Research on Supplier Selection of Local Government Purchases In China: Case Study Of Shanghai

SHI Si

( School of Government, Beijing Normal University, Beijing 100875, China )

Abstract: It has become a major trend for the government to buy public services from social organizations in China. Most of the researches believe that "competition" and "relationship between social organizations and the government" are the criteria for the government to select suppliers. However, the choice behavior of government is complex and have changed over time. Based on the Multi case study of public services purchasing by government of Shanghai and from the perspective of supplier selection theory, the research shows that three dimensions including the quality and efficiency of public service provision, the relationship between government and social organizations and the relevant policies of government procurement of public services have always affected the choice of suppliers in the process of government purchase. With the continuous development of government purchases, the influence of the relationship between government and social organizations has been reduced. And the quality and efficiency of public service provision are becoming the main influencing factors. Besides the relevant government regulations are always as a restrictive factor.

Keywords: government purchase of public service; supplier selection; Shanghai

I. INTRODUCTION

In the middle of the 1990s, the administrative reform movement spread to the whole world. And the government purchase of public service was introduced into China. The Chinese government's exploration of buying public services originated in Shanghai. In 1995, the Pudong New Area Council for social development established the Luoshan citizen entertainment center, which was then entrusted to Shanghai YMCA for management. Since then, the China's local government purchase of public services has extended to many traditional fields such as education, public health, poverty alleviation service for disabled persons, and then gradually extended to many emerging areas of social services including social work, community development, community corrections, environmental protection and so on. The role of government purchasing services in promoting the quality and efficiency of public services has been widely accepted, and its development has also spread rapidly. At present, when purchasing public services, the relevant law that the Chinese government can refers to is the Government Procurement Law promulgated in 2002. Local policies and regulations are broadly consistent with the relevant provisions of the Government Procurement Law. Although in September 2013, the general office of Chinese State Council issued the 《Guidance opinions of the government buy public services from the social power》 which put forward guidance for the government purchase of public services. There is still no clear stipulation in these laws and regulations about the standards and the assessment indicators of selecting suppliers, which may cause irregularities in the process of supplier selection.  

Wang Puqu, Salomon ¹ and Su Ming² studied the government purchase of public service in China and found a obvious characteristic: "internalization", that is to say the local government is more inclined to choose official social organizations as providers of public services rather than grass-roots social organizations. This paper will take Shanghai as an example to analyze the logic and assessment indicators of local government's selection of public service providers.

1 Summary of the Government Purchase of Public Services

1.1 research on government procurement of public services

The government purchase of public service has aroused extensive research and discussion in

research on the supplier selection of government procurement of public services

The introduction of government procurement aims to enhance the efficiency of public services through competition. Therefore, the realization of competition became an important consideration in the government's purchase of public services. In the environment of China, many scholars have found that the official background of social organizations and the relationship between government and social organizations also affect the government's choice of public service providers.

Zhou Jun (2014) introduced the theory of supplier selection in enterprise procurement into the analysis of government purchases of public services. Based on the case study, Zhou Jun found that the factors such as policies, quality of service, registration place, working experience with local government, service price together with other factors such as the number of social organizations, social organizations' identity influence the way of government purchases and the government's choice of suppliers. Yang Wenjing, Cai Meng (2015) carried out their research also based on the theory of supplier selection in enterprise procurement. They believe that the factors that affect the government's choice of purchasing methods include the system, social organization, identity, social organizations, registered places and the number of social organizations and that the factors that influence the government's choice of public service providers include service ability, service quality, the former cooperation between the social organization and the government and the service price.

In these two studies, we can found Almost similar factors that influence the choice of government. The latter study distinguishes the effects of these factors on government procurement methods and supplier selection. However, the influence degree of these factors cannot be judged in both of these two articles.

