

## Chapter 4

### **Managing for results: Implementing an organisational procurement strategy and evidence-based performance management in ISSSTE**

*This chapter identifies how the procurement's strategic role could be better recognised in the State's Employees' Social Security and Social Services Institute (ISSSTE) and shows the lack of coherence in its procurement system, partly due to the absence of an organisational procurement plan. It also describes how public procurement is used by the Mexican federal government and ISSSTE to foster socio-economic objectives, particularly to support the participation of small and medium-sized enterprises. Finally, the chapter demonstrates how lack of data and of an adequate performance management system hinders evidenced-based decision-making and effective management of ISSSTE's procurement function.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West bank under the terms of international law.

## Introduction

An effective procurement function plays a strategic role in avoiding mismanagement and waste of public funds. In order to fulfil that role, the procurement cycle needs to be governed by a co-ordinated procurement organisation with a unified and well-recognised strategic mandate. Preferably, the procurement cycle should also be mainstreamed and well-integrated into the governance system of the organisation as a whole, recognising the procurement function as a strategically important component (OECD, 2009).

All public agencies should establish an organisational procurement strategy providing clear direction and a co-ordinated approach to achieve good practices in procurement and continually strive to improve it. A strong strategy recognises an organisation's operating environment and the nature and type of its procurement activities, outlines the objectives and desired outcomes, and identifies the key attributes of its approach to achieving them. Good practice requires the procurement strategy to be aligned with the strategic objectives of the organisation's business plan, other organisational strategies and operating procedures.

Performance management ensures that relevant data is collected as to ensure that the decision-making process is based on strong evidence. It establishes indicators and measurement mechanisms that allow tracking progress against the selected objectives and identifying opportunities to further improve the procurement function.

This review found that the State's Employees' Social Security and Social Services Institute (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado, ISSSTE*) has recently embarked on various initiatives to improve the performance of its procurement function. However, it still lacks an explicit and comprehensive organisational strategic plan defining the main priorities and targets of that function, and the main initiatives for achieving them. This reduces the coherence and focus of the initiatives and efforts that are put in place, and hinders completely recognising the strategic role the procurement function plays in the organisation.

In addition, an important lack of data and information on the entire procurement cycle significantly undermines the effectiveness and efficiency of the decision-making process. While a performance management system does exist in the organisation, its indicators are too limited to support the sound management of its procurement function. This chapter describes the general context of these issues and provides recommendations for improvement.

## Organisational procurement strategy

### ***The strategic role of ISSSTE's procurement function has not yet been fully recognised nor achieved***

The importance and strategic role of a strong procurement function is more and more recognised in the private and public sectors. Public procurement represents an important potential source of savings for governments in times of austerity, and is also recognised as a major risk area for mismanagement, fraud and corruption. There is also an increasing awareness of the significant contribution it can bring to the capability of a public organisation to optimise its outcomes and achieve its mandate. Finally, public

procurement is one of the largest government spending activities in any country, representing on average almost 13% of GDP in OECD member countries (OECD, 2011). As such, it can represent a significant instrument to support larger national socio-economic objectives of the government, such as economic growth and diversification.

ISSSTE has recently embarked on various initiatives to improve the efficiency and results of its procurement function, including:

- development or improvement of stock management tools for medicines and medical equipment, notably the Supply Control Board (Tablero de Control de Abasto) further described below;
- requirement consolidation, both internally through centrally consolidated contracts, and externally through joint procurement with other entities of the Mexican health sector (discussed in Chapter 5); and
- efforts to diversify its sourcing methods, such as the use of broader procurement instruments and evaluation and selection criteria (Chapter 5).

Notably, the strategic importance of the procurement function has been recognised by ISSSTE's senior management as a key element for supporting the institutional priorities, namely: *i*) beneficiaries are the primary focus of any of the organisation's activities; *ii*) transparency and accountability; and *iii*) efficient use of resources (ISSSTE, 2012a). As stated in Chapter 1, the current position of the procurement function within the organisational structure is a good indication of the importance that it is given as a strategic function and to its level of accountability.

Notwithstanding, the procurement function is still largely perceived more as an administrative service in support of technical units than as a strategic function directly impacting the outcomes of the organisation. This is particularly true for the local units, procurement being reported as the area given the least attention.

The OECD review found that some user areas lack interest in the procurement process. This is commonly experienced by procurement units who complain that user areas provide late or inadequate requirement descriptions and market research results; give little support in the preparation of the solicitation documents; are sometimes absent from the clarification meetings; and perform late, incomplete or incorrect evaluations of the technical offers received. Furthermore, user areas lack understanding and knowledge on the procurement process and on the associated regulations.

However, this lack of recognition of the strategic role of the procurement function is not limited to the user areas, even procurement units and the audit function focus more on compliance with the regulations than on performance. Furthermore, very limited evaluation of the efficiency and outcomes of procurement currently takes place, as discussed below. When asked about performance indicators in place in the organisation, some procurement units in delegations responded that the best indicator of good performance is the absence of observations from the Internal Control Office (see Chapter 3 for further details) or of formal complaints (*inconformidades*) from suppliers on their procurement procedures.

Procurement is one component of a much larger system – not only the supply system, but all activities of the organisations that ultimately support services to beneficiaries – and can only be successful if it is well integrated with and supported by all of the other components. As such, the current lack of interest and limited involvement experienced in ISSSTE significantly undermine the capacity of the procurement function to achieve its goals, thereby compromising the activities and outcomes of the whole organisation. As emphasised by the National Health Service of the United Kingdom, the procurement function should play a more strategic role involving all stakeholders, as it “(...) touches the whole system of delivering healthcare and should not just be viewed as an activity that is restricted to procurement professionals. Everyone has a responsibility for ensuring that the products and services that are chosen, bought and used represent value for money, provide the right outcome for the patient and are not wasted” (Department of Health, 2012a).

This reality is gradually being recognised within ISSSTE. As an example, the new risk administration system put in place in February 2012 (see Chapter 3 for further details), no longer assesses and manages risks exclusively on the basis of a series of activities for which a single area is responsible. Instead, the focus is now on entire processes involving a series of independent activities in order to better reflect how each activity impacts all of the other activities of the process, thereby emphasising the shared responsibilities of various areas on the process and adequate management of its risks.

Nonetheless, this approach contrasts significantly with the vision that many individuals and areas have of the procurement function. As such, ISSSTE could consider implementing an awareness-raising campaign of the role of the procurement function and the necessary contribution of all the involved parties (see Box 4.1 for a recent example of Portugal). Similarly, tailored communication and training could be developed to increase the understanding and knowledge of user areas on the procurement process and its associated regulations.

#### **Box 4.1. Procurement-related awareness campaign in Portugal**

The Portuguese National Agency for Public Procurement (Agência Nacional de Compras Públicas, ANCP) is a state-owned-company created in 2007 to devise, implement and manage the Portuguese National System for Public Procurement (SNCP-NSPP), as well as to centrally manage the state-owned vehicle fleet.

At its establishment, the ANCP launched an awareness campaign consisting of:

- A road show with meetings in all large Portuguese cities for civil servants, bidders and public society. Contacts through universities, technical chambers, chambers of commerce were sought and used.
- Direct information sessions for procurement agents, in particular big or strategic buying organisations.
- A large and advertised public conference and launching event with political participation of national political leaders from Portugal and other countries as well as with international organisations.

***The absence of a clear organisational procurement strategy prevents the development of a strong and coherent procurement function in ISSSTE***

The procurement function of any large public agency should have a dedicated specialist procurement unit centrally positioned to develop a strategy to best fulfil the organisation’s functional requirements. The OECD review found that ISSSTE still lacks such a key document: no explicit and comprehensive organisational procurement strategy exists, which defines the main priorities and targets of its procurement function, as well as the main initiatives for achieving them.

When asked about the procurement strategy of the organisation, many procurement units were unable to identify one, most indicated that they did not have that information, while others reported it as the responsibility of the central areas. Procurement units which identified a strategy document made reference to either the Annual Procurement Plan (*Programa Anual de Adquisiciones y Servicios*), the Institutional Programme 2007-2012 (*Programa Institucional 2007-2012*)(ISSSTE, 2008) or the 2012 Work Programme (*Programa de Trabajo 2012* (ISSSTE, 2012b). However, the first document only identifies the requirements expected to be procured within the year while the other two cover all of the organisation’s activities and address procurement only to a very limited extent. For example, ISSSTE’s general strategic vision is established in its Institutional Programme 2007-2012, but references to procurement are limited to “considering it important to continue the reengineering and automation of the supply system and the demand planning for medicines” (ISSSTE, 2008). Similarly, one of its 12 objectives is promoting transparency and accountability, but no specific strategy is mentioned for procurement.

