources than a market with perfect information (Perloff, 2008). For procuring officers there is always a trade-off between price and quality, and depending on how hard quality standards the procuring officers ask for, the selection process may be delayed. But if they don't set any qualification standards in the contract the whole project or procurement may be very costly (Estache & Iimi, 2012).

### **3.2 Moral hazard and adverse selection**

When a principal (a company or a procuring authority) has a stake in the action taken by an agent (a consumer or a supplier applying for a FA) but the actions of the agent cannot be observed or monitored by the principal, we have a situation of moral hazard. In this situation, often called the principal-agent problem, the principal has to come up with a way to make sure that the agent takes appropriate action. (Jehle & Reny, 2011) The fact that the procuring authority often has a hard time monitoring how well the contracted firm meets the requirements stated in the contract document (Ödén, 2009), definitely shows that moral hazard is present in the procurement process. McMillan and McAfee (1986) also found evidence that moral hazard is present in the procurement process since the government cannot always control that the firms are doing all they can to keep production costs down. By trying to create contracts in a good way, the risks of moral hazard are limited within the public sector in Sweden.

With moral hazard, markets failures can occur because output might be reduced or not at its optimal level. These market failures harm society. (Perloff, 2008)

Moral hazard is one of the ways in which opportunistic behavior can occur. The other way is adverse selection. That is when an informed actor is benefiting from trading, or contracting, with a less informed actor because the less informed actor does not know about some unobserved characteristic with the informed person. Situations with adverse selection can cause market failures. (Perloff, 2008) An example of a market failure connected to the procurement process is the fact that adverse selection can reduce the size of the market (Perloff, 2008) and thereby preventing possible transactions to take place. If a procuring agent

believes that the market they need to buy something from is a market of lemons, due to previous experience with suppliers taking advantage of their informed situation, they might not want to purchase in that market again. This causes problems both for the procuring authority that needs the good or service, and for the suppliers who are honest and willing to trade. (Perloff, 2008; Israelsson & Gustafsson Rydberg, 2013; Upphandlingsutredningen, 2013)

There are ways in which one can try to minimize the problems of adverse selection and that is to restrict opportunistic behavior and also to equalize information in a market. (Perloff, 2008) The problem of unequal information is something that procuring agents are well aware of and also something they actively try to work with and improve. One example is how procuring authorities are obliged to publish all questions from suppliers to make sure that all potential suppliers get the same information (Upphandlingsprocessen steg för steg, 2011).

### **3.3 Strategies used by firms**

Incumbent firms might want to hinder potential entrants from entering a market for several reasons. In general, entry-detering strategies are worth considering (for an incumbent) if the following conditions are met:

1. The incumbent earns higher profit as a monopolist than it would earn if it had to share the market with other firms.
2. The entry-detering strategy changes the entrants' expectations about the nature of the market and post-entry competition. (Besanko et al., 2010)

There are several ways in which an incumbent firm can “scare off” potential entrants if the above conditions are met. One way is to use the practice of limit pricing. It refers to a situation in which the incumbent charges a low price to discourage entry by new firms. The idea behind limit pricing is that the entrant observes the low price and assumes the price will be even lower after its entry, hence the entrant concludes that the low price won't cover the sunk costs of entry and chooses to stay out of the market. (Besanko et al., 2010)

The incumbent could also use the practice of predatory pricing. In this situation an incumbent sets a low price to drive smaller rivals from the market. The purpose of this strategy is twofold: to drive current rivals out of the market and to make potential entrants think twice before entering the market. (Besanko et al., 2010) Predatory pricing is not always a successful strategy, and it takes quite some work to make the strategy be effective due to the dynamic game model it represents. The potential entrant must be convinced that the strategy the incumbent chooses is a sustainable strategy for the incumbent; otherwise the entrant will enter the market. (Peppal et al., 2008) According to Peppal et al., (2008) predatory pricing only makes sense if two conditions are met. First, the increase in post-predatory profit has to be sufficient to compensate the predator (incumbent) for the loss incurred during the time of the strategy being pursued. That is, the predation has to be subgame perfect. The second requirement is that no other strategy is profitable and can achieve the same outcome.

Both strategies (limit pricing and predatory pricing) can be used by suppliers applying for a FA. According to previous research (Upphandlingsutredningen, 2013) large firms who are in a dominant positions in a market knows they can lower the prices in their bids and thereby get a better evaluation score when the contracts are to be awarded. Small- and medium-sized enterprises (SMEs) in the same market as the bigger firms, know that the big firms most likely will drop their prices and hence they don't even bother to bid for the FA (Israelsson & Gustafsson Rydberg, 2013; Caldwell et al., 2005). This, of course, is not good for the



competition in the market and it is not good for the government from an efficiency point of view. The government has also initiated several initiatives to make it more attractive and easier for SMEs to bid for and get awarded FAs. The fact that the large firms, in some markets, have an advantage when it comes to price setting and experience in public procurement might hinder the governments initiatives and the SMEs still don't get to enter the market. (Upphandlingsutredningen, 2013)

### **3.4 Previous research**

According to a study by Israelsson and Gustafsson Rydberg (2013) the aim with public procurement is to ensure that tax money are used in the best possible way. The public procurement in Sweden should also contribute to competitive markets. Since the regulations for procurement is complex and hard to interpret the governmental aims stated above might be hard to fulfill. (Israelsson & Gustafsson Rydberg, 2013)

The purpose with LOU is that the governmental authorities in charge of procurement should be able to use the public funds effectively by letting the private sector delivery goods and services, and also by ensuring competitive markets. One of the main aims of LOU is to make sure that all suppliers in a specific market compete on equal terms (Israelsson & Gustafsson Rydberg, 2013).

One way in which the government and the different public authorities try to fulfill the goal of competitive markets in LOU is through so called framework agreements (FAs). The term is usually used to cover agreements which are not covered by the definition of a contract to which the rules of the EU apply. What is different with FAs is that they set out terms and conditions for subsequent call-offs but place no obligations on the procurers to buy anything (OGC Guidance 2008). This means that several competing suppliers in a market can all be contracted to the FA and then it is up to the different authorities to choose which supplier they want to use. The FA can also be split into lots which further increases the chance for a SME to get a share of the FA. This also helps keep good competition in the market and hence give the authorities the best price when they procure services or goods from a FA. (OGC Guidance 2008)

A study from Finland states that the government sure can gain increased innovativeness and encourage entrepreneurship by contracting with SMEs but there is a low interest among SMEs to be involved in public procurement. The reason for this is that it is typically 10-15 percent more costly to be bidding for contracts in a public procurement compared to bidding for contracts in the private sector. (Karjalainen & Kemppainen, 2008) According to this study there are three categories of obstacles for SME involvement in public procurement: the bidding process, contract sizes and inadequate information sharing (Karjalainen & Kemppainen, 2008). What is common for all three categories is the perception among SMEs that they lack the legal and administrative resources to participate in the procurement process and hence they stay out. Many SMEs also stated that they don't have access to, or don't know about databases used in procurement such as Tenders Electronic Daily (TED). To solve this problem Karjalainen and Kemppainen (2008) suggests that the government should use more standardized documents and contracts when procuring and also inform and actively search for potential suppliers to make sure that everyone gets an equal chance.

In a study by Caldwell et al. (2005) they look at how public procurement agencies can maintain and establish competitive markets by conducting a case study. They were looking at procurement within the service sector (consultants and process planning services). According

to the study public markets are often uncompetitive because “they fail the test of economic models that require features such as perfect information and particularly low barriers to supplier entry”. (Caldwell et al., 2005 p.243) They also notice that in certain sectors relations with key suppliers plays a role in determining how competitive the market is. This has been one of the critiques also in Sweden when it comes to procurement of accounting systems for the government (Computer Sweden, 2014). The study also raise some questions regarding FAs, they say that FAs are a good way for the government to make more innovative procurement but also that it takes a lot of commitment and innovative leadership to make the FAs work in the desired way (Caldwell et al., 2005).

In the study by Caldwell et al. (2005) they find that the case with the FA had worked out pretty good since the suppliers who got the FA could see a future of incoming work with the government. By being part of the FA they got exclusive knowledge and expertise with helped with long-term relations. At the same time the government found it beneficial to have the same suppliers at several projects since it increased the standardization and led to lower costs in the long-run. (Caldwell et al., 2005)

Caldwell et al. (2005) found several issues procuring authorities have to be aware of. One of them is the fact that strategic procurement might have a negative side effect where suppliers cut margins and creates a market where only big firms can “afford” to bid for public contracts. To solve this problem, the procuring authorities have to make the market as attractive as possible. A key finding from the study is that in order to contribute to competitive markets the procuring authorities must incentivize suppliers to suit broader public sector requirements, and this must be reflected in the contractual forms of the public procurements. (Caldwell et al., 2005) An other issue raised by the study is how public procurement easily can create “key suppliers” in certain sectors and thereby enable monopoly situations (Caldwell et al., 2005). Another important issue for success is the post contract management. In Sweden Kammarkollegiet is the authority responsible for this and they work with this in all their FAs.