Zhang Hai, Fan Bin (2013) analyzed the structural potential factors and structural constraints that affect the evolution of the public service way of the Chinese government purchasing social organizations. Their research was carried out from three aspects. These three aspects are the improvement of the quality and efficiency of public service, the relationship between the government's administrative system reform and the Chinese government and social organizations. In this paper, the author believes that competition, transaction costs, reform, innovation, path dependence, and the official background of social organizations will affect the government's choice of ways and objects of purchase. Chen Bin, Chu Junfeng, and Chen Fu (2012) applied intuitionistic fuzzy set theory to their own research. In their research, the author converts the subjective evaluation information given by the government purchasing decision maker to a number of intuitionistic fuzzy numbers. And then they constructed an intuitionistic fuzzy multiple attribute decision making model with 6 first level indicators and 15 two level indicators. Finally, the author illustrated the effectiveness of the model with a case study. Gao Haihong (2014) proposed that the public qualification system should be established in the choice of public service providers. He believes that the review of suppliers should include their expertise, management capabilities, capital, equipment, experience and reputation.

Although Chinese scholars have actively explored the standards and logic of supplier selection in government procurement of public services, and obtained several research achievements. However, the related research is still not rich and in-depth enough. There are less than 20 documents devoted specifically to the government's choice of supplier selection logic and standards. In these 20 documents, many of them have applied case studies. However, there are still some problems in these studies. For example, the number of selected cases is insufficient, the span of these cases is not wide enough, and the coverage is not wide enough. Therefore, it is difficult to explore the change of government choice behavior from the perspective of development and to circumvent the impact of public service supply areas.
2 The application of supplier selection theory

2.1 Introduction of supplier selection theory

Enterprise procurement is the most similar market behavior with the government purchasing services. Enterprise procurement is an activity in which the enterprise buys products or services as its own resources from the supply market to ensure its own production operation. Generally speaking, the process of purchasing is the process of obtaining resources from the resource market. This process of purchasing usually consists of three steps: inquiry, supplier selection and contract management. The enterprise takes profit as the goal, and the supplier's choice decides the quality and efficiency of the enterprise's resource supply directly. Therefore, the supplier's choice becomes the most important link.

There has been a great deal of research on the standards and key factors of selecting suppliers about enterprise purchase in the academic field. In these studies, the most influential is the supplier evaluation system index proposed by American scholar Dickson. Dickson sets out the supplier selection criteria that contain 23 items, including quality, delivery time, historical performance, warranty terms, production equipment and capacity, price, technical capability, financial status, etc. Over the ensuing years, researchers sorted the entries according to the importance of them. The supplier evaluation indicators Including price, delivery date, quality, production equipment and capacity, technical ability and geographical position have been always placed in very important position. In addition, the follow-up study also introduced new standards such as production flexibility, environmental protection degree and so on based on the existing items.

After the potential supplier has been identified, the enterprise should consider how to choose the final supplier. In enterprise procurement, the choice of suppliers mainly consists of two types: bidding and non-bidding. Among the two types of enterprise procurement ways, bidding includes public bidding and inviting bids and Non bidding procurement is divided into inquiry, price parity, bargaining and so on. the enterprise usually adopts the open bidding method to purchase when the market competition is full, the purchasing scale is large and the purchasing value is high. Meanwhile, enterprise usually purchases by means of inquiry when the procurement scale is small and when they inclined to lower costs. Besides, negotiation and negotiation methods are mostly used in detail purchasing activities. \[10\]

The choice of enterprise procurement methods is closely related to the evaluation of suppliers. That is to say the purchasing way of the enterprise is influenced by the factors of the suppliers such as the market size of suppliers and the previous experience of cooperation with suppliers. Of course, it is also bound by the enterprise procurement scale, procurement costs and other established procurement plans. The evaluation of the supplier influences the choice of the mode of procurement, and the difference in the mode of purchase in turn affects the determination of the final supplier. Which means, in the process of purchasing, the evaluation of suppliers and the choice of purchasing methods are interactive, and these two aspects are not separable. Therefore, in this paper, the two factors will be unified for discussion. The choice of procurement methods and measurement of suppliers will be considered as an interactive cycle. However, what's important is that in this article the research is still focusing on the criteria and indicators of supplier selection, rather than the way suppliers choose.

