Non-Price Criteria for Selecting Innovative Contractors

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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?)

2. Innovation and Entrepreneurship
Entrepreneurship research

Price competition
Focus on process innovation
Technological competition
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"

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

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
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

Transparency and precision index

<table>
<thead>
<tr>
<th>Example</th>
<th>Transparency and precision index</th>
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</thead>
<tbody>
<tr>
<td>&quot;Quality 15%, 1-10&quot;</td>
<td>5 = Criteria, weights, and scales</td>
</tr>
<tr>
<td>&quot;Quality 15%&quot;</td>
<td>4 = Criteria and weights</td>
</tr>
<tr>
<td>&quot;1. Price, 2. Quality&quot;</td>
<td>3 = Criteria rank</td>
</tr>
<tr>
<td>&quot;Price, Quality, …&quot;</td>
<td>2 = Criteria</td>
</tr>
<tr>
<td>&quot;…”</td>
<td>1 = No information</td>
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</tbody>
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Mean: 3.17 (SD 1.30)

4. A Comparison with Australian Practice

- Technical capability
- Financial capacity
- Quality management
- Occupational health and safety
- Compliance with code of practice
- Human resource management
- Commitment to client satisfaction
- Collaborative contracting and partnering
- Management of environmental issues
- Management of continuous improvement (incl. R&D)
- Compliance with legislative requirements

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