According to a study by Ödén (2009) a consumer will search for information of a product until the search cost equals the marginal cost of the search. Hence, procuring authorities might not have the time to research every firm that bids on a FA because of high costs. Therefore a situation of asymmetric information and market failure may occur in the procurement process. In the study Ödén also states that the procuring authorities have one important way in which they can minimize the risk of moral hazard, and that is the minimum requirements stated in the contract specifications. Even though these requirements might lead to fewer firms being able to bid for the FA, the pros connected to risk elimination outweigh the possibly negative effect on competition. Ödén further propose that a price premium should be given to firms who fulfill all the requirements since this would lead to a better quality good or service being procured. The size of this price premium should reflect how big of a problem asymmetric information is in the market. If there is a big problem with asymmetric information the premium should be large and vice versa (Ödén, 2009).

According to a study by Hyytinen et al. (2005) a procurement officer should always choose the lowest bid, unless the officer is engaged in favoritism of some kind. Favoritism emerges when each bidder is better informed about its own costs and knows the distribution of at least one other firm (example a local firm) that has a worse distribution than the others. In this case cost asymmetries are present and if they are common knowledge, the buyer has an incentive to choose a strategy where it doesn't always purchase from the lowest bidder. The strategy will force cost-efficient firms to bid more aggressively, and the buyer can minimize the

expected procurement cost. Favoritism of this kind can be efficient, if one measures efficiency from the end-users perspective. (Hyytinen et al., 2005)

Another case of favoritism can emerge if the procurement agent has a preference for one of the bidders. This is called preference asymmetries. (Hyytinen et al., 2005) If the procurement agent for some reason has a preference for a local firm, the agent can discriminate against non-local firms by asymmetric information about quality, as a result of a bribe demand or as an outcome of a bribery game (Hyytinen et al., 2005).

Hyytinen et al. (2005) states that favoritism can be efficient or desirable in two different ways. First, it might reduce the costs of procurement since the non-favored group has to bid more aggressively or second, that the preferences of the end users are met in better ways through favoritism.

To find out whether or not favoritism is present in Sweden, Hyytinen et al. (2005) studied procurement of cleaning services in Swedish municipalities throughout the years 1991-1998. Their assumptions were that if no favoritism is present and there are no quality differences in the bids, then the lowest bidder should always be awarded the contract. If anyone but the lowest bidder did get awarded the contract, then favoritism is present. They found that in about 60 percent of the municipalities, favoritism was present. (Hyytinen et al., 2005) This shows that there are issues connected to information asymmetries present in the procurement process.

Vagstad (1995) states that asymmetric information makes favoritism in public procurement hard to detect. In his study he claims that governments prefer domestic profits, and hence will discriminate against foreign profits in public procurements. He also states that price is just one of several factors when awarding contracts, the other factors are not always observable to others. That creates a situation of asymmetric information among bidders for a contract. (Vagstad, 1995) In his study Vagstad (1995) found that “[a]ny mechanism that pools information also decreases the firms’ incentives to improve quality” (Vagstad, 2005, p.303). That implies that information asymmetries in public procurement does have a negative effect on the market.

In a study by McMillan and McAfee (1986) several information asymmetries are listed. First of all, the government cannot directly observe any bidder’s expected production costs. This means that the government cannot determine which of the firms that is the most efficient. Secondly, each bidder for a contract must determine its bid without taking into account the expected costs of its rivals. Thirdly, when a contract has been awarded, the awarded firm is better informed than the government about the features of the particular project, thus the government will be unable to observe how much effort the awarded firm is making to limit the costs of the production (McMillan & McAfee, 1986).

This results in the government having to design a contract to address both adverse selection and moral hazard (McMillan & McAfee, 1986). In their study, McMillan & McAfee (1986) found that an optimal contract trades off moral hazard against risk sharing. They also found that the terms of the contract affect how firms bid in the initial competition for the contract. There must always be a tradeoff between stimulating competition in the initial bidding process and giving the winning firm incentives to limit its costs (McMillan & McAfee, 1986).

In a study by Estache & Iimi (2012) they examine the trade-offs between price and quality that procurers face. They specifically look at the infrastructure sector. According to Estache and Iimi (2012) there remains a strong view among public procurers that quality should not be compromised, the reason is that if they would contract with an incompetent contractor it would turn out very costly. On the other hand, too much and hard quality standards in contracts may narrow the market and business opportunities. Also, with each quality aspect, the selection process for the procurers gets more complicated.

According to Estache & Iimi (2012) the bidding and entry strategies of the bidders are affected in two ways if there are any quality criteria.

1. High quality is often more costly to deliver, hence the equilibrium bid will increase.
2. High quality may require skilled labor and technology which can limit the market. The number of potential bidders will thus be lower.

Estache & Iimi (2012) found that by lowering some of the quality criteria the costs of public procurement could be lowered, especially for costly projects such as infrastructure. They also found that the procurer would very seldom compromise the quality of projects even though they knew that the competition would be improved if they did.

## **4 Methodology**

As mentioned in the introduction I used a both quantitative and qualitative research approach for this thesis.

Focus for a qualitative research method is on what material you are able to collect, rather than on how much material you have collected. However, this is at the expense of generalizing conclusions not being possible to achieve (Burnham et al. 2008). Since my research questions are limited to one specific area of FAs and public procurement, the consultancy market, I believe a qualitative case study will be suitable for this thesis. My main purpose is not to find any causal relationships or achieving generalizing conclusions. What my case study will contribute with is a deeper knowledge of the Swedish public procurement process and whether or not information asymmetries and other similar market failures are present.

To complement the qualitative research I did collect some empirical findings through a quantitative method by using a survey. The findings from the survey, together with the findings from the interviews were necessary to gather to be able to answer my research questions.

### **4.1 Interviews**

For the qualitative method I pursued an interview with the head of ICT-procurement at Kammarkollegiet. The questions from the interview are attached as appendix 2.

The interview was a semi-structured interview where I had open questions that I and the respondent discussed. The respondent had gotten the questions before the interview and had had time to read and prepare answers before the interview was conducted. Semi-structured interviews are a good choice of method when conducting qualitative interviews since it makes the interviewee feel more at ease and helps the conversation flow (Patel & Davidson, 1994)

The interview gave me a chance to answer questions regarding difficulties in the procurement process and to better understand how Kammarkollegiet reasons and work to make the procurement process efficient from their point of view.

I also conducted four telephone interviews with officials from the firms bidding for the FAs. These interviews were also semi-structured and I asked open questions about their perceptions of the procurement process. The questions are attached as appendix 3. The reason I choose to conduct these interviews was to get a better understanding of how the firms perceived the process and to complement the results from the survey. It is always more preferred to conduct interviews face-to-face but due to the limited time and the geographic location of some of the firms I had to conduct telephone interviews. Despite the fact that me and the interviewees did not meet I still think we established a good relationship throughout the interview and hence the results are useful for this thesis.

I selected my interviewees based on their knowledge about the procurement process. Since I wanted to look at how different agents in the procurement process perceive it I had to interview people with knowledge and experience.

### **4.2 Survey**

For the quantitative research method I conducted a survey which I send to all 71 firms who applied for the FAs procured during 2009. The questionnaire is attached as appendix 1. I received 18 answers. This is a quite low response frequency. I did send four reminder e-mails

and I also tried to call the respondents to get them to answer. To increase the validity of my thesis I decided to conduct interviews with some of the respondents to complement the data from the survey. There are several possible reasons as to why the response rate was so low. First I think that firms receiving the survey might have forgotten about it if they did not look at it immediately. Secondly I think that some firms did just not bother to open the e-mail to look what it was about. And lastly I think some firms were afraid of not being able to be anonymous when answering. I did get a few questions regarding the possibilities to stay anonymous, so this is probably something I could have been clearer with when sending the survey.

The survey was used to get an overview of how the firms had perceived the procurement process. The respondents had to answer questions about the procurement process by using a scale from 1-4, where 1 was bad and 4 was the best. From this I was able to assemble the information and summarize what the firms thought and compare this with what Kammarkollegiet thought (see more in section 7).

I also had some open questions in the questionnaire to be able to gather comments on the procurement process and information sharing that wasn't covered in the other questions or where I would like to have more of reasoning from the firms.

### **4.3 Reliability and validity**

When conducting scientific research one should always consider two quality criteria, reliability and validity. Reliability is an indicator of reproducibility, that is, can someone else repeat the measurements and get the same findings? Validity is an indicator of construct concordance, that is, do the findings in a study actually reflect what the researcher was intended to do? (Bühringer & Sassen, 2010)

In this thesis the reliability will be low since I am looking at how respondents perceived a specific procurement process at a specific time, and I am using interviews and qualitative methods to answer my research questions. What also decreases the degree of reliability is that how the respondents answer the questions is affected by how the relationship between me (the researcher) and they (the respondents) are during the interviews. It is also highly affect by how I interpret the answers. Therefore it might be hard for someone else to reach the same conclusions, even if using the exact same questions. For the quantitative part the degree of reliability might be somewhat higher. At least when it comes to the questions where the respondents have to answer with the scale from 1-4. The open questions are still connected to a low degree of reliability.

Validity can be divided into two parts, internal and external, where internal validity measures to extent the specific research done (in this case this thesis) actually studies what was intended to study and external validity measures to what extent generalizations from the findings of the study are possible. (Bühringer & Sassen, 2010) The internal validity of this thesis should be high. I have constructed interview questions and survey questions to answer my research question and hence the questions will measure what they were intended to measure. The external validity is low. In this thesis I am just evaluating and studying one specific procurement process and hence it is not possible to draw any generalizing conclusions from the findings in this thesis.

