

# Non-Price Criteria for Selecting Innovative Contractors

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## Non-Price Criteria for Selecting Innovative Contractors

1. Introduction
2. Innovation and Entrepreneurship
3. The Use of Non-Price Criteria
4. A Comparison with Australian Practice
5. Conclusion

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2

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### 1. Introduction

Growing trend towards government agencies using multiple criteria instead of lowest price selection of contractors

"Innovation and technological change are important sources of productivity growth and material welfare in countries"

⇒ *Has the multiple criteria movement led to another type of competition – more focused on innovation and technological change?  
(Are public clients driving innovation?)*

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3

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### 2. Innovation and Entrepreneurship

Price competition

Technological competition



Focus on process innovation



Focus on product innovation  
(and process innovation)

*Entrepreneurship research*

"the study of sources of opportunities, the process of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate, and exploit them"

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4

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### 3. The Use of Non-Price Criteria

*Empirical data*

- Swedish municipalities
- 386 tendering documents
- Construction projects procured in 2003
  
- Broad classification of 'construction projects' – roads, school buildings, housing, etc.
- ~ 11% lowest price selection

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5

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### 3. The Use of Non-Price Criteria

*Type of criteria used by Swedish municipalities*

- A. Tender price/unit price
- B. Operation and maintenance costs
- C. Contractor capability
- D. Project duration
- E. Environmental issues
- F. Quality issues
- G. Function
- H. References
- I. Service quality and attitude
- J. Financial capacity

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6

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### 3. The Use of Non-Price Criteria

#### Criteria weights

- The weights that municipal agencies assign to non-price criteria vary
- A typical pattern is a 70% price weight combined with three non-price criteria
- Criteria weights as low as 0.5% were found in the sample

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7

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### 3. The Use of Non-Price Criteria

#### Transparency and precision index Example

	5 = Criteria, weights, and scales	"Quality 15%, 1-10"
	4 = Criteria and weights	"Quality 15%"
	3 = Criteria rank	"1. Price, 2. Quality"
	2 = Criteria	"Price, Quality, ..."
	1 = No information	"..."

➡ Mean: 3.17 (SD 1.30)

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8

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### 4. A Comparison with Australian Practice

#### AUS – National Prequalification Criteria Framework (APCC, 1998)

#### SWE – Type of Criteria used by Swedish Municipalities in 2003

1. Technical capability	→	C. Contractor capability
2. Financial capacity	→	J. Financial capacity
3. Quality management	→	F. Quality issues
4. Occupational health and safety & rehabilitation	→	(A few cases)
5. Compliance with code of practice	→	C. Contractor capability
6. Human resource management	→	...
7. Commitment to client satisfaction	→	I. Service quality and attitude
8. Co-operative contracting and partnering	→	H. References
9. Management of environmental issues	→	E. Environmental issues
10. Management for continuous improvement (incl. R&D)	→	...
11. Compliance with legislative requirements	→	(Formal requirement)

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9

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### 5. Conclusion

- Multi-criteria contractor selection does not automatically lead to technological competition between contractors
- Type of criteria, criteria weights, and the degree of transparency and precision are important
- Entrepreneurship theory is a promising approach for understanding contractor reactions to multiple criteria

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10

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