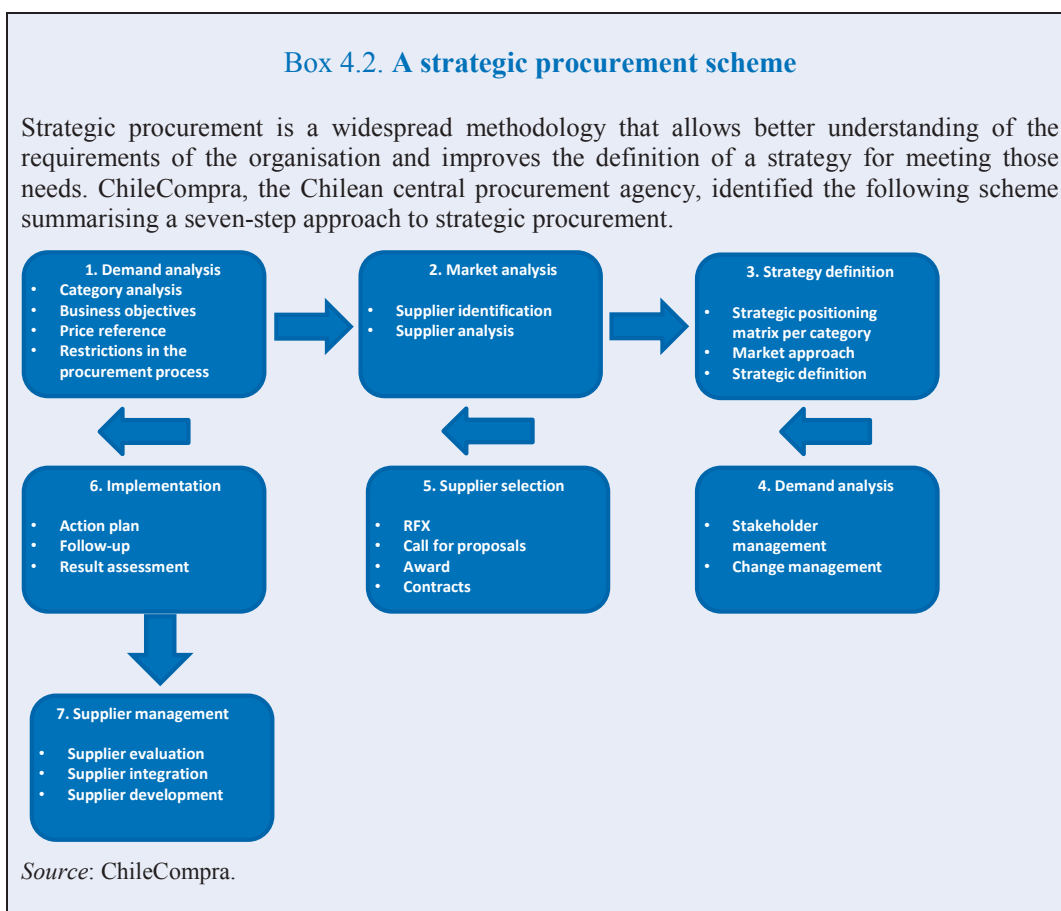
The absence of a widely disseminated document that provides a clear description of the vision for the procurement function and of the strategies for achieving it impedes the progress and coherence of ISSSTE’s geographically-decentralised procurement units. This leads to conflicting priorities within the organisation and reduces the efficiency of the existing processes. It also risks various stakeholders – such as medical units and the ICO, but also numerous procurement units – not understanding the details and intent of some strategies put in place by the central level, resulting in criticism and doubts about their adequacy and results.

In order to improve the cohesion and buy-in of the activities and initiatives of its procurement function, ISSSTE could consider developing and documenting a comprehensive organisational procurement strategy addressing, as a minimum, the following elements:

- establishing a long-term vision for the procurement function that is aligned and consistent with the overall vision and strategic objectives of the organisation;
- assessing the current context of its procurement function, identifying divergences between the various units and opportunities for improvements;
- taking into account internal and external constraints and identifying clear priorities, which should then be further disaggregated into clear objectives against which time-defined targets are established; and
- developing and implementing initiatives to achieve these objectives and targets.

In order to optimise the results of the procurement function while minimising the necessary resources, such a strategy could consider potential synergies and collaboration with other entities of the Mexican federal government that have similar priorities and objectives, particularly those providing health and social services. Several activities could be considered, such as joint procurement (some already take place as discussed in Chapter 5), joint market research (addressed in Chapter 6), increased collaboration with the Mexican competition authority – the Federal Competition Commission (*Comisión Federal de Competencia*, CFC) – to fight collusion between suppliers, as well as maximise the use of training available from the Ministry of Public Administration and develop common training and documentation to guide procurement officials and increase their competencies.

It is crucial that the organisational procurement strategy considers all of the phases of the procurement cycle. In this regard, ISSSTE could consider the seven steps identified by ChileCompra, the Chilean central procurement agency, in its approach to strategic procurement (Box 4.2).



It is essential that the organisational procurement strategy be developed at a strategic level following significant consultation with a large range of stakeholders associated with the procurement process. These stakeholders should include procurement units, user areas, suppliers and industrial associations, internal control units as well as senior management. Doing so will not only increase the understanding, buy-in and results of the strategy throughout the organisation, but also improve the quality of the strategy by

allowing a larger range of pertinent information to be considered. As highlighted by Loudon (2012), the support of senior management is a determinant factor in the success of any strategic reform and it needs to Invest, Collaborate, Appoint, Recognise and Engage (I CARE).

Due care should be taken to ensure that all of the initiatives subsequently implemented in the organisation are aligned with the priorities identified under the strategy. Also, progress should be continuously monitored through appropriate performance indicators. The strategy, as well as results of the initiatives carried out under it, should be regularly communicated across the organisation and, when appropriate, to the suppliers and general public. Finally, they should be regularly adjusted to reflect the evolving constraints, challenges, circumstances and priorities of the organisation.

### ***ISSSTE could become a leader in supporting various economic, environmental and social priorities of the federal government***

Using their substantial buying power in the marketplace, governments can leverage the procurement process to actively promote goals which may not be directly related to the mandate of the procuring organisation. Such complementary objectives are generally categorised as economic (e.g. promotion of locally sourced or innovative goods and services, or giving preference to small and medium-sized enterprises [SMEs]<sup>1</sup>), environmental (e.g. the promotion of recycled materials, environmental disposal plans, or low-polluting goods and services) or social (e.g. procurement directed towards a specific minority or gender).

The Mexican federal government has taken some initiatives to support such complementary objectives. This includes the incorporation of various associated provisions in its Law of Acquisitions, Leasing and Services of the Public Sector (*Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público*, LAASSP) and the associated regulation (Table 4.1)

As can be seen in Table 4.1, the current focus of the Mexican federal government is on supporting national suppliers, and particularly SMEs. The significance of SMEs to the Mexican economy and labour market cannot be underestimated: SMEs represent more than 99% of Mexico's formal companies and provide between 49.7% (industry) and 86.1% (services) of formal jobs (OECD, 2003). However, most of Mexico's SMEs are set back by fundamental weaknesses such as limited capital or access to financing (OECD, 2007).

As almost all OECD countries (see Annex 4A.1), Mexico has put in place various approaches to support the participation of SMEs in public procurement of the central government. Nonetheless, such pro-SME initiatives are fairly new in Mexico.

In 2009, the Mexican Ministry of Economy established a plan to help Mexican SMEs and reinforce their participation in public procurement. The objective identified in the Law for the Development of Competitiveness of Micro, Small and Medium Enterprises (*Ley para el Desarrollo de la Competitividad de la Micro, Pequeña y Mediana Empresa*) is that a minimum of 35% of the value of all goods, services and public works procured by federal public entities and the federal district be obtained from SMEs. This is accompanied by a set of initiatives to support SMEs such as:

- Enhanced liquidity and financing by improving their access to approved loans and credit.

- Providing business reports concerning their sector, marketing, logistics and competitiveness; training in areas such as business management, exports and the use of Compranet 5.0, the Mexican federal e-procurement system.
- Facilitating their access to public procurement through a specialised website ([www.comprasdegobierno.gob.mx](http://www.comprasdegobierno.gob.mx)). The website offers information to SMEs who are interested in becoming suppliers to the federal government and also serves as a tool to promote Expo Compras de Gobierno, an event that, since 2009, has raised awareness of business opportunities with the federal government to more than 65 000 enterprises.

**Table 4.1. Provisions of the Law of Acquisitions, Leasing and Service of the Public Sector (LAASSP) and its regulation supporting economic, environmental and social objectives in Mexico**

Complementary objective	Measure
Environmental objective	<p>Article 26 of the LAASSP states that:</p> <ul style="list-style-type: none"> <li>• procurement should optimise the use of natural resources and that environmental considerations should be taken into account;</li> <li>• wood being purchased must come from sustainable sources and paper-based products need to comply with the standard NOM-050-SCFI-2004, include 50% recycled content, and be free of chlorine.</li> </ul>
Social objective	<ul style="list-style-type: none"> <li>• Article 14 of the LAASSP refers to providing points, under specific public tendering procedures evaluated under the points and percentage approach, to disabled persons or companies where they represent at least 5% of total employees for at least six months of employment.</li> </ul>
Support to small and medium-sized enterprises (SMEs)	<ul style="list-style-type: none"> <li>• Possibility to set aside public tendering procedures exclusively for SMEs (Article 35 of the LAASSP Regulation);</li> <li>• Provision of additional points, under specific public tendering procedures evaluated under the points and percentage approach, to SMEs producing goods with technological innovation (Article 14 of LAASSP);</li> <li>• At least 50% of the value of contracts excluded from public tendering due to their value being below the established threshold must be awarded to SMEs (Article 75 of the LAASSP Regulation);</li> <li>• Special flexibilities for SMEs to receive higher advanced payments for contracts for goods which have a production process of more than 60 days (Article 13 of the LAASSP);</li> <li>• Reverse auctions cannot be used in public tendering procedures where national SMEs are participating in an individual manner (Article 28 of the LAASSP);</li> <li>• In the case of a tie during the bid evaluations, preference should be awarded to national SMEs (Article 36bis of the LAASSP Regulation, Article 54 of the LAASSP).</li> </ul>
National content and support to national suppliers	<ul style="list-style-type: none"> <li>• A requirement that public tendering procedures for services be limited to Mexican entities and that goods obtained include a minimum Mexican content of 50%, unless specific circumstances apply such as trade agreement obligations (Article 28 of the LAASSP);</li> <li>• Under public tendering procedures open to all international suppliers, a price preferential of up to 15% for goods with a minimum Mexican content of 50% (when all conditions are the same) (Article 14 of the LAASSP).</li> </ul>

Important results were rapidly achieved through this initiative: the number of SMEs with federal contracts increased by more than 400% between 2009 and 2010 (Ministry of Economy, 2011).

In order to achieve the target established by law, the Ministry of Economy has set annual goals for each federal entity of the amount of contracts awarded to SMEs. While the Mexican federal government exceeded the overall target by 15% in 2011, only half of its entities achieved or exceeded their individual goals. With MXN 1.7 billion (approximately USD 135 million) in contracts awarded to SMEs in 2011, ISSSTE exceeded by five times the established target (Table 4.2). For 2012, the Ministry of



Economy increased ISSSTE's target by 280%, to MXN 1.3 billion. As of 1 October 2012, ISSSTE had already exceeded its target by 52%.

**Table 4.2. Goal vs. amount awarded to SMEs by ISSSTE (2011)**  
MXN billions

Ministry/entity	Goal	Amount attained	% of goal attained
Ministry of Communications and Transport (SCT)	18.4	17.4	94%
Mexican Petroleum (PEMEX)	12.5	17.0	136%
Federal Electricity Commission (CFE)	10.6	13.3	125%
Liconsá	3.3	3.9	118%
National Water Commission	2.9	0.5	19%
Mexican Institute of Social Security (IMSS)	2.5	5.5	219%
<b>State's Employees' Social Security and Social Services Institute (ISSSTE)</b>	<b>0.3</b>	<b>1.7</b>	<b>509%</b>
Rest of the Mexican federal government	19.9	21.9	110%
Total	72.3	83.4	115%

Source: Ministry of Economy website (n.d.), Avance del Programa de Compras del Gobierno Federal [Progress of the Federal Government Procurement Program], [www.comprasdegobierno.gob.mx/en/avance2012](http://www.comprasdegobierno.gob.mx/en/avance2012), accessed 2 October 2012.

Even though ISSSTE significantly exceeded the target set by the Ministry of Economy for 2011, its contracts to SMEs only represented approximately 13% of the total value of its contracts in that year. This share is low when compared to the average percentage of contracts of the whole federal Mexican public administration, which was more than twice that figure. While this may partly be explained by the nature of the principal goods procured by ISSSTE (medicines), this review did not find evidence of any particular action being taken by procurement units to increase the participation of SMEs, such as using the various flexibilities and mechanisms allowed by the legal framework. Similarly, very little attention is given to social or environmental objectives other than complying with the minimum legal obligations associated with the procurement of paper and products made from wood.

In order to increase its socio-economic or environmental impacts, including strengthening its supply base by increasing the participation of SMEs, ISSSTE could take a leadership role and develop its own policy or strategy for one or several complementary objectives. Clear targets and mechanisms should be established under each policy or strategy, and should take advantage of the full range of flexibilities allowed by the laws. Preferably, internal and external consultations, including with the targeted groups, should take place in the development of that strategy in order to raise awareness of the strategy and for ISSSTE to identify priority mechanisms to support their participation without impacting negatively the operations of the organisation.

## Evidence-based performance management

### *Up-to-date, consistent and accurate procurement data and information are neither collected nor shared within the organisation*

The efficient and strategic management of a procurement function requires an evidence-based assessment and decision-making process. It is essential, therefore, that the organisation collects sufficient high-quality procurement data and systematically assesses them. The review found that, at this time, ISSSTE's decision makers do not have easy access even to basic procurement information, such as the total number and value of contracts awarded by type of procedure. Other than some information captured in Compranet, procurement information and data are collected and managed differently by the various procurement units.

Furthermore, no standard mechanism is in place to collect, consolidate and share data. Currently, each unit collects its own data, mostly through non-standard spreadsheets, without precise guidance on what data should be considered. In addition, data are entered manually by procurement agents, which increases the risk of error. According to interviews, procurement units are required to provide quarterly data to central areas on the number and value of contracts, so that ISSSTE can send this information to the Federal Institute of Access to Information and Data Protection (*Instituto Federal de Acceso a la Información y Protección de Datos*, IFAI). However, it was evidenced under this OECD review that no effective process is in place to subsequently consolidate that information for internal use, including for taking decisions. In addition to the inherent risk of error, this situation results in important inefficiencies in the collection, consolidation and use of the data. As such, procurement units indicate that significant efforts are regularly wasted in providing information and data requested by central areas or the Internal Control Office (*Órgano Interno de Control*, ICO), which prevents them from spending time on other procurement activities.

An important difficulty in data consolidation in ISSSTE resides in the procurement units using different codifications and formats, which are sometimes even inconsistent within the same unit. This is illustrated in Table 4.3, which shows the significant divergences found in the spreadsheet provided by the Aguascalientes delegation when requested to provide details on the value of contracts awarded over the period 2007 to 2011 and the use of exceptions to public tendering.

**Table 4.3. Divergences in the codes and formats used by the Aguascalientes delegation to record contract values and the use of exceptions to public tendering**

Value of the contract <sup>1</sup>	Exceptions to public tendering <sup>2</sup>
1000000	ART. 26 FRACCION III
1'000,000.00	41
\$ 1,000,000.00	Art. 41
\$ 1,000,000.00	ART 41
\$ 1,000,000.00	art.41
\$ 1,000,000.00	41 FRACCION III
\$ 1,000,000.00	41 FRACCION III
1,000,000.00 Y 2,000,000.00	ART.41 FRACC. III
\$ 1,000,000.00 Y \$ 2,000,000.00	ART. 41 FRACC. III
\$ 1,000,000.00 Y \$ 2,000,000.00	ARTI. 41 FRACC. III
\$ 1,000,000.00 Y \$ 2,000,000.00	ART. 41 FRACCION III
\$ 1,000,000.00 Y 2,000,000.00	ART. 41 FRACCION III
\$1,000,000.00 \$2,000,000.00 \$3,000,000.00	ARTICULO 41 FRACC III
ABIERTO	41 FRACCION III Y XIV
	41 FRACCION III Y XIV

Annotations from the table:

- ART. 26 FRACCION III → Direct award indicated, but no exception provided
- 41, Art. 41, ART 41, art.41 → Article 41 indicated (direct award for exception other than low-value of the requirement), but no specific exception indicated
- 41 FRACCION III, 41 FRACCION III, ART.41 FRACC. III, ART. 41 FRACC. III, ARTI. 41 FRACC. III → Exception 41 - III indicated, but with different formats
- ART. 41 FRACCION III, ART. 41 FRACCION III, ARTICULO 41 FRACC III, 41 FRACCION III Y XIV, 41 FRACCION III Y XIV → Exception 41 indicated in conjunction with another exception

*Notes:* 1. To facilitate comparison, all numbers are reported as a multiple of million. However, the format and spacing of the original data provided by the delegation were preserved. 2. Only exceptions actually or potentially related to exception 41-III are reported in this table.

*Source:* Author's calculation based on data from ISSSTE.

The Aguascalientes delegation is referred to here only for illustrative purposes, as similar difficulties can be found in most – if not all – procurement units. In order to ensure the compatibility of procurement data and facilitate their consolidation, ISSSTE could consider limiting and harmonising the number of codes used in the various procurement units.

Further aggravating the limited availability of data is the resistance to share data within the organisation, each unit feeling a sense of ownership and averse to disseminate it. ISSSTE reported efforts to change that culture and promote increased collaboration in data collection and sharing. If such efforts were supported by the implementation of an organisational procurement strategy and of strengthened

performance management, procurement units would become more aware of the need and benefits of clear and accurate data.

***ISSSTE's actions to improve data collection for evidence-based decision making is commendable, but limited to a small portion of the procurement cycle***

The current lack of capacity to consolidate data rapidly and accurately into organisational-wide statistics and reports is a significant shortcoming of the organisation, which prevents ISSSTE from assessing the procurement system as a whole and addressing various strategic management elements (such as its organisational procurement strategy and effective internal control). This lack of information also negatively impacts the decision-making process throughout the procurement cycle. This can be illustrated, for example, by the Supply Control Board (*Tablero de control de Abasto*) (Box 4.3) implemented in early 2012, which provides visibility of the stock of medicines and some medical products. This instrument allowed the organisation to realise, amongst others that excessive requests by medical units for some medicines resulted in their stock being three to four times higher than required, while stock of other products was entirely depleted in some regions.

**Box 4.3. ISSSTE's Supply Control Board**

The Supply Control Board was developed by ISSSTE in February 2012. It covers more than 900 codes of medicines and medical products in the National Distribution Centre (Centro Nacional de Distribución). For each product, the Supply Control Board provides visibility of a large range of information such as:

- stock available in each medical unit and in the central warehouse;
- supplier name, unit cost, expected coverage with existing stock in central warehouse (based on calculated average consumption), contractual quantity already delivered and remaining; and
- the status of products for which stock is insufficient in a medical unit, such as their availability from the central warehouse, status of delivery from suppliers, status of contracting procedures, etc.

The information is also consolidated at the medical unit and organisational levels to provide rapid visibility (both through a table and a pie chart) on the percentage of products under each status, for example:

- with sufficient stock;
- to be provided by the central warehouse;
- with imminent delivery by the supplier to the central warehouse;
- under late delivery by the supplier;
- without contractual agreement, but with a procurement process underway;
- without contractual agreement and without any process underway.

The availability of accurate and up-to-date data from the Supply Control Board has significantly increased the agility and effectiveness of ISSSTE's decision-making and demand planning process for these products. For example, it supports the assessment of annual requirements and periodic adjustments based on actual consumption. Notably, a Tactical Procurement Team was put in place following the creation of this tool. Its members meet weekly to identify and address products for which supply may be at risk (e.g. due to low or inexistent stock, late delivery, etc.), as well as to decide on procurement actions and monitor any difficulties in their implementation.

Access to the Supply Control Board was provided to pertinent internal stakeholders of ISSSTE in March 2012. Information is now made public on a product basis -such as unit prices, planned national demand and availability by medical units- through the website <http://isssteapache.issste.gob.mx/transparenciaproactiva/>, accessed 4 October 2013.

Similarly, the current lack and quality of aggregated procurement data undermines ISSSTE's efforts to implement an effective performance management system of its procurement function (further discussed below). As shown by the Italian National Database on Public Contracts (Box 4.4), standard collection and assessment of accurate and timely data on public procurement is essential to adequately evaluate the efficiency and effectiveness of the procurement function and to identify opportunities for ongoing improvement, while highlighting dysfunctions and anomalies of the market.

Finally, the current data deficiencies prevent ISSSTE from assessing and communicating the results of various procurement strategies to all relevant stakeholders. As an example, various internal users and procurement units doubt the value of some recent consolidation contracts, focusing only on the perceived negative impacts (reduction in the range of services/products available, implementation delays, etc.) without being informed of the overall benefits to the organisation (lower price, better stock management, etc.).

#### Box 4.4. Italian National Database on Public Contracts

Following a legislative decision in 2010 (no. 136/2010), the Italian Authority for the Supervision of Public Contracts for Works, Services and Supplies (Autorità per la vigilanza sui contratti pubblici di lavori, servizi e forniture, AVCP) implemented a National Database on Public Contracts. This system assists collecting and processing data on public procurement in order to inform supervisory and regulatory entities on measures to be taken to promote transparency, simplification and competition. It also collects data on information technology and conducts market analysis.

In particular, the National Database of Public Contracts collects and assesses data on:

- The structural characteristics of the public procurement market and its evolution. Statistics about the number and value of procurement awards are grouped by factors such as localisation, procurement entities and awarding procedures.
- Efficiency and value for money during the procurement process. For example, modifications to contractual conditions are recorded in the database as to detect dysfunctions and anomalies.
- Dysfunctions and anomalies of the market, for example through manipulations by suppliers. These dysfunctions and anomalies are detected through a) the assessment indexes of excessive tendering rebates, with respect to the average rebates; b) the number of bids to be presented in each awarding procedure; c) the localisation of awarded companies with respect to the localisation of contracting authority.

The National Database of Public Contracts has assisted the AVCP in improving its supervisory and regulatory activities, notably in the provision of guidelines on measures to promote transparency, simplification and competition in the entire procurement process (particularly in the pre-bidding and post-bidding phases).

One of the challenges identified by this initiative relates to the accuracy and timeliness of the data, which is found to have a profound impact on the capacity to undertake sound analysis.

*Source:* Adapted from OECD (2012), "Progress Made in Implementing the OECD Recommendation on Enhancing Integrity in Public Procurement", OECD, Paris, [www.oecd.org/gov/ethics/combined%20files.pdf](http://www.oecd.org/gov/ethics/combined%20files.pdf), accessed 4 October 2013.

Other ongoing initiatives to improve data availability in ISSSTE include the implementation of a similar tool for budget management as well as a project to improve

the stock management system used in the delegations (see Chapter 6 for further details). The establishment of a control board to follow the status of each procurement procedure is also under discussion, but is not yet in place and little information is available on its expected functionalities.

Through these efforts, ISSSTE is taking a strategic move to correct critical information gaps and support evidence-based decision making. These initiatives contribute to the three priorities of the current administration by ensuring more stable and efficient provision of medicines and services to beneficiaries, increasing transparency and accountability, while better managing the resources available and reducing waste. While the current initiatives have already had a positive impact on the procurement process through better requirement planning, they do not, however, address the major data gap currently experienced in other phases of the procurement cycle.

As part of the recognition of the strategic role the procurement function plays in the organisation and to strengthen its current performance management system (discussed below), ISSSTE could consider developing and implementing a strategy to ensure the efficient collection of key procurement data. It is recommended that ISSSTE does so on a gradual basis, first identifying the key data required for an evidence-based management of the function, including the performance assessment and management as well as monitoring progress against identified priorities. Data already collected in some forms should then be immediately standardised and consolidated, with a plan to gradually collect missing data. While some information may be collected on an irregular basis (for example, for the monitoring of particular targets under specific initiatives), ISSSTE should ensure it consistently collects some data in order to assess results over time and identify early on positive or negative trends. Nonetheless, data are only a tool for supporting management and improvements, and data collection should not become a goal in itself. To avoid wasting resources, ISSSTE should therefore limit the data collected exclusively to what is required for identified management purposes.

Various procurement units in delegations have advised that the absence of appropriate software prevents the efficient collection of data. In order to reduce the effort required in collecting and consolidating data while ensuring their accuracy and timeliness, ISSSTE could implement standard tools common to all procurement units. As a minimum, these should consist in spreadsheets with harmonised (and limited) codifications and formats, with basic functionalities that prevent or highlight deviations from the established standards. Even these simple tools would be a significant improvement to the current process and strongly improve its efficiency and effectiveness. However, the results and benefits achieved by ISSSTE could be significantly higher if a more sophisticated information management system was put in place for the procurement function. Preferably, and as discussed in Chapter 8, this would be achieved through the implementation of a procurement management system covering the whole procurement system and integrated with the other IT systems in place in ISSSTE (e.g. budget and stock management). Such a system would allow the automatic collection of a large number of high-quality procurement data with no or little effort from the procurement units.

***The current performance management system and indicators are too limited to support the sound management of the procurement function***

Organisational performance management of the procurement function establishes specific indicators and measures progress in achieving the objectives of the procurement strategy against these indicators, in addition to evaluating the overall efficiency and

effectiveness of the function. Through ongoing assessment of these indicators by a dedicated and specialised procurement strategy unit, areas of difficulty can be identified and ongoing improvements can be achieved.

The Institutional Performance Evaluation Internal System (*Internal Sistema Interno de Evaluación del Desempeño Institucional*, SIEDI) was put in place in ISSSTE in 2010. Its objectives are to establish indicators that help measure the performance of the services provided, compile institutional information that allows programmes to be monitored, and promote measurement and evaluation to support the decision-making process. It also incorporates users' perception of the services provided by the Institute.

However, the SIEDI is aligned with the Work Programme (*Programa de Trabajo*), which focuses on outcomes (i.e. the services provided to the beneficiaries) and does not really address processes (such as the procurement cycle). As a result, the SIEDI does not include any specific module allowing the performance of the procurement function and its workforce to be assessed. In fact, only one element of the Work Programme relates to the procurement process, namely the elaboration of the procurement plan in accordance with the needs and requirements of each unit.

The majority of the SIEDI's indicators therefore focus on the outcomes of the organisation's main activity, i.e. medical services. Nonetheless, 13 indicators relate to the procurement cycle, such as the number of contracts, number of public works projects completed, percentage of contracts registered, percentage of projects audited that comply with the applicable regulations, percentage of suppliers qualified and average number of days to implement penalties to suppliers.

However, none of these indicators are adequate for efficiently managing the performance of a strategic procurement function. While all of them provide some indication of the administrative results of procurement activities, none of them adequately address its strategic outcomes, i.e. its contribution to the organisation's other activities and, ultimately, to its capacity to meet its mandate and provide high-quality services to its beneficiaries. Furthermore, most indicators – such as the number of contracts issued and the percentage of suppliers qualified – do not provide any insight on the efficiency of the procurement function, and no targets or objectives have been specified for the others. As such, the existing indicators can only, at best, indicate some general trends.

In addition, procurement units lack awareness of the existence of common indicators and of the SIEDI. When surveyed about existing indicators, most delegations simply stated they did not have any. On the other hand, some delegations referred to indicators under the 2012 Delegation Work Programme (*Programa de trabajo delegacional 2012*), that are not entirely aligned with the SIEDI. As indicated before, one of these indicators, the number of valid formal complaints (*inconformidades*) over the number of procurement procedures is considered by some local procurement units as the best indicator of good performance, evidencing the general perception of the procurement function as an administrative activity and the strong focus on compliance rather than on performance.

In recognition of the inadequacy of the current indicators and to better assess the performance of the procurement function, ISSSTE has undertaken efforts to introduce new indicators in the SIEDI, including average time required to pay suppliers, variation in average prices for some standard products, rate of discount achieved over average industry price, percentage of compliance of suppliers' delivery, and percentage of products received without defect. While these indicators are better suited to assess the

efficiency of the procurement activities, they still lack clear targets against which progress can be measured and can therefore only indicate trends.

The lack of well-defined, common and effective performance indicators and targets, and the resulting deficiencies in measuring and assessing the performance of the procurement function, represent a significant weakness in ISSSTE. This prevents the organisation from having a clear picture of the outcomes of the associated activities and of its efficiency in achieving them. It also significantly hinders the visibility of any eventual improvements, resulting in a lack of incentive to try to achieve them and in a focus on errors in the process rather than on results and outcomes.

***ISSSTE can benefit from the experience of other OECD countries when developing a performance monitoring and management strategy***

The lack of performance management of the procurement function is not unique to ISSSTE. In fact, a recent report on the progress of OECD countries in implementing the Recommendation of the Council on Enhancing Integrity in Public Procurement indicates that “Performance-based monitoring of procurement systems is the exception to the rule.” The reports further says that “When reporting on progress made, very few countries indicated that they monitor the performance of their procurement systems and processes based on data and benchmarks” (OECD, 2012a).

ISSSTE could nonetheless consider taking a leadership role and developing a performance monitoring and management strategy for its procurement function, in view of the significant benefits this could bring to the organisation. Such an approach could increase outcomes and efficiency, thereby positively impacting the services delivered to beneficiaries and using available resources more efficiently. It would also help monitor the benefits of the function and progress against established objectives, and in articulating paths for improvement.

The development of a performance management strategy for the procurement function would require ISSSTE to:

- Identify the **elements of the procurement function** to be assessed on an ongoing basis or for a determined period of time. All elements should be linked to the main objectives identified under the organisational procurement strategy or specific initiatives. Following the UK example (Box 4.5), ISSSTE could consider using standards under broad domains, establishing different performance levels for each standard.

In order to enhance the strategic role of the procurement function, it is crucial that some of these elements address the effectiveness of procurement activities, i.e. the outcomes of procurement and its overall impact on the capacity of the organisation to provide high-quality services to its beneficiaries. An example of such an element is the percentage of medicines available in medical units.

Similarly, it is important that some elements measure the efficiency of the procurement function in providing these outcomes, therefore optimising the use of the available resources.

#### Box 4.5. United Kingdom National Health Service Standards of Procurement

In May 2012, the United Kingdom Department of Health released the National Health Service (NHS) Standards of Procurement co-developed by the NHS, the procurement profession, the Health Care Supply Association (HCSA) and independent healthcare sector. The NHS Standards of Procurement intend to provide a clear vision of what constitutes good procurement and to identify high-quality procurement performance. They enable Trusts Boards to assess procurement performance and to recognise areas for improvement, as to ensure that value for money is delivered through its procurement activity and its procurement partners.

The NHS Standards of Procurement are based on four domains: **leadership, process, partnership and people**. A total of 19 standards have been established under them, providing a framework for consistent approaches and practices to procurement in the NHS.



- the standard;
- how organisational performance will be improved by achieving it;
- the expected activities and outputs required under three levels of maturity:
  - level 1 – *Building* – awareness and building blocks in place;
  - level 2 – *Achieving* – making good progress;
  - level 3 – *Excelling* – outstanding procurement performance;
- suggested indicators, the decision on which indicators are most meaningful and useful for measuring procurement performance remaining with each organisation.

As an example, Annex 4.A2 provides the standards and levels of maturity for the **leadership** domain.

An underlying intent of this initiative is that each organisation be able to improve its performance against the standards in accordance with its own stage of development. As such, the Department of Health does not mandate the use of these standards nor will it measure performance against them.

*Source:* Department of Health (2012b), “NHS standards of procurement”, Department of Health, [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/136646/dh\\_134378.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/136646/dh_134378.pdf), accessed 17 October 2012. © United Kingdom, Department of Health, 2012. All rights reserved.



- Develop **clear performance indicators** to evaluate these elements, including the data collected and the formulas used for calculating them.
- Develop **clear and realistic targets** for each indicator to quantify objectives, which are aligned with the priorities established in the organisational procurement strategy and business plan, and measure progress against them.

Stipulate the **process** under which the procurement performance will be assessed (frequency; responsibility to collect data, calculate the indicators and assess the results, etc.), and how the results will be communicated within and outside the organisation and used for strategic planning purposes.

Results achieved against the ensuing indicators and targets should be communicated not only to the procurement units and senior management, but also to other internal departments and external stakeholders (such as the public), in order to increase the visibility of progress made and the value-added of the procurement function. It is important that each communication be tailored to its intended audience to address their particular interests and have an optimal impact. Highly visual communication tools and use of a colour status (e.g. green, yellow and red) can also be highly effective in reaching some stakeholders. This is the approach selected by the NHS for its procurement dashboard model (Box 4.6).

In order to substantially increase incentives for improvement, ISSSTE could also consider implementing performance management at the employee level, aligning the selected indicators to those of the procurement function (as appropriate) and formally using the results as part of each employee's performance evaluation.

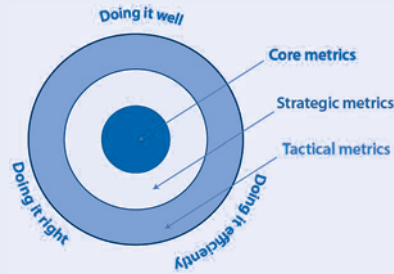
In developing its strategy, ISSSTE should benefit from the experience of organisations of different levels of government (provincial, national, etc.) in some OECD countries. In addition to the UK example above, a supply chain performance measurement report prepared for the government of Ontario (Box 4.7 and Annex 4.A4) could be of particular interest to ISSSTE as it has been prepared by health care supply specialists and focuses specifically on the hospital supply chain. In addition to identifying 20 key indicators for their procurement function, it provides a large range of relevant information such as data and calculation formulas, objective targets, benefits, underlying leading practices, calculation parameters, data-accessibility rating and potential data sources.

The implementation of the performance management strategy should be designed to minimise the required resources (time and effort) and costs while maximising the benefits. As such, ISSSTE could consider implementing the strategy progressively, initially focusing on the most important indicators for which data is already available. Other indicators could be gradually introduced in subsequent rounds, as new data are collected, to increase the utility and impact of the performance management system and provide a complete picture of the procurement function.

### Box 4.6. United Kingdom National Health Service Procurement Dashboard Model

The NHS is developing a standard dashboard of metrics for procurement to improve visibility and accountability for procurement in each organisation, benchmarking against other entities, and the identification of good and best practice.

Following consultations and feedbacks from a range of senior procurement and finance officials of the NHS, a second version of the dashboard model was designed at the end of October 2012. It suggests the adoption of metrics at three levels (core, strategic and tactical) and against three key areas of procurement performance (“doing it well”, “doing it efficiently” and “doing it right”).