## 5 Framework Agreements on consultancy services at Kammarkollegiet

In this section I will present the framework agreements at Kammarkollegiet that I am going to study in this thesis.

### 5.1 Background

The Swedish consultancy market had its big boom during the 90's. Since then the market has stabilized and now multinational firms are also established on the market (Karlström & Karlberg, 2012). According to Karlström and Karlberg (2012) the market had a turnover of about 181 billion SEK each year, and more than 162 000 people are employed in some sort of a consultancy firm.

The Swedish government agencies have had an increase in use of different consultancy services. The reasons for this varies, but the most common reason to why an agency chooses to hire consultants rather than employ is that they see a need for specific competence for a limited time (Statskontoret, 2001). To make the use of consultants as efficient as possible, the government therefore decided that there should be FAs covering this area (Statskontoret, 2001).

### 5.2 Framework agreements at Kammarkollegiet

#### *About Kammarkollegiet*

Kammarkollegiet is the oldest public authority in Sweden and dates back to 1539. It was originally established as a Chamber to deal with tax collection and auditing of public accounts. Today the authority's tasks cover an extensive area that mainly involves activities requiring qualified legal and economic expertise. Procurement is one of these tasks and Kammarkollegiet is responsible for the procurement of FAs for consultancy services (Kammarkollegiet's website).

#### *Framework agreements on consultancy services*

In 2010 when Kammarkollegiet did the procurement for the consultancy services, they conducted a procurement which was supposed to result in one FA that would be divided into three different areas:

- Area A: business and organizational development consultancy services
- Area B: managerial and leadership development consultancy services
- Area C: analytical management consultancy services.

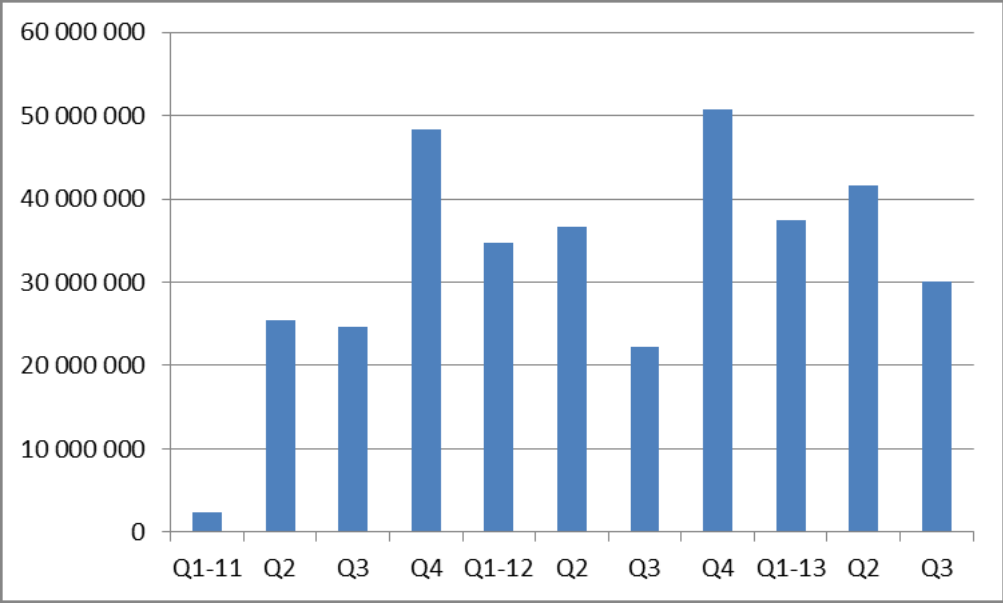
For each area Kammarkollegiet choose to award contracts to more than three suppliers (Kammarkollegiet's website).

After awarding the contracts for area A and B, they were tried in court since some of the companies not being awarded felt that they had been wrongly judge. This led to the FA being split in to three parts where all have different expiring dates (Förstudie, 2013). The table below show how many companies bid for the FA and how many got awarded.

Area	Number of applications	Number of suppliers contracted	Number of FAs
A	47	10	5
B	26	14	7
C	29	7	4
Total	102	31	16

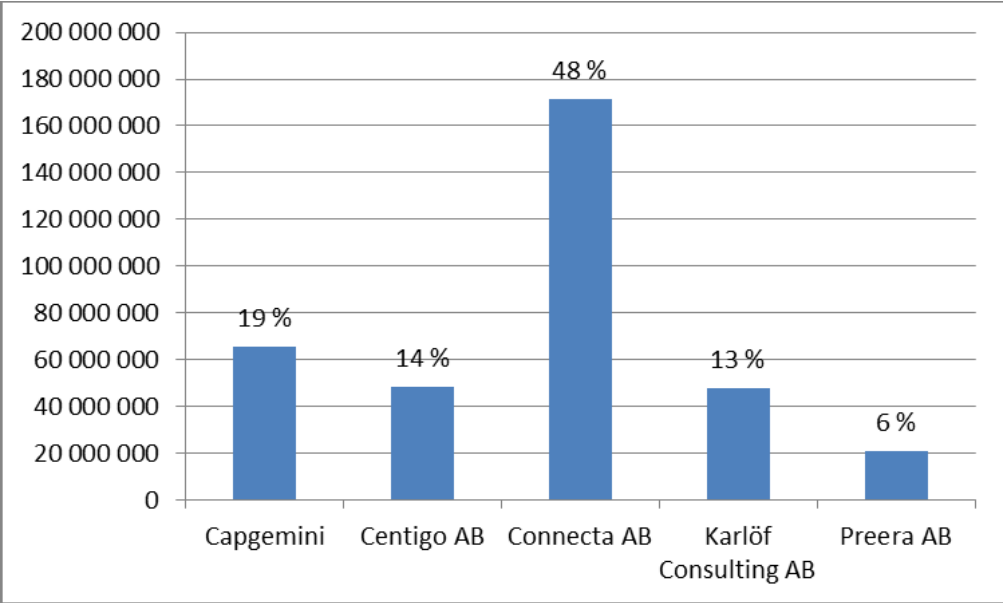
There were a total of 71 different suppliers who was bidding for the contracts, 4 of which bid for all three areas, 23 who bid for two of the areas as follows: 19 bid for A & C, 3 bids for A & B and 1 bid for B & C (Förstudie, 2013). Each of the firms who were awarded a contract had subcontractors. That means that the total number of firms that the government authorities could use through this FA was more than 16 (Förstudie, 2013).

From the report made by Kammarkollegiet (2013) one can see that the FAs in area A has had a turnover of 354 MSEK through the third quarter of 2013.



Source: Förstudie Managementkonsulter 2013, p.8

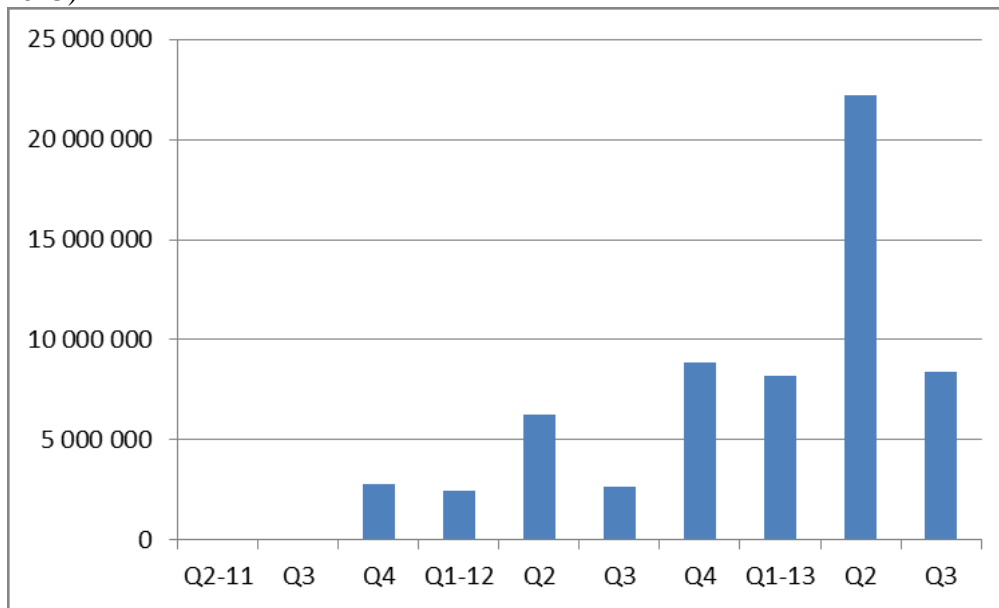
This can be divided to each of the suppliers as follows:



Source: Förstudie Managementkonsulter 2013, p 9

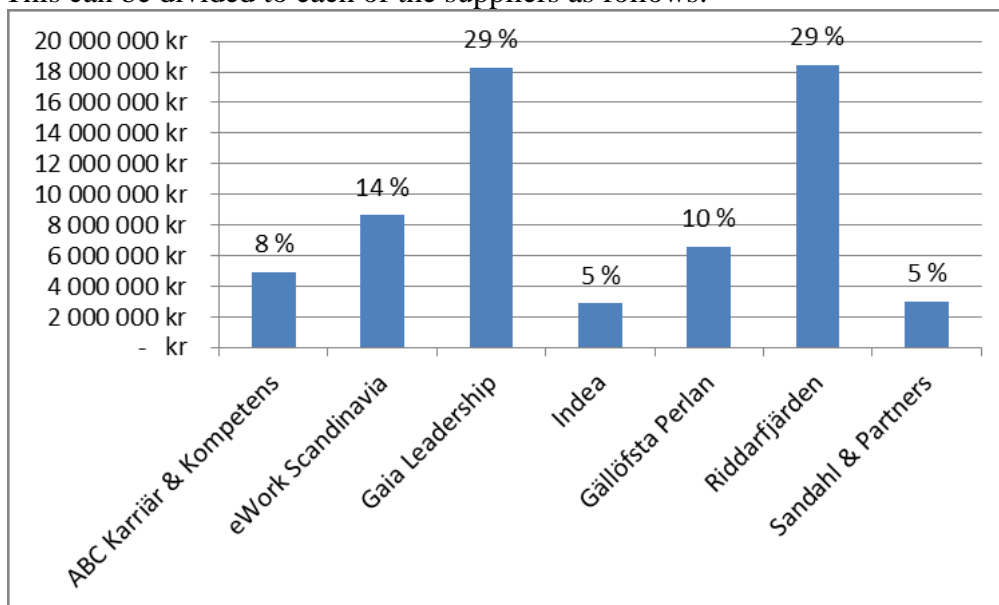


For area B the total turnover through the third quarter of 2013 is 62,7 MSEK. (Förstudie, 2013)



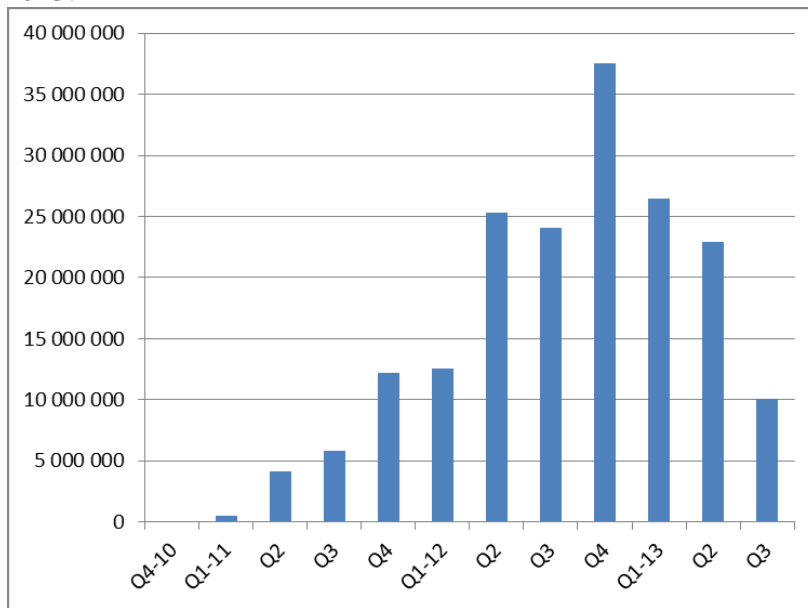
Source: Förstudie Managementkonsulter 2013, p. 10

This can be divided to each of the suppliers as follows:



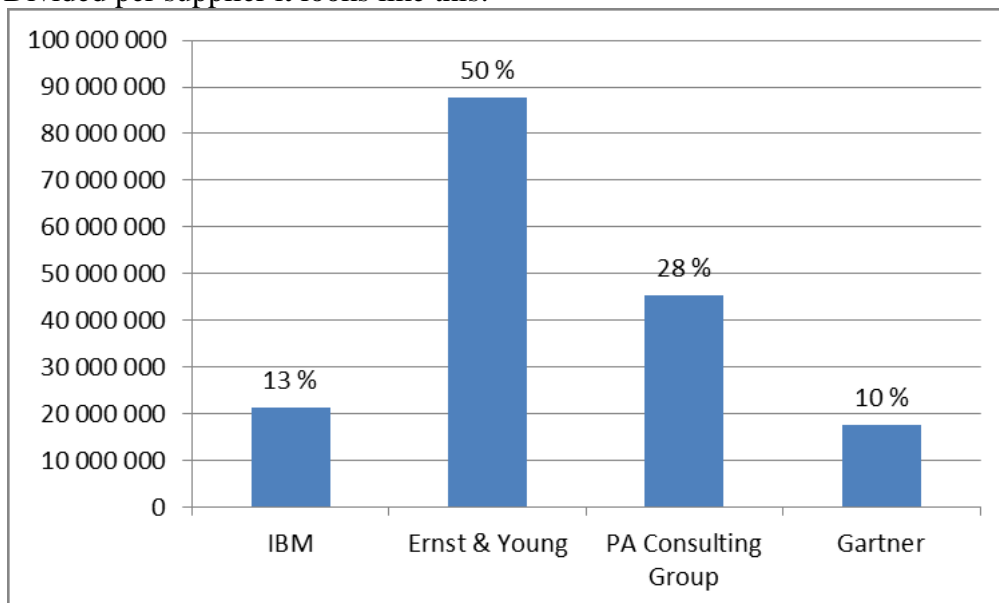
Source: Förstudie Managementkonsulter 2013, p. 10

And finally for area C the total turnover has been 181,7 MSEK through the third quarter of 2013:



Source: Förstudie Managementkonsulter 2013, p. 11

Divided per supplier it looks like this:



Source: Förstudie Managementkonsulter 2013, p. 11

According to the report by Kammarkollegiet (2013) the total number of call-offs by authorities are divided as follows.

- Area A: 60 different authorities and 190 individual call-offs
- Area B: 50 different authorities and 124 individual call-offs
- Area C: 40 different authorities and 105 individual call-offs

## 6 Empirical findings

In this section I will present the results from the interviews and the survey.

To be able to answer my research questions I wanted to know how the procurements at Kammarkollegiet are conducted and how they reach and contact potential suppliers. Of that reason I interviewed Mr. Hans Sundström head of ICT-Procurement at the National Procurement Services at Kammarkollegiet, which is the department responsible for the FAs on management consultancy services. The questions are available in appendix 2.

I also conducted a survey which I send to all firms bidding for the FAs. The results from the survey are presented in section 5.2 and the questions are available in appendix 1. To further increase my understanding of the perceptions of the procurement process of the respondents of the survey, I conducted four interviews. These are presented in section 5.3 and the questions are available in appendix 3.

### 6.1 Interview with Kammarkollegiet

As I mentioned in section 4 I decided to use a qualitative research approach to answer my research questions. Part of this was to conduct an interview with a representative from Kammarkollegiet. To increase my understanding about how Kammarkollegiet perceive the procurement process I conducted an interview with Mr. Hans Sundström.

Mr. Sundström told me that in the ICT-field, Kammarkollegiet has somewhere between 140-160 FAs. He said:

*“Procuring FAs is what we do at Kammarkollegiet. We are experts at it. It really doesn’t matter what regulations the government or the EU come up with, we can always adapt and successfully continue with our work.”*

Because of the large number of FAs Kammarkollegiet procure and administer they are a well-know player in the markets. Hence, most suppliers keep track on when their FAs are about to expire and knows when a new FA is about to be procured. Kammarkollegiet publish an announcement on their webpage to reach out to the suppliers. Kammarkollegiet are right now in the middle of a procuring process of new FAs within management consultants and Mr. Sundström said that the contract documents had been downloaded over 300 times since they published them on their webpage and right now they have 38 bids they are about to evaluate. Mr. Sundström meant that with 38 different bids, the competition is by no means adversely affected.

Even though there are many bidders and the knowledge that procurement is about to take place is spread across the market, it still could be information asymmetries present. Mr. Sundström stated that during the preparation phase Kammarkollegiet is having very open and transparent discussion with all suppliers who wants it. During this phase Kammarkollegiet communicate information regularly. Mr. Sundström said that it is very important that the suppliers get a chance to share information with Kammarkollegiet during the market analysis; otherwise Kammarkollegiet would have a hard time doing a good job with the FAs. Mr. Sundström also explained that when they have finished a feasibility study they have a meeting where all suppliers are invited and Kammarkollegiet explains what they have decided to do.

According to Mr. Sundström they get a lot of questions during the procurement process and most questions concern the qualification requirements in the contract document. Even though

they answer all questions some suppliers still fail to send in a complete bid, that is, a bid where they have answered all requirements in the contract document.

Mr. Sundström said that they are sometimes surprised that many of the large suppliers tend not to read the requirements very thoroughly and this results in their bids being disqualified. The large suppliers are professionals when it comes to bidding for FAs and that is why Mr. Sundström is surprised when they do make mistakes. According to Mr. Sundström, large suppliers often have bid teams of 5-6 people that are totally devoted to bid for FAs. This could potentially be a reason why many large suppliers do have FAs with Kammarkollegiet. Still Mr. Sundström claimed that the competition for FAs is fair, even for SMEs. When Kammarkollegiet analyze the bids they often find that in a bid from a large firm there is an organization of several SMEs behind that bid. Hence, Kammarkollegiet gets SMEs in the FAs as well as big players.