2.2. Applicability of supplier selection theory

Government purchase of public services is also a kind of market transaction behavior, and will also be affected by market trading rules. Compared with enterprise procurement, the basic objectives, procedures and procedures, as well as the general market rules followed by the government in purchasing public services are similar. In practice, both enterprise procurement and government procurement of public services pursue the basic principles and objectives of "High quality and inexpensive" and "good value for money". Therefore, the government will follow the similar standards of enterprise purchasing when choosing specific purchasing methods and suppliers. The government will also consider such matters as quality, delivery time, historical performance, warranty terms, production equipment and capacity, price, technical capability, financial position and so on. For example, the twenty-ninth to the thirty-one rules of Government procurement law of the People's Republic of China promulgated in 2002 stipulates that in the specific supplier scale and supply of product quality requirements, the government should choose the appropriate procurement methods. This is a strong proof of the above argument. When purchasing public services, the government is sure to consider the similar factors to the purchase of enterprises. \[11\]. Therefore, we can adjust the relevant conclusions and results of the enterprise procurement theory, and combine the particularity of government procurement to study and analyze the issue of government procurement of public services.

Obviously, there is still a qualitative difference between government procurement of public services and enterprise procurement. The difference between the two purchases is mainly reflected in the different sources and nature of the funds, the different motives of the purpose and the the maturity of the market. First of all, the Funds used by the government to purchase public services are public funds. These public funds come from financial revenues. Therefore, the government must comply with the relevant laws and regulations when
carrying out the activities of purchasing public services. The use of funds is controlled and restricted by relevant departments. Buying activities under strict restrictions and legal provisions is a characteristic of government purchases. Therefore, different from enterprise purchasing, in government procurement of public services rules and legal regulations may become a major factor affecting the choice of government.

Secondly, the main purpose of the government's purchase of public services is to meet the public demand and to provide the quality and efficiency of public service supply. In many cases, however, the supply of public services has no specific product or substance. As a result, the delivery date cannot always play a role. In this paper the standard of delivery is not considered separately. It will be studied in the context of service quality. Third, the market for public services is not mature yet, and there are no or only few suppliers. In many public services, which will affect the choice of government.

To sum up, the application of supplier selection theory in the study of government procurement of public services should be adjusted and changed accordingly. In view of the supplier selection theory, some factors always play a role in the evaluation of suppliers, they are price, delivery time, quality, production equipment and capacity, technical ability and. The price of the service offered, the size of the purchase, the cost of the purchase and the previous cooperation that affect the selection of the enterprise in the procurement process will be retained. As most of the public services do not have specific products, the delivery date will be discarded and studied in the context of service quality. And the factors such as price, delivery time, quality, production equipment and capacity and technical ability will be combined as the factor of professional ability of the public service. The concept of location will be retained and adjusted to the supplier's registration site. In addition, the thesis will increase the influence of social organization quantity and social organization status on the government purchase, which have been studied and verified by many scholars.

3. Case Studies on Government Purchases in Shanghai

3.1 Selection of cases

As the first city to explore the government purchase in China, Shanghai has formed a rich experience. There are many representative classic government procurement cases covering a wide range of fields, which is appropriate to groom the standards and logical changes in government's choice of public service providers. Therefore, in this paper, the case of Shanghai government purchase is chosen as the research object. In the selection procedure of cases, the authors consider the time span and the scope of coverage of government purchase to ensure a more accurate analysis of changes in supplier selection criteria and to avoid the impact of the areas of public service.

In the Government Procurement Network and the Government Portal Website of Shanghai discloses part of government purchase of public service projects and the provider within two years. However, it is difficult to obtain information about the supplier's background and development process. In addition, this paper devoted to the study of the change of supplier selection logic in the government of Shanghai, so the case will have a great time span. Large time spans lead to difficulties in obtaining material from previous projects get the government's criteria for choosing suppliers. Therefore, this paper will take a roundabout way to obtain case information with large time span. The author takes "government purchase of public services" and "Shanghai purchase of public services" as the key word to search literature in CNKI and then selected 9 typical cases from the 50 papers on the Shanghai government's purchases of public services published by core Journals. The 9 cases include the initial purchase of public services by the government of Shanghai, as well as recent purchases. What is worth mentioning is that these cases cover the areas purchased by the government of Shanghai. And the details of this 9 cases have been shown in Table 1.