Under that revised model, a small set of **core metrics** would remain relevant over time regardless of the maturity of the organisations’ procurement practices. These metrics would be measured by all organisations and reported on to its management board and through its annual report. The following eight core metrics are currently considered, their proposed illustrations being presented in Annex 4.A3:

NHS Procurement Dashboard Model Core Metrics	
Doing it Well	
C1	Number of instances where patient outcome, experience or safety has been adversely affected by a lack of product or service availability.
C2	Percentage of nonpay expenditure (i.e. other than for staff benefits) captured electronically through systems managing processes from purchase to payment.
Doing it Efficiently	
C3	Value of contribution to cost improvement as a percentage of non pay expenditure.
C4	Cost to procure as a percentage of non pay expenditure.
C5	Percentage of non pay expenditure through national and/or collaborative contracted arrangements.
Doing it Right	
C6	Progress against the NHS Standards of Procurement.
C7	Cost of addressing challenges to procurement decisions and processes.
C8	Percentage of recognised procurement staff with a formal procurement qualification(s).

**Strategic metrics** would supplement the core metrics and their use and specific nature would be determined by the organisation. They might be used to balance or qualify core metrics or to focus on shorter term objectives or issues, which can be removed or replaced as the organisation’s priorities change and practice matures.

Finally, **tactical metrics** would consist of metrics determined and used by procurement management to measure performance against more detailed operational parameters underlying the core and strategic metrics and related objectives.

*Source:* Department of Health (2012c), “NHS Procurement Dashboard Model: Summary of feedback on NHS Procurement Dashboard”, Version 1 dated 28 October 2012, Department of Health of the United Kingdom. © United Kingdom, Department of Health, 2012. All rights reserved.

### Box 4.7. Procurement performance measurement in health care systems – experience from Ontario (Canada)

In November 2005, the Ontario Ministry of Finance invited 12 health care supply chain specialists to assess the current state of supply chain performance measurement at Ontario hospitals, resulting in the report *Performance Measurement – A Report by the Hospital Supply Chain Metrics Working Group* (Government of Ontario, 2006). This document proposes a series of 48 metrics and 21 supporting standards for hospitals to use in evaluating their supply chain performance and target performance improvement. Furthermore, it advises on how to adopt and use the metrics in support of underlying leading practices and recommends their implementation in three stages: basic supply chain operations, emerging supply chain practices and supply chain excellence.

Two companion reports (Government of Ontario, 2009a and 2009b) expand on 20 of the metrics and 12 of the standards introduced in the original reports. Each of them defines the objectives, rationale and proposed benefits, together with formulas, targets, associated variables and potential data sources, related metrics and predicted implementation challenges. The 20 metrics proposed by these recent reports cover 6 areas of interest (governance and process; financial; transactions and technology; customers; suppliers; and people) and are presented with their objectives in Annex 4.A4.

*Sources* : Government of Ontario – BPS Supply Chain Secretariat (2006), *Performance Measurement: A Report by the Hospital Supply Chain Metrics Working Group*, BIS Supply Chain Secretariat of the Treasury Board Office, Queen’s Printer for Ontario, Ontario, available at [www.fin.gov.on.ca/en/bpssupplychain/documents/perfmetrics.html](http://www.fin.gov.on.ca/en/bpssupplychain/documents/perfmetrics.html), accessed 20 September 2011; Government of Ontario – BPS Supply Chain Secretariat (2009a), *Performance Measurement: Phase II – User Guide*, BIS Supply Chain Secretariat of the Treasury Board Office, Queen’s Printer for Ontario, Ontario, available at [www.fin.gov.on.ca/en/bpssupplychain/documents/perf\\_meas\\_userguide.html](http://www.fin.gov.on.ca/en/bpssupplychain/documents/perf_meas_userguide.html), accessed 20 September 2011; Government of Ontario – BPS Supply Chain Secretariat (2009b), *Performance Measurement: Phase II – A Framework for Action*, BIS Supply Chain Secretariat of the Treasury Board Office, Queen’s Printer for Ontario, Ontario, available at [www.fin.gov.on.ca/en/bpssupplychain/documents/perf\\_meas\\_framework.html](http://www.fin.gov.on.ca/en/bpssupplychain/documents/perf_meas_framework.html), accessed 20 September 2011.

### Proposals for action

In order to enrich the strategic role of the procurement function and implement a sound performance management system of it, ISSSTE could consider the following proposals:

1. Promote the importance of the procurement function and increase the capacity of all stakeholders to actively collaborate by:
  - Implementing an awareness-raising campaign of the role of the procurement function and the necessary contribution of all associated parties.
  - Develop tailored communication and training to increase the understanding and knowledge of user areas on the procurement process and its associated regulations.
2. Develop, document and disseminate a comprehensive organisational procurement strategy covering all phases of the procurement cycle, ensuring that:
  - It is developed at a senior level following significant consultations with a large range of stakeholders involved with the procurement process.

- It clearly establishes the long-term vision for the procurement function and identifies priorities, objectives and targets, as well as initiatives to achieve them.
- Potential synergies and collaboration with other entities of the Mexican federal government are considered in fields such as joint procurement, joint market research, collusion prevention as well as training (including optimal use of the training and certification available from SFP).

Progress against the strategy's objectives and targets are continuously monitored and communicated.

- The strategy is regularly adjusted to reflect evolving constraints, challenges, circumstances and priorities of the organisation.
3. Develop its own policy or strategy for one or several complementary objectives (economic, environmental or social) following internal and external consultations (including with any targeted groups) and taking full advantage of the flexibilities allowed under the procurement laws.
  4. Design and implement a strategy for the efficient and effective collection of key procurement data by:
    - Identifying data and information required for adequate decision making and performance management of the entire procurement cycle as well as of strategic initiatives, implement standard tools common to all procurement units.
    - Collecting and consolidating harmonised data already available in some form from procurement units, with a clear roadmap for subsequently obtaining missing data.
    - Implementing, in all procurement units, standard tools that ensure harmonised and limited codifications and formats. As a minimum, these tools should consist of a spreadsheet including basic functionalities that prevent or highlight deviations from the established codes or formats. A more sophisticated information management system would be preferable, potentially in the form of a procurement management system covering the whole procurement system and integrated with ISSSTE's other systems.
  5. Improving its performance monitoring and management activities and increasing the visibility of the progress and benefits of the procurement function by:
    - Identifying elements of the procurement function to be assessed on an ongoing basis or under priority initiatives, addressing both effectiveness (outcomes) and efficiency.
    - Developing clear performance indicators to evaluate these elements, setting a clear and realistic target for each one (or different targets to reflect different levels of maturity) and monitoring achievement against them on a regular basis.
    - Disseminating the associated results not only to the procurement units and senior management, but also to other internal areas and external stakeholders through tailored and high-impact communication tools.

- Implementing similar performance management at the individual level, aligning the selected indicators to those of the procurement function (as appropriate) and using the results as part of the employee’s performance evaluation.

### Note

1. While the Mexican procurement laws make reference to micro, small and medium enterprises (*micro, pequeña y medianas empresas nacionales*, MIPYMES), the expression “small and medium enterprises (SMEs) is used in this report to represent all of them.

## Annex 4.A1

## Support to the participation of SMEs in public procurement at the central government of OECD countries

	Specific legislative provision or policy (e.g. Set-aside) is in place to encourage the participation from SMEs in procurement	A specific unit specialised on SMEs is in place at the central government level	Training and workshops are carried out for SMEs	Documentation or guidance focussed on SMEs is available on-line	Administrative procedures are simplified for SMEs to participate in tenders	SMEs benefit from preferential financial treatment, e.g. waiving fees	Not applicable, there are no specific measures to support the participation of SMEs in public procurement in central government	Other
Australia	○	●	○	○	○	○	○	○
Austria	○	●	●	●	○	○	○	○
Belgium	○	●	●	○	●	○	○	○
Canada	○	●	●	●	○	○	○	○
Chile	○	○	●	●	○	○	○	○
Czech Republic	○	○	○	○	○	○	●	○
Denmark	○	●	●	●	○	○	○	●
Estonia	○	○	○	○	○	○	○	●
Finland	○	○	○	○	○	○	○	●
France	●	○	●	●	○	○	○	●
Germany	●	○	○	○	○	○	○	○
Hungary	●	○	●	●	●	○	○	○
Iceland	○	○	○	○	○	○	●	○
Ireland	○	○	●	●	●	○	○	○
Israel	○	●	○	●	○	○	○	○
Italy	○	○	●	●	○	○	○	○
Japan	●	●	○	○	○	○	○	○
Korea	●	●	●	●	○	●	○	○
Luxembourg	○	○	○	○	●	○	○	○
Mexico	●	●	●	●	○	●	○	○
Netherlands	●	○	●	○	●	○	○	○
New Zealand	○	○	●	○	●	○	○	○
Norway	○	●	○	○	○	○	○	○
Poland	●	●	●	●	○	○	○	○
Portugal	○	○	●	○	○	○	○	○
Slovak Republic	○	○	○	○	○	○	●	○
Slovenia	●	○	○	○	●	○	○	○
Spain	●	●	○	●	●	○	○	●
Sweden	○	○	○	○	○	○	●	○
Switzerland	●	○	●	●	●	○	○	○
Turkey	○	●	●	○	○	○	○	○
United Kingdom	○	●	●	●	●	○	○	●
United States	●	●	●	●	●	○	○	○
<b>Total OECD 33</b>								
● Yes	12	15	19	16	11	2	4	6
○ No	21	18	14	17	22	31	29	27

Notes:

In the **Czech Republic**, contracting entities are required to set down non-discriminatory tender conditions.