Whenever Kammarkollegiet procures they use the award strategy the most economically advantageous tender to evaluate all the bids. The quality of the services provided through the FAs is what is most important for Kammarkollegiet. Mr. Sundström said:

*“The biggest problem is if we get lemons in the FA, some devious supplier. It is very hard to handle a situation like that. But since we use qualification requirements we can get around that problem. We get good suppliers. If we are able to contract with six suppliers, then our FAs are going great.”*

Mr. Sundström believes that it is important that the government continues to procure FAs in this area, and he thinks the process is working pretty well. If there was something he could change, he would like to be able to negotiate a bit more with suppliers. But overall the process is working and Kammarkollegiet’s FAs are well-used by the authorities in Sweden according to Mr. Sundström.

## **6.2 Results from the survey**

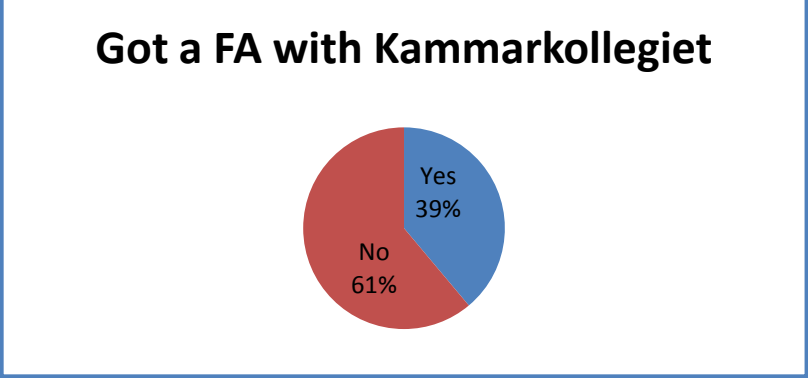
To be able to answer my research questions I also needed to get the perceptions of the procurement process from the suppliers. To gather this information I chose a qualitative research method and designed and conducted a survey. The survey was sent out to 71 firms who all bid for the FAs procured during 2009. A total of 18 firms replied. I did send out four reminder e-mails to try to increase the response rate, but unfortunately that was unsuccessful. This is a low response rate and not enough to be able to analyze my research questions in a valid way. I therefore decided to add a quantitative research method to better understand the perceptions of the suppliers. For the quantitative part I conducted four interviews with respondents from the survey.

Whenever one does a survey there can always be issues concerning selection problems present. That is, the ones who decide to answer the survey are representing a certain group and hence generalizations will be hard to make from the results (Bas et al., 2009). When I choose which respondents to interview I looked at the answers from the survey and choose two respondents who had more negative perceptions and two respondents who had more positive perceptions.

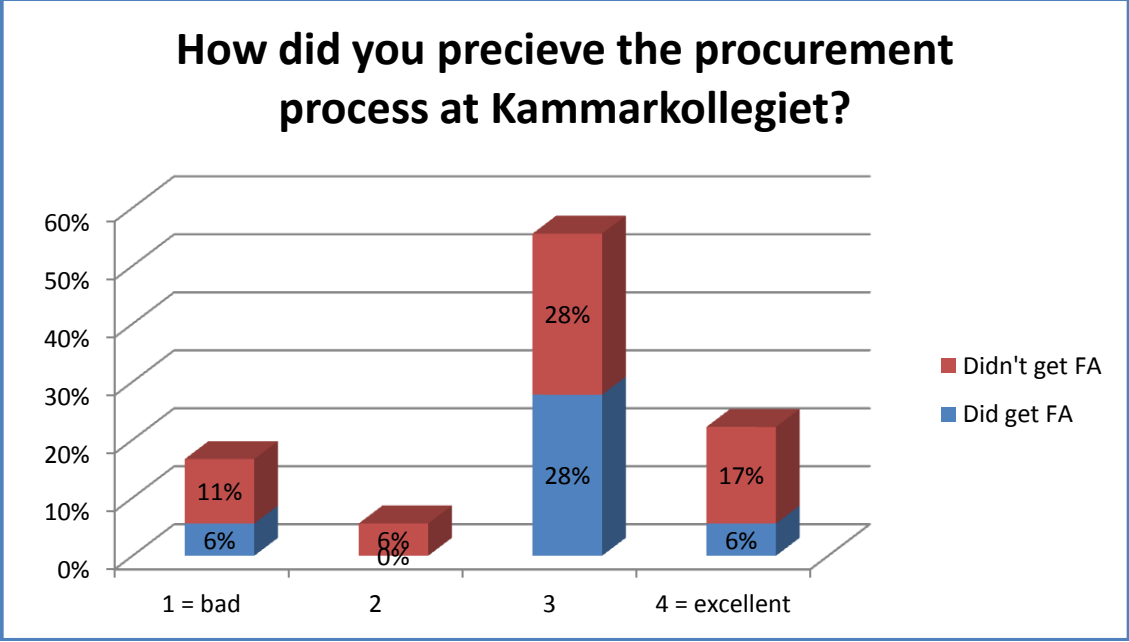
In this section I will present the results from the survey. The questions from the survey are listed in appendix 1. The questions where the respondents had to use a scale from 1-4 is

presented in diagrams. In section 5.3 the results from the interviews are presented and the questions from the interviews can be found in appendix 3.

Out of the respondents 7 did get a FA with Kammarkollegiet and 11 did not, as shown in the figure below.

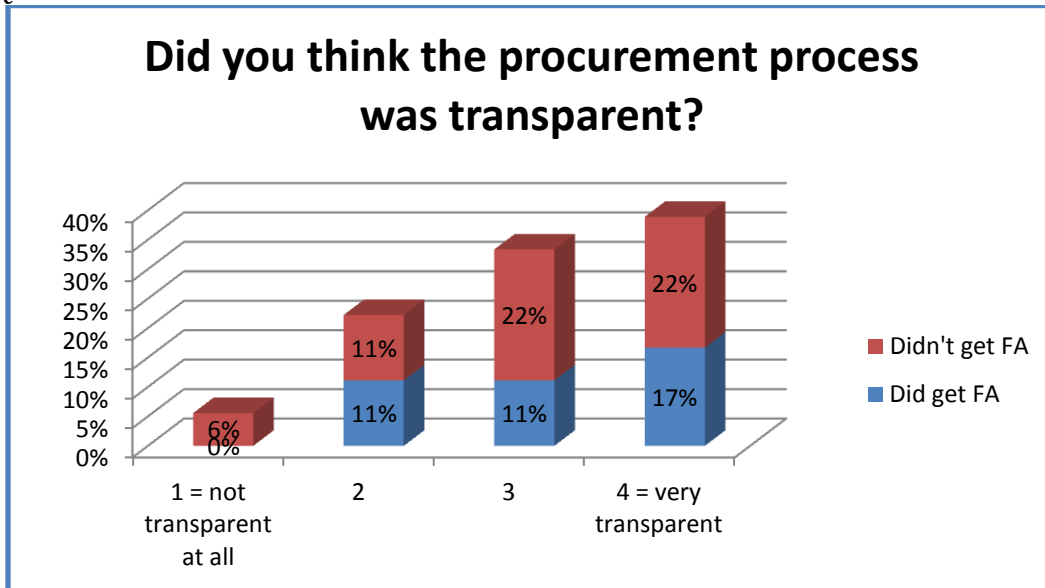


*Question 1*



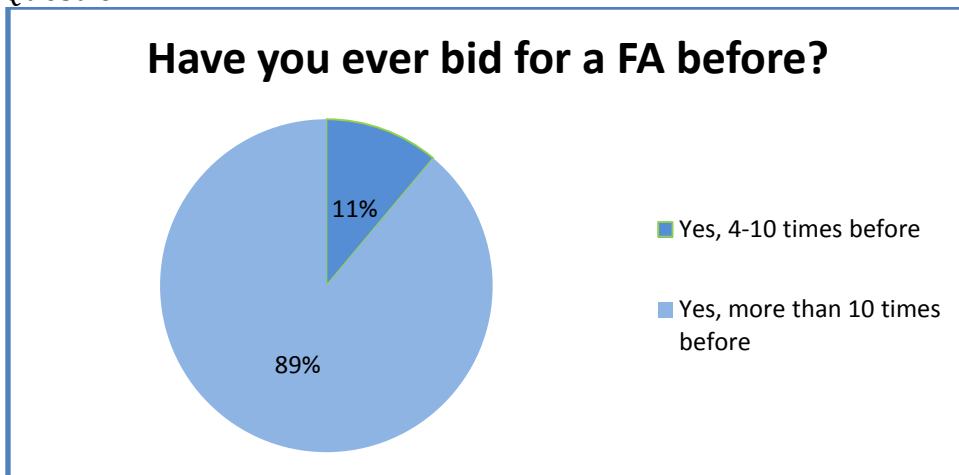
From the table above I could tell that most respondents perceived the procurement process as working well. 14 out of 18 respondents rated the process as a 3 or a 4, which were the highest ratings.