3.2 Analysis of Cases

The relevant data in the 9 cases are derived from the researcher's field survey, interviews with project leaders and analysis of internal data. This paper will study the standard of supplier selection in Shanghai by coding these cases descriptions. The specific method is to extract criteria and influencing factors of government selection of suppliers as keywords based on detailed information of selected cases. And then based on the connotation of keywords and related studies perform further coding. The concept of the extracted keyword derives from the items in the enterprise supplier selection theory, which have been adjusted above. Certainly, during this process the author will also extract key items that are not mentioned by the supplier selection theory according to the specific circumstances of the case text. The Initial keywords extraction is shown in Table 1.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Summary of the extraction process of key factors affecting the purchase of public services</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOI: 10.9790/0837-2206025057</td>
<td><a href="http://www.iosrjournals.org">www.iosrjournals.org</a></td>
</tr>
</tbody>
</table>
By the Shanghai municipal government

<table>
<thead>
<tr>
<th>Cases</th>
<th>Cases sources</th>
<th>Case Content</th>
<th>Key words</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case1: in 1995, The case of Luoshan guild hall in Shanghai, Pudong New Area [12]</td>
<td>News reports Government-reports Literature</td>
<td>“Luoshan hall was built in 1995, and it is an open community public place for local residents to enjoy public welfare services. At that time, in order to rebuild a public leisure center, the Shanghai Pudong Social Development Bureau needed a client to manage it. After consultation, the YMCA of Shanghai was found. Luoshan guild hall has obtained the independent legal person status, and it is the privately operated non enterprise unit.”</td>
<td>Independent Background Professional Ability</td>
</tr>
<tr>
<td>Case2: In 2003, the Shanghai Correction Office, the City Youth League Committee and the Municipal Narcotics Control Commission both purchased community corrections personnel, &quot;out of school, unemployment, loss of control&quot; and Municipal Drug Control Services [13]</td>
<td>Web News Government-reports Literature</td>
<td>“In order to prevent and reduce crimes from the source, the Shanghai Municipal Commission for political science and law took the lead in purchasing services through the government. This government department formed XinHang, YangQuang and ZiQuang three private non enterprise units. And this three private non enterprise were entrusted by the Municipal Correction Office, the Municipal Youth League Committee and the Municipal Narcotics Control Commission respectively. They devoted themselves to related social services of community corrections, &quot;out of school, unemployed, out of control&quot; community adolescents and drug abusers. The operation modes of the three organizations are the same. In addition to the cost of social work, the government will also give the terminus a certain amount of office funding in the form of administrative appropriations.”</td>
<td>Directional Establishment Establishment Dependency Relationship No Competition</td>
</tr>
<tr>
<td>Case3: In 2005, Shanghai Pu Bridge Street office to purchase community cultural construction services [14]</td>
<td>During the 2006, interviews with relevant executives related the purchasing service interviewed by the author</td>
<td>“Hua'ai community service management center is an independent private non enterprise unit. In 2005, Dapuqiao Street brewing the construction of community cultural activity center. After investigation and recommendation, relevant leaders chose to cooperate through good performance, rich resources and good social reputation Shanghai hua'ai community service management center as the operation mechanism. The relevant departments of Dapuqiao Street pointed out: &quot;the civil service or post formation is relatively&quot; iron rice bowl &quot; , and the pass in and out is not very flexible; If the existing model is used, the resources will still be limited to the street , there is a wide range of foreign resources and volunteer resources in Hua'ai which can meet various requirements ; In addition, it is also a policy requirement for the government to change its requirement.”</td>
<td>Independent Background Professional Resources</td>
</tr>
<tr>
<td>Case4: In 2008, the government of Shanghai Jingan District purchased the sports service of Shanghai Jingan public place management service center [15]</td>
<td>Government Official Website Literature</td>
<td>In January 15, 2008 , The &quot;Service center&quot; passed through the review of the qualification of project that social organizations undertake to public service , and established independent private non-enterprise units officially. The service center shall be audited by the Finance Bureau of Shanghai Jingan District, and it is paid in accordance with the contract. The purchase funds are controlled by the &quot;service center&quot;, and through regular financial audits to ensure that the funds are within the scope of the contract. In the payment of funds, the government will implement centralized payment. Specifically, the government pays a portion of the cost under the contract as a start-up fund and then add funds to the project</td>
<td>Grass Roots Organization Social Reputation Professional Ability</td>
</tr>
<tr>
<td>Case 5:</td>
<td>In 2008, Jingshan Shimen Erlu Street offices purchased community cultural construction activities[16]</td>
<td>Interviews and dialogue with government officials, project leaders</td>
