Operational transparency has become an important objective for purchasing departments around the world. Whether an organization is active in the public or private sector, an increased expectation of transparency during the procurement process has become the new normal. Purchasing is a complex field, involving many administrative and logistical challenges, and the impetus towards transparency at each stage of the process has evolved naturally as purchasing departments come under increased scrutiny during tough economic times. In this environment of increased oversight, procurement professionals are increasingly pressured to improve efficiency while reducing costs.

In this document, we will look at the net benefits of organizations implementing transparency in purchasing, as well as examine high-level regulatory initiatives being considered to facilitate global integration of transparency and equity regulations in procurement.
PUBLIC SECTOR

Generally, public sector organizations tend to be ahead of the curve when it comes to transparency in procurement. The scrutiny of public organizations’ purchasing practices is not only encouraged by internal auditing departments, but mandated by law, in order to promote the responsible spending of taxpayer dollars. With multiple layers of checks and balances, public sector contracts are subject to thorough vetting and cost-benefit analyses in order to ensure that taxpayers are receiving the greatest value for their investments. This process necessarily involves the examination of public projects by many different departments and individuals. Furthermore, opportunities in the public sector must be made available to a diverse array of suppliers in accordance with equity requirements. While such regulations vary from state to local regions and from country to country, most regions are required to implement and monitor an effective opportunity equity program. Within the United States, different government sectors must follow different sets of regulations. Many special districts such as transportation departments, airports, and utilities organizations are funded with federal money. The transparency rules and regulations may come from Federal, State or municipal departments.

Adhering to legislative guidelines during procurement can be challenging at the best of times. Ultimately, the most effective way to meet transparency expectations and equity requirements - while reducing spend and improving efficiency - is to integrate e-procurement solutions within purchasing departments.
Anti-competitive practices that have long been hidden beneath manual processes are often among the first extraneous costs to be identified when transparency initiatives are applied to purchasing departments. As part of an e-procurement system, data logging and monitoring are the most cost-effective ways to identify unauthorized purchases, suspected bid manipulation, or instances of fraud.

Using an electronic procurement system, obscure processes are revealed, and previously untracked data is quantified, organized and made available for analysis. Every step of the procurement process, including vendor management and equity requirements, can be configured according to project specifications, while all bidding activity is automatically tracked and logged in a central database.

Public sector organizations across the globe are now implementing e-procurement systems to streamline administrative processes and reduce costs, with dramatic results. For example, one procurement specialist who handles purchasing for a New Mexico municipality has reported a nearly 80% reduction in total shipping costs by adopting an e-procurement system. According to a release published in 2013 by prweb.com, procurement officials in Pasco County, Florida have also benefited greatly from the adoption of electronic processes: “The system has fully delivered on the promise of streamlining the process of distributing solicitations, while maintaining the integrity and principles of good, solid public procurement;” said Scott Stromer, Purchasing Director for the Pasco County Board of County Commissioners and Agency Leader with the Florida Purchasing Group.

“Because solicitations are sent out at the same time, in the same manner,
with the same information, there is no favoritism and all vendors are provided open and equal access to opportunities.”

As purchasing departments around the world adopt e-procurement systems to save time and resources, the benchmark for transparency in procurement is continuously raised. This trend towards proactive disclosure not only benefits purchasing professionals in the short term, but also lays the foundation for increased efficiency and equity in procurement moving forward.

PRIVATE SECTOR

Private companies operate within an environment that tends to be less regulatory-intensive than the public sector, yet they often face comparable scrutiny from shareholders for over-spending practices. For private organizations, transparency in purchasing has grown to become a concept of practical importance as a result of smaller procurement budgets and a growing emphasis on efficiency.

While private organizations are generally wary of the concept of transparency, this outdated philosophy is tied to concerns about protecting trade secrets and proprietary data. In fact, transparency in procurement minimizes risk for private organizations by ensuring that all opportunities are presented in a fair and open manner, and that winning bids are published in detail, reducing the chances of wasteful spending.
The benefits of implementing an electronic system for purchasing within a private company are many. Once an e-procurement system is in place, auditing and financial analysis immediately become less resource-intensive, freeing up employee time. Directors and managers gain actionable insight on all areas of procurement, allowing them to make important choices while being confident that their decisions are backed up by hard data.

In 2009, PriceWaterhouseCoopers released a study titled “Cracking Down” that detailed dozens of instances of fraud, bid-rigging, and bribery discovered as part of an investigation into procurement activities that took place during the reconstruction of New Orleans after Hurricane Katrina, and during development projects in post-war Iraq and Afghanistan. While the infrastructure and re-development funds directed to these projects came from U.S. government coffers, it was often bid-winning private companies that engaged in illegal activity at various stages of procurement. These insights led to increased concerns about areas of bidding and purchasing that historically have not been subject to oversight.

It is clear that the opportunities for cost savings to be gained by implementing an e-procurement system are significant, even beyond eliminating wasteful and unauthorized spending. A study released by Aberdeen Group states that, by using e-procurement, transaction costs during the purchasing process were reduced by 70%, from an average of $107 per purchase, to $30. Further research by PriceWaterhouseCoopers and Killen & Associates indicates that a 5 to 10% reduction in transaction costs can increase an organization’s profit margins by up to 50%.
The “Big Data” revolution is currently transforming the way that organizations do business in both the private and public sector. Commerce and governance are fundamentally intertwined at every level of the modern economy, and many of the challenges faced by regional governments are business challenges. Supply management and procurement were at one time relatively obscure areas of study, but they now attract a growing level of popular interest.

The Institute for Supply Management is a non-profit organization founded in 1915 with the goal of “[enhancing] the value and performance of procurement and supply chain management practitioners”, through education and research. ISM is a vocal advocate for improving transparency in procurement, a position supported by their professional certification programs in supply chain management and purchasing.

By successfully drawing attention to issues associated with procurement, the ISM is representative of a shift in the attitudes of organizations regarding their purchasing practices – but they are not the only ones.

In 2011, the National Institute of Governmental Purchasing (NIGP) in the United States partnered with the U.K.-based Chartered Institute of Purchasing and Supply (CIPS) to develop and define a set of transparency best practices for public purchasing, with the goal of setting benchmarks by which purchasing departments around the world can compare their level of transparency. The results of their collaboration were published in a 2012 document titled
“Principles and Practices of Public Procurement”. In it, the organizations agree on a definition of transparency, and outline steps that purchasing departments can take to ensure that their professional standards are in line with global expectations. These steps include improving compliance with existing legislation, allocating the required resources to educate and promote procurement best practices, developing policies to further increase transparency at each stage of purchasing, and requiring that conflicts of interest be identified within procurement departments. By compiling these recommendations, the partnership between the NIGP and CIPS has proven to be a fruitful one, and just one part of a long-term trend towards increased transparency in the purchasing industry.

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CONCLUSION

Transparency in purchasing is a concept that has gained significant traction with procurement professionals in recent years, and for good reason. As a growing number of governmental agencies and private companies adopt transparency standards, the onus is shifting to those organizations that have not adopted a transparency policy to act quickly and decisively. Proven cost savings and increased efficiency in all areas of purchasing make a strong case for an e-procurement system, but the greatest value derived from adopting such a system is the overall impact on the purchasing industry as a whole. The
more purchasing professionals adopt e-procurement systems, the more transparent and open our industry becomes - and in the face of increasing regulation and reduced budgets, that can only be a good thing.