Question 2



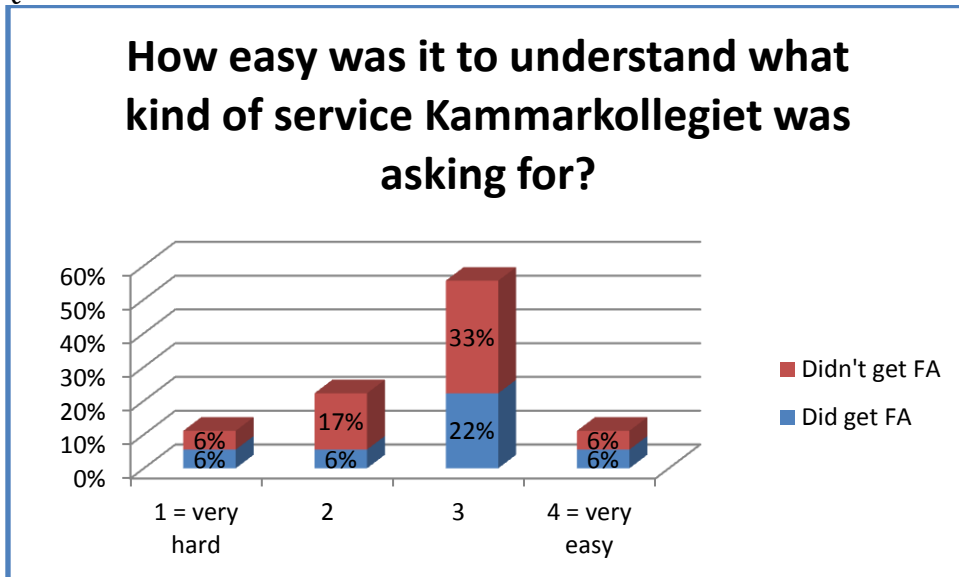
From the table above I can conclude that most firms participating in the procurement process at Kammarkollegiet perceived the process as being transparent. Only six percent of the respondents perceived the process as not being transparent at all.

Question 3



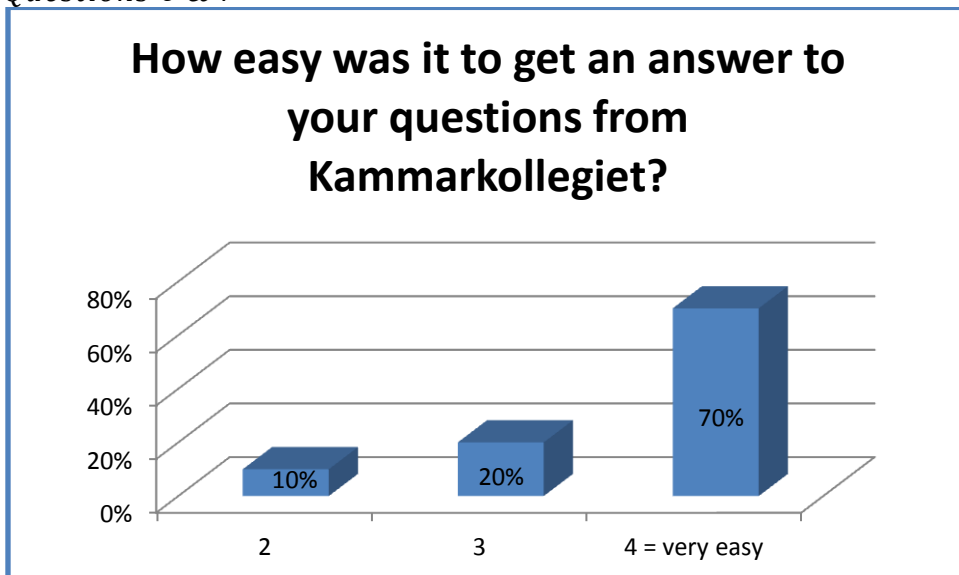
Most of the respondents had previous experience of bidding for FAs. A majority of the respondents had bid for a FA more than ten times before.

Questions 4 & 5



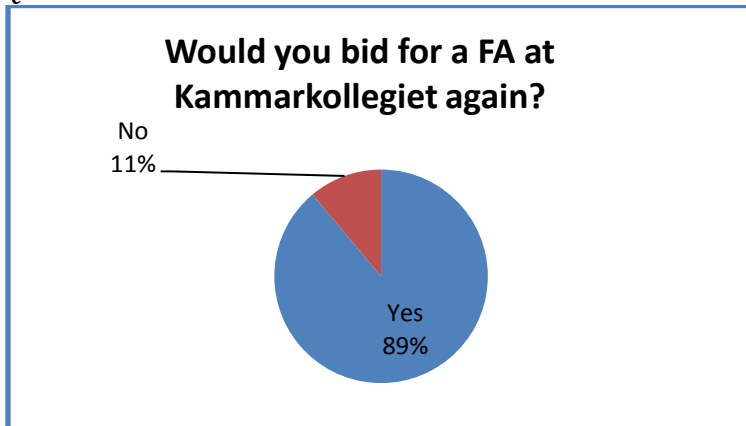
Most respondents found it quite easy to understand what Kammarkollegiet was asking for in their contract documents. If the respondents would have had a hard time understanding what Kammarkollegiet was asking for it would be hard for the suppliers to construct a god bid. This was also mentioned by some of the suppliers when they answered question five, which was an open question. One supplier says that they send several questions to Kammarkollegiet but did not receive an answer. They asked for clarifications but Kammarkollegiet refused to answer. Hence, the specifications in the contract documents were open to interpretation which most likely did result in a misunderstanding in the bid from the supplier.

Questions 6 & 7



In question six, 11 respondents stated that they had sent questions to Kammarkollegiet. Out of the respondents who had sent questions a majority answered in question seven that it was easy to get an answer from Kammarkollegiet.

### Question 8



Despite the fact that some firms who bid for the FA didn't think the procurement process was transparent, a vast majority of the firms would bid for a FA again.

### Question 9

The last question in the survey was an open question where I asked if the respondents perceived that all firms bidding for the FAs had the same conditions and the same information. Not all respondents answered this question but among the ones, who did, most think all firms had the same conditions and that the information was available to all firms. One of the respondents says that when using a tool such as TendSign<sup>3</sup> everyone automatically get information immediately.

One other respondent did not agree at all. This respondent says that Kammarkollegiet's procurement did discriminate against SME's. The respondent said that the way the procurement was done seriously change the market for the benefit of a handful large "generalists" rather than taking the SME's, who are specialists in certain areas, into account. This respondent says the firm now has several FA's with different government authorities that claimed that they couldn't use the FA procured at Kammarkollegiet and decided to procure themselves instead. The respondent believes it would be much better if all government authorities procured for themselves rather than Kammarkollegiet procuring for all. That would increase the chance of the right competence being procured to the government authorities needing it.

A third respondent says that it is natural that not all firms have the same conditions to secure the FA. Since all firms are different and the needs of the government authorities differ, the different firms will have different conditions to fulfill the document specifications. But at the same time the respondent finds this natural and that is how the market is suppose to function. This respondent believed that all firms had access to the same information.

## 6.3 Interviews with respondents

To further increase my understanding of the perceptions of the procurement process of the respondents of the survey, I conducted four interviews. The respondents wished to stay anonymous and will be referred to as W, X, Y and Z. As I mentioned before two of the respondents (Y & Z) were overall more positive about the procurement process and two (W & X) were more negative. Respondents W and Y represents firms that did not get contracted and

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<sup>3</sup> TendSign is a procurement web tool commonly used when procuring. All documents, information and questions are published in TendSign and all firms can then see all information.



respondents X and Z represents firms that did get contracted. The questions from the interviews are attached as appendix 3.

One of the respondents (W) said that the biggest issue with the procurements at Kammarkollegiet is that they try procuring one service that is supposed to fit all the authorities in Sweden. This makes the FAs too general and the contract documents are not taking into account all the small consultancy firms that are specialist in certain areas. According to W this was the reason why W's firm did not get a contract with Kammarkollegiet. The requirements in the contract documents concerning turnover and consultant capacity became too extensive and the SMEs suffered as a result, according to W.

Respondent X found that the procurement process was unclear in several aspects. First of all, respondent X also found that the requirements in the contract specifications did not match the service requested, the requirements were too extensive. Respondent X also said that there was a problem that the time from the bid being submitted to the contract being written was so long, and that there is no communication between Kammarkollegiet and the bidding firms during this period.

X also had the impression that Kammarkollegiet hadn't done proper needs analysis. The firm represented by respondent X did get a FA but it was hardly used. X's firm did get a FA within area B but found that all the call-offs were made within either area A or area C. This made X wonder if Kammarkollegiet had really thought through the division of the FA areas.

Respondent Y explained that they believed that the procurements at Kammarkollegiet overall works very well. For Y it is very important that the process is transparent and legally secure, and according to Y, Kammarkollegiet fulfills these requirements. For respondent Y, the biggest issue with the procurement process has to do with control of the bid the firm is to submit. According to Y, the evaluation process at Kammarkollegiet is very thorough (which is of course should be) and this leads to Y being extra careful before submitting their bid to make sure they don't accidentally make any mistakes. But on the other hand this takes several hours of extra work and resources at Y's firm.

Respondent Z would give Kammarkollegiet a top rating when it comes to procurement. What Z really appreciates is that Kammarkollegiet invites the potential tenders early in the process and give them a chance to help improve the contract specifications. According to Z, this helps Kammarkollegiet construct contract specifications that prevails with what the market can offer. Hence Kammarkollegiet should get the best firms contracted for FAs.

Neither respondent W, X, Y nor Z felt as if there was any information missing in the contract documents nor that the process itself is hard to understand. What W and X would like to see improvement of in the future is the way the contract specifications are specified and this would, according to W, help increase the possibilities for SMEs to contract FAs with Kammarkollegiet which in turn will increase the competition in the market.