In **Denmark**, the Competition and Consumer Authority has published a step-by-step guide including information on rules, procedures and key issues related to how to establish SME consortia.

In **Estonia**, there are no specific approaches in place to support SMEs since the majority of Estonian enterprises are classified as SMEs.

In **Finland**, the central procurement unit plans the tenders in a way that encourages SMEs to participate the tendering process.

In **Spain**, the central body responsible of the assessment on public procurement (the Public Procurement Consultative Board) is in contact with SMEs and general associations of SMEs to attend their demands on this issue.

In the **United Kingdom**, there is a programme of work with departments to drive up spend with SMEs where they can provide best value to the taxpayer. An example of a supportive documentation focussed on SMEs is ‘Winning the Contract’ which is available on the LearnDirect website. The procurement process has also been simplified, for example, the Pre-Qualification Questionnaire (PQQ) have been shortened after feedback from SMEs showed that many were too complicated and had an unnecessary length.

*Source:* OECD (2012b), “OECD 2012 Survey on Public Procurement”.

Annex 4.A2

UK National Health Service Procurement Standards: Example of the “Leadership” domain

LEADERSHIP					
Standard	How organisational performance will be improved	Level 1 – Building	Level 2 – Achieving	Level 3 – Excelling	Indicators
1.1 The Trust Board is fully accountable and understands the contribution of non-pay spend on the wider Trust and is committed to delivering best value for the taxpayer.	By demonstrating top-level commitment and support and understanding non-pay spend and its impact on the delivery of patient care, the culture will shift to one that engages and understands the importance of making the best use of non-pay spend whilst obtaining fit for purpose products/services and making efficiencies. Reduce spend, improve patient care, increase efficiency	Procurement strategy developed in support of the Trust strategy. The Trust Board and Senior Managers communicate the importance and contribution of procurement. Procurement represented at Board level (executive or non-executive). Non-pay spend is reported to the Board.	Procurement strategy in place with some co-development from the Trust Board and communicated across the Trust (with regular review). There are well-defined objectives, operational plans and performance indicators for procurement approved by the Board. A board member (executive or non-executive) is accountable for procurement activities. Non-pay spend reports segmented into main categories are reported to the Board.	Procurement strategy is integral to delivery of the Trust strategy (reviewed and updated on regular basis). Non-pay efficiency measures reported at Trust Board on a monthly basis with goals set for continuous improvement. Evidence of procurement issues regularly discussed and agreed in Trust Board Minutes. Non-pay spend/procurement governance group reporting to the Board. The Trust Board, senior management and the Head of Procurement demonstrates commitment to procurement through their personal actions and involvement.	How often is non-pay spend on the Trust Board agenda? How often is performance measurement of procurement reported to the Trust Board and senior managers? How well is the procurement strategy being implemented and delivered? Progress/benefits of major procurement projects are reported to the Board (timescales/budgets).



LEADERSHIP					
Standard	How organisational performance will be improved	Level 1 – Building	Level 2 – Achieving	Level 3 – Excelling	Indicators
1.2 All non-pay spend is governed by and subject to proficient procurement.	This will ensure that all non-pay spend is controlled and compliant with EU Directives and conducted in appropriately transparent, proportionate, non-discriminatory and equal manner. Value for money (VFM) will have been tested and any unnecessary or fraudulent transactions are eliminated. Reduce risk, reduce spend, improve governance.	Procurement policy in place which covers all non-pay spend.	A communicated procurement policy adopted across the Trust. All department/staff with procurement responsibilities are identified and recorded.	A pro-active non-pay spend governance group is in place which as a minimum assesses compliance to the procurement policy and provides a route of escalation for non-compliance. Action plan in place to increase contract coverage in non-pay spend.	% of non-pay spend influenced by procurement professionals. % of non-pay spend covered by contracts. % of category expenditure influenced by procurement professionals. Number of incidents of non-compliance to procurement policy. Number of legal challenges. %/number/value of single tender procurements.
1.3 All Trust staff are engaged in making efficiencies in non-pay spend.	Staff will be motivated and encouraged to make changes, which improve services and delivers value for money (VFM). Reduce spend, improve patient care, reduce risk.	All Trust staff have an awareness of and participate to make non-pay efficiencies for the organisation.	The Trust Board acknowledges the contribution that all staff can make to increasing the efficiency of non-pay spend across the Trust, and motivate all staff to identify what contribution they can individually make, via their objectives, job descriptions, and other mechanisms. Product prices displayed in clinical areas.	The Trust Board promotes and actively supports a culture of making non-pay spend efficiencies and the adoption of "lean" principles. Specific initiatives implemented that incentivise staff to identify and deliver non-pay spend efficiencies.	Number of relevant modules of the "Productive series" implemented. % of staff with procurement-focused goals in their job description and annual objectives. Savings delivered from initiatives identified by staff that have been implemented. How engaged staff feel in making financial efficiencies

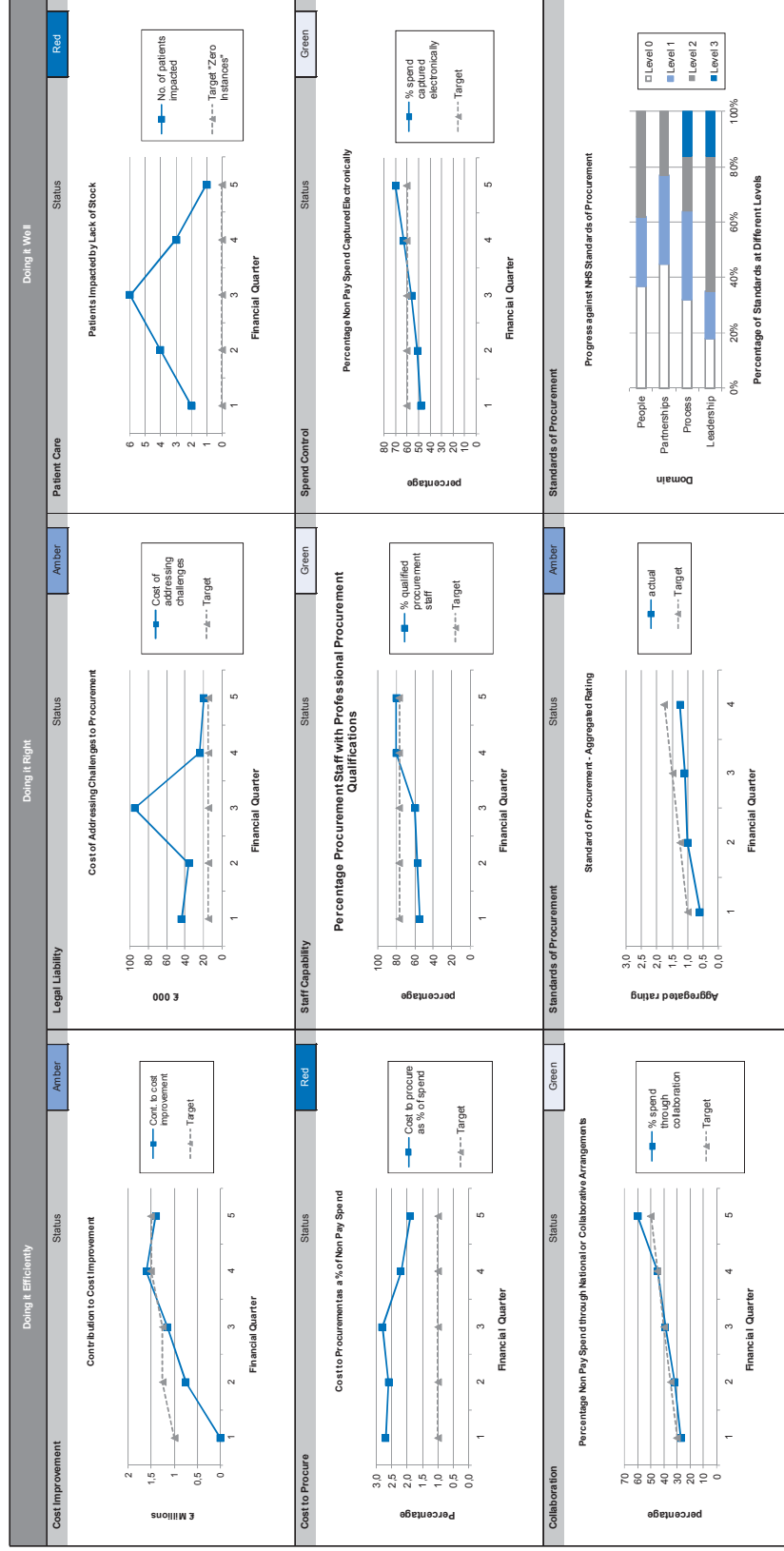
LEADERSHIP					
Standard	How organisational performance will be improved	Level 1 – Building	Level 2 – Achieving	Level 3 – Excelling	Indicators
1.4 Critical suppliers/suppliers are identified and plans are in place to mitigate risks.	The risk of failure to deliver quality care is reduced as plans are in place to mitigate risks against failure in any critical supply chains. Reduce risk, improve governance.	Critical suppliers and/or suppliers identified by assessing the risk of supply failure.	Critical suppliers identified and mitigation/contingency plans developed. Critical suppliers identified and mitigation/contingency plans developed. Robust supplier relationship management processes in place, which includes measures to reduce failure to supply risks.	Supply risks identified, managed appropriately and escalated to the Trust Board and reported through the corporate risk management system/risk register. Evidence of supply market intelligence in order to forecast and plan for future supply risks.	Number of procedures cancelled due to lack of availability of supplies/equipment/agency staff? Number of events with “damage to reputation” from non-supply. Extra costs incurred due to supply failure.
1.5 Being transparent on non-pay spend and pricing information.	Transparency of procurement information within the Trust, with other Trusts and with the public leads to comparisons being made and opportunities identified to improve efficiency. Improve governance, reduce risk, reduce prices.	Processes developed so that prices paid within the Trust are transparent and variances addressed. Invoice spend over GBP 25 000 uploaded onto data.gov. Use “contracts finder” to publish tenders and contracts over GBP 10 000.	Processes or system implemented to ensure internal prices are consistent and transparent. Price benchmarking is carried out with other Trusts (formally/informally). Implemented Trust policy that prohibits price non-disclosure agreements/confidentiality agreements.	No discrepancies in prices paid for the same product across the Trust can be evidenced. Implemented action plan based on variances identified through benchmarking with other organisations. All contracts and pricing are publicly available.	% of products/services regularly benchmarked. Performance on the benchmarking of: a) low value/high volume/generic basket of goods; b) high value specific basket of goods (e.g. orthopaedics). % (by number and value) of opportunities over GBP 10 000 advertised through “contracts finder”.

LEADERSHIP					
Standard	How organisational performance will be improved	Level 1 – Building	Level 2 – Achieving	Level 3 – Excelling	Indicators
1.6 Innovative technologies and processes are adopted and benefits measured.	Fostering a managed culture of innovation will ensure that new ideas are embraced and assessed, leading to more rapid adoption resulting in efficiencies and improved patient outcomes. Improved patient outcomes, improved efficiency.	Developed a policy that supports the adoption of innovation. A clear process for increasing the adoption of technology innovation is developed.	Implemented policy that supports the adoption of innovation. A clear process for increasing the adoption of technology innovation is implemented. Procurement is actively involved with the adoption of innovations related to technology.	Evidence of the adoption of innovation and its benefits is reported to the Trust Board. Patient/efficiency outcomes following the adoption of innovation are regularly reviewed by the Trust Board. Policy is regularly reviewed by the Trust Board.	Number of finished consultant episodes impacted by the adoption of innovation, as a proportion of total number of FCEs. Number of outpatient appointments impacted by the adoption of innovation, as a proportion of total number of outpatient appointments. Value generated within the Trust by the opportunities adopted, expressed in GBP. Value generated outside the Trust but within the healthcare economy, expressed in GBP.

Source: UK Department of Health (2012b), “Standards of procurement”, Department of Health of the United Kingdom, May 2012, [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/136646/dh\\_134378.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/136646/dh_134378.pdf), accessed 17 October 2012. © United Kingdom, Department of Health, 2012. All rights reserved.

Annex 4.A3.

Examples of the performance dashboard in the UK Department of Health



Source: Adapted from Department of Health (2012c), "NHS Procurement Dashboard Model: Summary of feedback on NHS Procurement Dashboard", Version 1 dated 28 October 2012, Department of Health of the United Kingdom. © United Kingdom, Department of Health, 2012. All rights reserved.

## Annex 4.A4

## Snapshot of Ontario buys supply chain metrics

Area	Governance and process	Financial	Transaction and technology
Goal	Control the plan-to-pay process and use of leading practices	Reduce operating and purchasing costs of the supply chain	Reduce the transactional burden and improve information
Proposed metrics	<p><b>Metric 1.1. Percentage of active items under contract</b> Objective: to improve the control of supply chain spending by increasing the number of items bought under a negotiated contract</p> <p><b>Metric 1.2. Purchasing response time</b> Objective: to improve the ability to quickly issue rush orders to suppliers</p>	<p><b>Metric 2.1. Average cost to issue a purchase order</b> Objective: to maximise the productivity of supply chain staff associated with purchasing goods and services, including supplier management, contract management, order processing and problem resolution</p> <p><b>Metric 2.2. Inventory turnover in one month</b> Objective: to optimise the investment in inventory by balancing the cost of storing goods against the cost of replenishment, stock-outs and resulting service failures</p> <p><b>Metric 2.3. Operating costs as a percentage of expenditures</b> Objective: to optimise the overall operating costs of the supply chain department relative to the expenditures on goods and services</p>	<p><b>Metric 3.1. Number of purchase orders in one month</b> Objective: to create efficiencies and reduce costs by optimising the number of purchase orders</p> <p><b>Metric 3.2. Percentage of rush purchase orders</b> Objective: to reduce the number of unplanned and unscheduled rush purchase orders by improving planning and demand management</p> <p><b>Metric 3.3. Number of purchase orders placed per full-time equivalent in one month</b> Objective: to improve the productivity of the supply chain department in creating and issuing purchase orders</p> <p><b>Metric 3.4. Average lines per purchase order</b> Objective: to reduce transactional costs by consolidating purchase order lines into fewer purchase orders</p> <p><b>Metric 3.5. Average number of purchase orders placed to top ten suppliers in one month</b> Objective: to consolidate and reduce the number of purchase orders issued to the top ten most active suppliers</p> <p><b>Metric 3.6. Percentage of invoices with purchase orders</b> Objective: to reduce the number of invoices processed without a purchase order to properly control and manage organisational spending centrally through the supply chain department</p> <p><b>Metric 3.7. Percentage of invoice matches</b> Objective: to improve accuracy in the information contained in purchase orders, receiving slips and supplier invoices.</p> <p><b>Metric 3.8. Percentage of low dollar value purchase orders</b> Objective: to increase the use of alternative, easy-to-use purchasing methods for low dollar value purchases</p>

Area	Customers	Suppliers	People
Goal	Improve service delivery through comprehensive understanding of patient and clinician needs	Leverage supplier expertise and resources to drive better supply chain outcomes	Invest in employees to improve their contribution and help make supply chain a profession of choice
Proposed metrics	<p><b>Metric 4.1. Stock-outs at the cart level</b> Objective: to optimise stock levels at point of use storage locations across the health care organisation to safeguard patient safety and improve customer service</p> <p><b>Metric 4.2. Fill rates to customers</b> Objective: to improve customer satisfaction at point-of-use storage locations across the health care organisation</p> <p><b>Metric 4.3. Percentage of items activated in the master file in one month</b> Objective: to increase the scope of goods and services purchased by the supply chain department to include new products and suppliers</p> <p><b>Metric 4.4. Percentage of items inactivated in the master file in one month</b> Objective: to rationalise the number of duplicate and alternate products, services and suppliers used across the organisation</p>	<p><b>Metric 5.1. Percentage of invoices paid within due date</b> Objective: to increase compliance with agreed-upon payment terms to maintain good supplier relationships</p> <p><b>Metric 5.2. Supplier performance</b> Objective: to ensure reliable delivery performance from an organisation's top ten suppliers</p>	<p><b>Metric 6.1. Voluntary turnover</b> Objective: to improve retention of quality supply chain staff</p>

Sources: Adapted from Government of Ontario – BPS Supply Chain Secretariat (2009a), *Performance Measurement: Phase II – A Framework for Action*, BIS Supply Chain Secretariat of the Treasury Board Office, Queen’s Printer for Ontario, Ontario, [www.fin.gov.on.ca/en/bpssupplychain/documents/perf\\_meas\\_framework.html](http://www.fin.gov.on.ca/en/bpssupplychain/documents/perf_meas_framework.html), accessed 20 September 2011; Government of Ontario – BPS Supply Chain Secretariat (2009b), *Performance Measurement: Phase II – User Guide*, BIS Supply Chain Secretariat of the Treasury Board Office, Queen’s Printer for Ontario, Ontario, [www.fin.gov.on.ca/en/bpssupplychain/documents/perf\\_meas\\_userguide.html](http://www.fin.gov.on.ca/en/bpssupplychain/documents/perf_meas_userguide.html), accessed 20 September 2011. © Queen’s Printer for Ontario, 2009. Reproduced with permission.

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