<td>In 2008, based on the comparison and assessment Jingshan Shimen Erlu street selected Huai community service management center based on the comparison and assessment. “Huai is early established non-public organization, and has the experience of working in Pudong and Dapu Bridge. After visiting huai leaders believe that the organization has standardized work, a high degree of public satisfaction, a young team, a dynamic and innovative concept, so it can well plan rich and targeted cultural activities.”[17]</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Case 6: Shanghai Jiading Street offices purchased disabled public welfare project[17]</td>
<td>Interviews with the Jiading District CDPF staff, social organization heads, project leaders based on 2010-2011 years of field investigation, and focus forums and internal text data analysis.</td>
<td>In 2011, in the winning 19 units, excluding 2 enterprises, 5 institutions (all professional medical institutions), the remaining 12 are private non Enterprises. Of the 12 private non enterprise units, 11 are all government self created or institutional transition organizations except 1. These 11 organizations were founded rely on the government resources such as registered capital and personnel. Among them, the important decisions of the 10 organizations are formulated or organized by the competent government departments, and should be examined and approved by the competent departments. And 7 organizations were found to be strongly dependent on the government.</td>
<td>Official Background Dependency Relationship Cooperative History</td>
</tr>
<tr>
<td>Case 7: Public bidding for public health service in A Street offices of Shanghai</td>
<td>Interviews with relevant heads of functional departments in purchasing social organization services and interviews with the principal heads of social organizations that undertake the purchase of the project by the author in July-August 2013 in A District of Shanghai</td>
<td>The winning bidder was L organization without any official background. There were four reasons that the L organization won the bid. The first one was the evaluation committee unanimously approved the quality of L’s service, they thought the projects organized by L can achieve good results, this was mainly because the L organization has a thorough investigation on the health status of A community elderly toward to the project, and the project was targeted. Second, the social organization has worked with other county governments in similar projects, and has excellent performance. Third, L organization has professional qualifications. Forth, the quotation of L organization project was nearly the same as the other three organizations.</td>
<td>Service Quality Project Plan Professional Ability Cooperative Experience</td>
</tr>
<tr>
<td>Case 8: Competitive negotiation to buy children's services in Shanghai A district offices</td>
<td>Interviews with relevant heads of functional departments in purchasing social organization services and interviews with the principal heads of social organizations that undertake the purchase of the project by the author in July-August 2013 in A District of Shanghai</td>
<td>Selected a private organization G. The project price of the G organization was the highest among 3 organizations, but Y department finally gave up two other organizations for its professional advantage. The professional advantages of G were mainly reflected in the following aspects: First, it has rich professional resources, and two of its teachers have the qualification of national psychological counselors, and 70% of them have teachers' qualification certificates. Second, G organization’s hardware equipment was also very strong, with a large number of rehabilitation equipment and professional books. Third, the project plan has clear goals, rich content, and operability. In addition, although G was not official social organization, but has been associated with the government departments of A district to maintain good relations of cooperation, which greatly enhances the trust of government.</td>
<td>Non-Governmental Organization Registered Area Professional Resources Project Plan</td>
</tr>
<tr>
<td>Case 9:</td>
<td>2013, 7-8 months the author interviewed the responsible person in the functional department of A district and the social services of Z</td>
<td>This case highlights the relationship between social organizations and government, especially the decisive influence on the choice of government “official” identity. The premise of this phenomenon is that the</td>
<td>Official Background Policy Provisions Professional Ability</td>
</tr>
</tbody>
</table>
(2) Analysis Results

The emergence of many keywords influence government purchase selection among the nine case of Shanghai government purchases of public services ((as shown in Table 1), according to the basic connotation of the key words in each case, it can be further summarized and formed four primary concepts, such as the quality and ability of social organizations (including service quality, project plan, professional ability, professional resources, social reputation, social credibility, management ability, cooperation experience and other key words), the number of social organizations, the background and legitimacy of social organizations (including official background, grassroots organizations, directional establishment, dependencies, independent backgrounds, registered areas, etc.), policy provisions (including the cost of purchase, purchase category keyword etc.). In the end, these five primary concepts can be further summarized into three dimensions, which influence the choice of suppliers in the process of government purchasing service. These three dimensions are the balance of quality and efficiency of public services, the relationship between government and social organizations, and the government’s policy on purchasing public services. The specific induction and summarization process is shown in Table 2.