X would also appreciate more dialogue between Kammarkollegiet and the bidding firm throughout the process to increase the transparency. This was also something Y mentioned during the interview. Y said that there is a lot of interpretation being done when constructing a bid and sometimes it would be good to be able to contact Kammarkollegiet to make sure that the interpretation is correctly done. The period in which Kammarkollegiet is answering questions can sometimes be perceived as too short. Hence a possibility to ask subsequent question after receiving an answer even though the formal period of questioning is over is

something that Y would appreciate. This would also, according to Y, increase the transparency in the process because all tenders would then be able to better understand how Kammarkollegiet has been reasoning when formulating the contract specifications.

Respondent Z believes that in the future it will be much easier to construct good bids to all different procuring authorities due to technological development that will help make the process more uniform across Europe. This will, according to Z, further help increase the competition in and the quality of the procurement process.

## 7 Analysis

The purpose with this thesis was to evaluate the Swedish public procurement process in the consultancy market. I wanted to look at the efficiency of the process and hence I collected data from both sides of the market. I interviewed the procurer and I sent a survey and did interviews with the tenders. To achieve my goal with the thesis, I decided to study three research questions. These will now be discussed one by one.

### 7.1 What are the difficult steps in the process, according to the firms participating in the process and the government agency, respectively?

According to both the firms and the responsible government agency (Kammarkollegiet) the procurement process is, overall, working fine.

During the interview with Mr. Hans Sundström at Kammarkollegiet he said that at Kammarkollegiet they are experts at procuring. Therefore they perceive the process as being more or less straightforward. According to Mr. Sundström, the most difficult step in the process is when the specifications for the contract document have been published. This is the “silent” phase of the process where Kammarkollegiet can’t communicate with any potential tenders unless they do it through publishing FAQs on their website. Mr. Sundström said that Kammarkollegiet is working hard to answer all the questions they receive, but according to the respondents in the survey, not all of the questions the tenders sent in were answered.

Another problem that Mr. Sundström had noticed is that it is common that suppliers fail to send in a complete bid and therefore a potentially good supplier gets disqualified at an early stage of the process. Since Kammarkollegiet are very restricted in what complements and additional questions they can ask the tenders, they cannot do anything but disqualify the bids not fulfilling the requirements in the specifications for the contract documents. This is a problem that the respondents of the survey also had noticed. One of the respondents in the survey specifically said that since they didn’t get an answer from Kammarkollegiet they misunderstood the specifications for the contract document and their bid was disqualified.

One of the interviewees also mentioned that the biggest issue with all public procurement is that there is a broad scope for interpretation when constructing a bid. If potential tenders are worried that they misunderstand or accidentally leave out important information, there certainly exists room for improvement of the process. If Kammarkollegiet in some sense could further increase the involvement of the potential tenders in the process the problem with incomplete bid might be eliminated or at least reduced. It would of course also be good if the specifications in the contract documents were formulated in a way that minimized the room for interpretation. It would also help keep the amount of resources need to construct a good enough bid down, which in turn should help increase the competition in the market and facilitate the participation of SMEs in the procurement process.

Another step in the process that could be perceived as being more difficult than the other steps is the evaluation process. That is, the process where Kammarkollegiet is evaluating the bids and excluding the ones that are incomplete in order to make a decision on which tenders should get the contracts. In this process tenders could gain from employing entry-detering strategies, and according to one interviewee this is common. The interviewee said that a lot of large firms use predatory pricing in their bids to keep the SMEs out of the market. The small consultancy firms that are specialized in a specific area often have a hard time lowering their prices as much as the large consultancy firms can. When I mentioned this problem to Mr. Hans Sundström at Kammarkollegiet, he believed that it wasn’t as big of a problem as one

might think. Kammarkollegiet uses several factors beside price when evaluating the bids, and therefore Mr. Sundström believed that the firms employing entry-detering strategies wouldn't favor from using those strategies. In a study by Ödén (2009) it is found that procuring authorities have to make a trade-off between competition in a market and quality when procuring. In the study it is found that procuring authorities often choose to set quite high requirements in the contract specifications to make sure that the tenders awarded can deliver a good service. This was also supported in a study by Estache and Iimi (2012) where they also found that public procurement risk being unnecessary expensive due to high requirements. According to Mr. Sundström, Kammarkollegiet do not want to risk contracting with a "lemon" and hence the contract specifications are written with high requirements.

The fear of accidentally contracting with a "lemon" is something that all procuring authorities have to deal with. I studied several different framework agreement contracts to see how different authorities deal with this issue, and I found that they pretty much use the same strategies. In the contracts there are specific paragraphs that state the scenarios which could lead to the procuring authority to cancel the agreement (see *Ramavtal* at Kammarkollegiet & ESV). But even with these precautions there is still a risk of accidentally contracting with a "lemon" and cancelling the agreement will lead to extra cost for both the procuring authority, the supplier contracted and the public authorities who might have already done a call-off.

Neither Mr. Sundström nor I think the requirements or the entry-detering strategies prevent SMEs from being contracted with Kammarkollegiet. Previous research (Upphandlingsutredningen, 2013; Israelsson & Gustafsson Rydberg 2013; Caldwell et al., 2005; Karjalainen & Kemppainen, 2008) have found that large firms do use these entry-detering strategies when bidding for FAs and also that this would keep SMEs from bidding at all. In this thesis I do not find any support for that. There were 71 different firms bidding for the FAs at Kammarkollegiet and there was a wide range of firm size among these 71 firms.

Despite this the overall perception of the procurement process is that it is working well. 89 percent of the respondents would bid for a FA at Kammarkollegiet again; I believe that this number would have been much lower if the procurement process was not transparent and efficient.

## **7.2 Do the firms participating in the process perceive that they have sufficient information for providing a high quality offer and do they think the process is transparent?**

Most respondents in the survey did answer that they have sufficient information throughout the process and this was also confirmed in the interviews I conducted. From the survey one can also see that all of the respondents had bid for FAs before and hence no one was a complete stranger to the process. Even though the firms say they have enough information to construct a bid, tenders do have problems, according to Mr. Sundström, to send in complete and correct bids to Kammarkollegiet.

One can also see that most respondents do actually think that the procurement process is transparent. In the interviews with the respondents they did say that some parts of the process could be more transparent, especially the "silent" phase when Kammarkollegiet is reviewing the bids. This is, according to Mr. Sundström and the respondents, a hard time for both parties. Kammarkollegiet would sometimes like to ask a tender about their bid but are not allowed due to LOU.

In the theory section of this thesis I presented previous research in the procurement area. A few other studies (Israelsson & Gustafsson Rydberg 2013; Caldwell et al., 2005) found that asymmetric information is present in the procurement process. This is, according to the studies, most often a problem for tenders who have no experience of bidding for FAs. In this study all of the respondents had previous knowledge of bidding for FAs and hence I do not find any support for information asymmetries between tenders being present in this specific procurement process. This is also confirmed by the answers in the survey and through the interviews. There might, of course, still be problems of information asymmetries present in the procurement process at Kammarkollegiet. But since there might be an issue of self-selection bias in this thesis I really can't tell if there are information asymmetries present or not when looking at the procurement process overall. I can only conclude that I don't find any support for it.

What I do find some support for is presence of information asymmetries when it comes to the relationship between Kammarkollegiet and the tenders. When Kammarkollegiet are to write their contract specifications they do have involvement with tenders according to both Mr. Sundström and the interviewees. According to some of the interviewees, Kammarkollegiet does not get a good enough knowledge of the market during this process, and this leads to their contract specifications discriminating certain firms (small specialized consultancy firms) and thereby excluding them from the market. This is also found in the studies by Israelsson & Gustafsson Rydberg (2013), Caldwell et al. (2005) and Upphandlingsutredningen (2013). It could be that a situation of information asymmetry is present here since Kammarkollegiet might only receive information from a certain type of firms when writing the contract specifications and hence they have to rely on the information they get from those firms. Whether or not these firms tell the complete truth or not is hard for Kammarkollegiet to control. This in turn might lead to a situation of adverse selection in the future if some of the firms being contracted turns out to be "lemons". In this thesis I do not have enough data to confirm or reject the presence of adverse selection in this procurement process.

Another situation of information asymmetries that might be present in the procurement process at Kammarkollegiet is when Kammarkollegiet is to determine whether or not the process in the bids are reasonable and good measures of quality. In the study by McMillan and McAfee (1986) it is clear that a governmental authority cannot observe if effort a firm is making to keep production costs down. Hence there is a situation of information asymmetry present. In the case of Kammarkollegiet and the consultancy firms, this issue might not be as big of a problem as it would be if there was another service being procured, such as infrastructure services. Most of the consultancy firms have similar pricing and the only issue is that the larger firms can afford to offer lower prices than the smaller firms can. But again, my data is too limited to support or reject the presence of information asymmetries when it comes to pricing.

Since both Kammarkollegiet and the tenders agreed the information is equal during the process it seems like Kammarkollegiet has found a way to deal with issues of information asymmetries.

### **7.3 Which suggestions do firms participating, as well as Kammarkollegiet, have for improving the process further?**

From the comments in the survey and the answers in the interviews it is clear that more dialogue and more information throughout the process would be preferred. One of the interviewees mentioned that there should be a possibility to still ask questions, even though

the official time for questions and answers is over, if the questions are supplementary questions. This would, according to the interviewee, help reduce the number of mistakes made due to misinterpretations. Mr. Hans Sundström at Kammarkollegiet did also mention that they sometimes get surprised when they see the mistakes tenders have done in their bids. This causes many bids to be rejected, even though the tender could be a very good supplier. If Kammarkollegiet would have a possibility to ask for clarification or complements to bids with apparent mistakes in them this might not happen. With more dialogue and throughout the process, these kinds of problems might be eliminated.

On the other hand, if the process would be more open for dialogue and questions and answers I think that there is an imminent risk that the process becomes less transparent and more open to interpretation. I also think that it would increase the time it takes to evaluate each bid and it would be very hard to make sure that all bids are treated equal.

One of the respondents in the survey also mentioned that by using electronic tools throughout the process, the information is sent and received faster and it is easy for everyone to see the same information at the same time. This was also mentioned during one of the interviews. When procuring authorities keep up with the technological development the interviewee was certain that the process would get smoother and that better competition would be possible. It is now easier for potential tenders in different countries to find out if a Swedish procurement is starting and it is also easier for them to submit a bid. I do also believe that technological development and the use of electronic web tools will help make the process more efficient. I definitely believe, and so does one of the respondents, that the use of electronic web tools will decrease the error rate in the bids and this will of course lead to more bids with higher quality.

One thing that was mentioned in my study and also in previous research is the construction of the contract specifications requirements. Some of the respondents in my study believed that the requirements are far too extensive and some requirements may even risk excluding firms that potentially would be good suppliers. From Kammarkollegiet's point of view they see the requirements as their assurance to get good suppliers for the government. According to Estache and Iimi (2012) there are consequences from having to rigid requirements in the contract specifications. One of the biggest issues for the suppliers is of course that the market gets limited and that some suppliers lose their chance of getting into the market. But there are also issues for the procuring authority with rigid requirements. It takes a lot more time and resources to evaluate each bid, and as I mentioned before, the scope for interpretation might increase as well. In the study by Estache and Iimi (2012) they found that by lowering the quality criteria in the requirements somewhat the cost of procurement could be lowered. This was more significant for large and expensive procurements, for example within the infrastructure sector, but I think that making an overview of the criteria and requirements when procuring consultancy service also could lead to lower costs and probably also invite new actors to the market.

## 8 Conclusions and suggestions for further research

In the introduction of this thesis I stated my purpose which was to evaluate the Swedish public procurement process in the consultancy market. In this section I will present my conclusions.

The conclusions I make here are not in any sense general for all procurement processes in Sweden. I base these conclusions on my findings from the work with this thesis and the information I have collected from previous research and economic theory.

I set out to study three research questions and I will present my conclusion on each if them.

### 8.1 Conclusions

*The first research question* was; what are the difficult steps in the process, according to the firms participating in the process and the government agency, respectively? Here I found that most actors in the process consider the process as being straight forward and quite easy to follow. What potentially could cause problems for the tenders as well as for Kammarkollegiet was the fact that there is a scope for interpretation during the process which could result in misunderstandings and misjudgments. This in turn could cause the procurement to take too long and this, of course, is costly.

Another problem or difficult step in the process is the so called silent phase where Kammarkollegiet can have no communication with the tenders and vice versa. If some degree of communication would be allowed during this phase, maybe more bids would qualify and the FAs would improve further.

*The second question* was; do the firms participating in the process perceive that they have sufficient information for providing a high quality offer and do they think the process is transparent? Here I found that most firms participating in the process do believe that they have enough information to construct a good offer. There might be signs of some information asymmetries between Kammarkollegiet and the firms in the process when Kammarkollegiet are to write the document specifications. It could be that Kammarkollegiet does not get a good enough knowledge of the market during this process, and this leads to their contract specifications discriminating certain firms according to some interviewees.

The process is seen to be transparent.

*The third question* was; which suggestions do firms participating, as well as Kammarkollegiet, have for improving the process further? To further increase the efficiency and quality of the process, both Kammarkollegiet and the tenders would like to see more room for communication and discussion throughout the process. I also think that the process could be improved if Kammarkollegiet did a review of the requirements to further open the market for new and innovative firms.

#### *Discussion on sustainability*

During the process of writing this thesis, and from my previous experience of procuring FAs, it has been made clear to me that there is a constant tension and a balancing act for the procuring authorities to choose to what extent they have to follow LOU versus letting tenders correct “silly” mistakes in their bids. When procuring authorities chooses to follow LOU to the letter, there is no chance of acceptance for any bids that contains the smallest error. This could potentially lead to that the best and most efficient suppliers don't get awarded a FA due

to some small typo or minor mistake in the bid. At the same time, the procuring authority has to follow LOU and if they don't, they might risk being sued and the procurement process will be prolonged. Even though there is a possibility that a firm can sue a procuring authority if it does not follow LOU, I think one needs to look at why LOU exists. The reason why public procurement is regulated is to make sure that the tax payers money are used in the best and most efficient way and to make sure that the suppliers are being treated equally. I believe that when procuring authorities choose to just look at LOU and don't put the process in a bigger picture, the aims with LOU might not be met. Hence economic sustainability might not be met if the procuring authorities are too focused on just following LOU.

Other issues that procuring authorities also have to take into account such are environmental sustainability and equality. To be able to procure the best and most efficient services to the government it is important that the procuring authorities make sure that the tenders that get awarded the contracts meet requirements of environmental sustainability and equality. For procurement of consultancy services these issues are not as big as for example when the government need procure goods or infrastructure services where more subcontractors are involved. To solve problems connected to these issues the procuring authorities can always specify criteria connected to environmental issues in the contract specifications.

I think there are several ways in which the procurement process can be improved, and this is also shown from the findings of this thesis. In the next section I will give some suggestions for further research that will help improve the procurement process in Sweden.

## **8.2 Suggested further research**

As mentioned in the introduction the procurement area is not a well-studied area and there is a need for more research (Upphandlingsutredningen, 2013).

In a study by Hyytinen et al. (2005) the problem of favoritism is discussed. In this thesis I don't find any support for favoritism being present in the procurement process at Kammarkollegiet. This could be an interesting topic for further research.

I also think that looking at how different firms work with constructing bids would be an interesting topic for a thesis. From my study I have understood that large firms have specific groups of employees whose main task is to construct bids, while smaller firms have different employees constructing different bids by themselves. It would therefore be interesting to see whether or not the small firms make more mistakes or not. If not, then maybe there is no need for procuring authorities to change their process.

One could also compare different kinds of procurements in a thesis or study to see where mistakes are made and where tenders found the process to be difficult. This would help public procurement agents to improve their job and provide a good opportunity to learn from others.

A problem brought up by one of the interviewees is the fact that the FAs procured by Kammarkollegiet are more generalized and if a public authority needs special skills they have to procure themselves instead of making a call-off from the FA. Therefore it would be interesting to examine to what extent the FAs are actually used versus how many times a single public authority chooses to procure instead.

In my thesis I was only able to gather information and perceptions of firms that had been involved in the procurement process several times before. It would be of great value, for both



procuring authorities and firms, to investigate which firms never participate in the procurement process and why they don't.

Public procurement can also be used as a tool by the government to help innovation and encourage entrepreneurship. In a public inquiry from 2010 (Innovationsupphandling, 2010) it is investigated to what extent the government can use procurement to enhance regeneration, quality and efficiency the public sector. It would be interesting to study if public procurement has adapted to these strategies and how.

In September of 2015 a new government authority will be established. This authority will only focus on one thing – public procurement. I think it would be very interesting to investigate how the procurement process is affected once this authority is in place.

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## Interviews

Hans Sundström, Head of ICT-Procurement at the National Procurement Services at Kammarkollegiet

The interviewees representing respondents of the survey wished to remain anonymous.

## **Appendix 1 – questions for suppliers**

1. How did you perceive the procurement process at Kammarkollegiet? Scale 1-4 where 1=bad and 4= excellent
2. Did you think the procurement process was transparent? Scale 1-4 where 1= not transparent at all and 4= very transparent
3. Have you ever bid for a FA before? Four options:
  - No
  - Yes, 1-3 times before
  - Yes, 4-10 times before
  - Yes, more than 10 times before
4. How easy was it to understand the contract specifications in the FA? Scale 1-4 where 1=very hard and 4=very easy
5. Did you miss any information in the contract specifications?
6. Did you send any questions to Kammarkollegiet?
7. Was it easy to get an answer to your questions from Kammarkollegiet during the procurement process? Scale 1-4 where 1=very hard and 4=very easy
8. Would you bid for a FA at Kammarkollegiet again?
9. Did you perceive that all firms bidding for the FAs had the same conditions and the same information?

## **Appendix 2 – questions for Kammarkollegiet**

- What are your perceptions of the procurement process?
- What do you do to reach the whole market of suppliers when procuring?
- Do you divide your FAs into lots? Why/why not?
- Do you have the same suppliers being awarded when you do a new FA?
- Do you find it necessary, from an efficiency point of view that the Swedish government continues to procure FA in this area?
- Do you think the suppliers bids match the services they actually deliver? What do you think of the quality of the bids?
- How do you control that suppliers fulfill the requirements in the contact specification?
- What changes, if any, do you think is necessary to make the procurement process more efficient and transparent?

### **Appendix 3 – interview questions for suppliers**

- What are your perceptions of the procurement process?
- What steps did you find the most difficult during the procurement process?
- What kind of information, if any, did you miss in the specifications for the contract documents?
- Do you think it is hard to construct a good bid?
- What suggestions do you have for improving the procurement process?