Table 2 : Keywords Summary and Logical Induction of Factors

<table>
<thead>
<tr>
<th>Research topic</th>
<th>Influence dimension</th>
<th>Primary concepts</th>
<th>Key words</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factors affecting the government's purchase of public services</td>
<td>Quality and efficiency of public service</td>
<td>The social organization of their own qualities</td>
<td>Service Quality; Project Plan; Professional Ability; Professional Resources; Social Reputation; Social Credibility; Management Ability; Cooperation Experience</td>
</tr>
<tr>
<td>The relationship between government and social organizations</td>
<td>Background and legitimacy of social organizations</td>
<td>Official Background; Grassroots Organizations; Directional Establishment; Independent Backgrounds; Registered Areas</td>
<td></td>
</tr>
<tr>
<td>Government procurement of public services related policies and regulations</td>
<td>Policy system restriction</td>
<td>Buying Field; Purchase Cost</td>
<td></td>
</tr>
</tbody>
</table>

For the government, the quality and efficiency of public services is an important tradeoff index which plays an increasingly important role in the process of development of Shanghai municipal government purchase of public services. In the early stage, although there is such a situation that the government set up special units to undertake public service project and fail to assess the quality of these organizations, it is mostly due to the immature development of the supply market (such as case two). In addition, it is important to note that, when the number of social organizations is too small, the public service supply market is poorly developed, with only one or two well known suppliers, the government will not choose multiple assessment through open tender for efficiency reasons, instead, it directly commissioned individual excellent suppliers to provide public services.

The relationship between the government and the social organizations has always been a factor affecting the choice of the government. In the case study, the official background played a relatively important role in case 6 and case 9, but not in other cases (as in case 7 or 8). The phenomenon of more public services providing by unofficial grassroots social organizations is increasing, the influence of the background of social organizations on the choice of government has becoming weaker and weaker. In particular, the restriction of the policy system has a greater impact on the government's behavior. This is different from the supplier selection...
theory, but it has been confirmed in Zhou Jun's research. In case 7, the government has chosen the open tender method of purchase because it can get the necessary funds. That's a good proof in case 7; In case 8 or 9, the government also considered the total purchase budget. That is to say, if the government's funds are restrained, or, if there exist effective institutional incentives, the choice of the government will change accordingly.

II. CONCLUSION

Through the analysis of the case of the Shanghai municipal government's purchase of public services and on the basis of introducing the theory of supplier selection into government purchase, the author finds that the government procurement of public services is affected by multi dimension factors.

Contrary to the prevailing view, the identification of social organizations in the selection of suppliers during the course of the purchase of public services is not a primary consideration of Chinese local governments. The ability and quality of the social organizations has been always an important factor in their consideration since the purchase of public services by the Shanghai municipal government. When the supply market of public services that the government needs is immature, it is inefficient to adopt public bidding to guarantee competition. At this point, the government may choose suppliers by way of open bidding for consideration of efficiency. In other words, the government has always weighed between the quality and efficiency of public services, not primarily "competitive".

The government's investigation of the quality of public services provided by social organizations is comprehensive and complex. Relevant assessment indicators include service quality, project plan, professional ability, professional resources, social reputation, social credibility, management ability and other content. However, its evaluation process and specific measurement criteria are still vague, and there is no written provision. Therefore, from this aspect, we can standardize the evaluation system, and establish a scientific and effective evaluation standards and evaluation subjects.

In addition, all government actions are constrained by the laws and regulations, such as budget, or the purchase of items and categories, and this is the prerequisite and basis consideration for the governments to make a decision. To some extent, the problem of "internality" during the process of government buying public services is partly the result of the consideration of efficiency and system restriction rather than inherent illness.

Finally, it is necessary to point out that the supplier selection theory is applied to the government in the purchase process is an attempt and exploration, and the representative problems and selection in the case studies are also worthy of further discussion.

REFERENCE:


