



**Government  
of South Australia**

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State Procurement  
Board

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# ***Procurement Better Practice Handbook***

Relationships - Internal and External

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## 1. Background

The accreditation framework for public authorities with a procurement authority of \$1.1 million or greater, as issued by the State Procurement Board, is based on five high level performance categories against which a public authority's procurement capacity and capability is assessed. These categories are:

1. Leadership and Strategy
2. Organisation and People
3. Governance and Performance Management
4. Processes and Systems
5. Relationships – Internal and External

For each of these categories, procurement principles have been defined which describe high performing procurement operations.

*The Better Practice Handbook is provided as an example of what better practice is. It provides information to public authorities as to what is better practice at each level of procurement authority. It is not meant to be definitive and it is acknowledged that public authorities may meet the principles via other strategies.*

This Better Practice Handbook has been developed for the category *Relationships – Internal and External* to highlight better practices.

This category *Relationships – Internal and External* includes the following principles:

1. Relationships with internal stakeholders are managed to ensure an effective procurement process.
2. Transparent and ethical relationships are established with key suppliers.
3. Effective contract management processes are established and monitored.
4. Supplier development strategies are planned for and implemented as appropriate.

With regards to developing effective and appropriate relationships, it is noted that procurement is not an isolated function. It is important for procurement to be involved early in the business decision process and to build effective relationships with suppliers and internal stakeholders. Strategies specific to a supplier or category of supply need to be developed as opposed to a uniform approach to all suppliers.

## 2. Introduction

Whether or not a public authority has a procurement unit, or indeed any dedicated procurement staff, there is still a procurement process that facilitates the acquisition of goods and services from suppliers. The procurement process is a cross-functional process that involves internal stakeholders within the public authority and also links the organisation with stakeholders in the supplier's organisation. This is similar to other disciplines such as project management and

finance. For the procurement process to work effectively, appropriate relationships need to be established between stakeholders within and between organisations. This handbook explores the development and management of relationships that support an effective procurement process.

There will rarely be enough time to devote to all stakeholders, or all suppliers, so choices need to be made. Segmentation tools, such as the Power/Interest Matrix and matrix based procurement tools such as Supply Positioning can help focus scarce time and resources where they can have the most effect. For example, the public authority may be planning a major acquisition that affects many parts of the organisation. The breadth and sophistication of stakeholder engagement is expected to be greater than if a simple purchase is made. Similarly, there may be several hundred or even several thousand suppliers, but they are not all of equal significance.

So good practice in relationship management is about planning and manage a portfolio of relationships that match the complexity of the acquisition, the market approach, and/or the supply market being engaged. This avoids a reactive approach, which is characterised by a uniform approach to developing relationships, over reliance on indirect communication such as web sites or intranets, and failure to develop appropriate levels of influence with key stakeholders and/or suppliers. Relationships need to be managed at all stages of the procurement process, from initial planning, through the acquisition planning and sourcing processes, the subsequent management of the contract and ultimately, project close out.

Each principle will now be discussed to highlight better practice.

### 3. Principle 5.1

Principle 5.1 states:

Relationships with internal stakeholders need to be managed to ensure an effective procurement process.

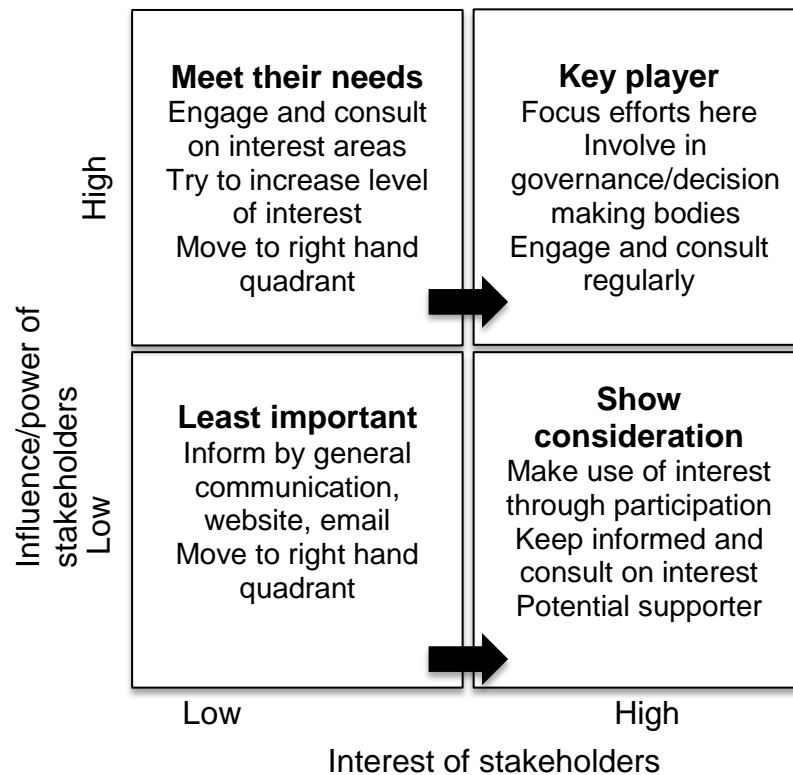
This principle requires public authorities to ensure that:

- internal stakeholders have been identified and steps taken to formalise and strengthen the relationships;
- the procurement function has a stakeholder engagement plan that covers the different types of stakeholders and their varying requirements;
- there are clear communication channels available between stakeholders and they are being used effectively;
- internal stakeholders share a common view of the role, responsibility and value added by the procurement function; and
- channels of communication for addressing procurement related queries should be available to all stakeholders in the public authority.

Types of outputs that relate to this principle include:

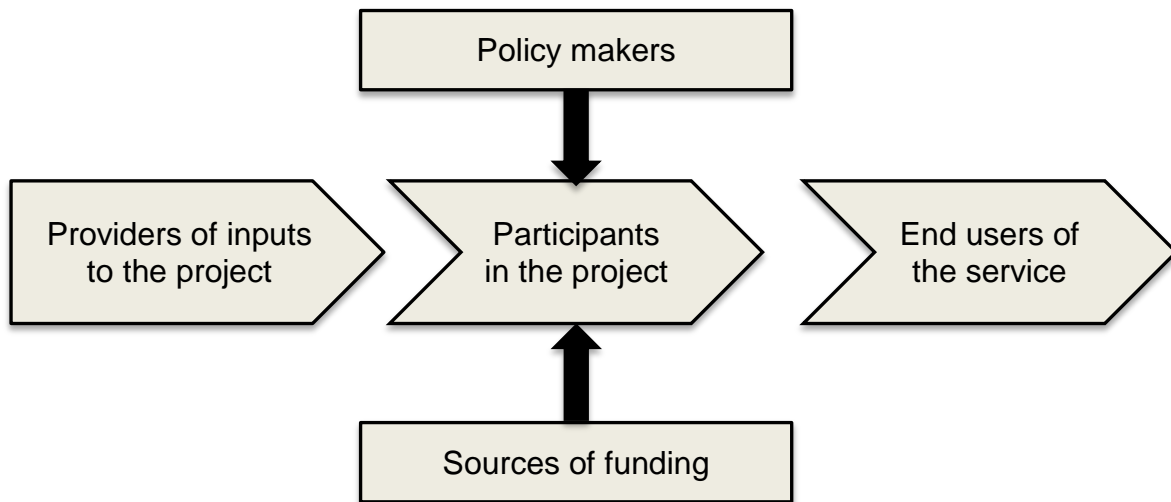
- stakeholder engagement or communication plans;
- procurement framework document/policy identifying key stakeholders;
- communication documents advising key stakeholders of procurement matters; and
- documentation from stakeholders acknowledging procurement as a value adding function that supports the achievement of business objectives.

Relationship management can be segmented based on the power and influence of the stakeholder and their interest in the procurement process/project. The essence of the Power/Interest Matrix (Exhibit One) is the recognition that not everyone is equally significant to the procurement process or to the acquisition. Stakeholders need to be segmented and prioritised in a systematic and repeatable way, and tools like this can help allocate scarce time in proportion to the impact that time will have on projects/goals.



**Exhibit One: Power/Interest Matrix for stakeholder segmentation**

For procurement projects, the range of stakeholders will depend upon the complexity of the project, and as an example, internal stakeholders will typically include:



**Exhibit Two: Potential stakeholders in a complex project**

For more complex projects, it can help to create a ‘core’ team, such as stakeholders serving on the evaluation team, or major users of the category, and an extended team, including stakeholders who are not as directly involved, such as casual users. In Exhibit Two, policy makers and sources of funding may be part of an extended team, while decision makers and selected end users may be part of the core team.

Some stakeholder groups may be so significant that a relationship plan may be warranted, or indeed a dedicated relationship manager. This may be appropriate for specialist subject matter experts for whom the procurement process is a small part of their overall job, and who need a greater level of support to navigate the procurement process.

### Better practice for all Public Authorities [\$1.1m] or greater

All public authorities will maintain lists of key stakeholders, such as:

- members of the Accredited Procurement Unit (APU) (if there is one);
- officers with delegated procurement authority to approve acquisitions;
- authors of the acquisition plans for recurring contracts;
- contract managers for contracts let by the public authority;
- major users or key budget/financial delegates for specific categories;
- stakeholders who represent the user on whole-of-government consultation mechanisms;
- recipients of updates to State Procurement Board governance; and
- recipients of APU minutes etc.

There will be an intranet site, with a menu allowing access to a variety of resources about procurement, including but not limited to:

- local procurement governance;
- templates for acquisition plans and contract management plans;
- user-level guidance on completing the templates;
- user-level guidance on good practice in basic procurement processes;
- signposts to other sources of information; and
- contact points for asking questions or seeking additional information.

### Better practice for a medium sized Public Authority [\$4.4m] or greater

Public authorities with procurement authority levels of \$4.4m or greater will maintain a stakeholder engagement plan, or employ a formal tool such as the power/interest matrix. There will be a communication plan segmented by stakeholder group, demonstrating that there are deliberate attempts to be proactive in engaging some stakeholders. For medium-sized public authorities, there will be dedicated procurement staff, and consideration will be given to ensuring that there is clear responsibility among the procurement team members for developing and maintaining relationships with selected stakeholder groups.

Communication with stakeholders does not rely solely on the intranet, and there will be a mix of informal and formal communication channels, including:

- face-to-face meetings with authors of acquisition plans early in the procurement process by a procurement team member;
- informal consultation mechanisms or formal user groups to share relevant information or capture feedback. The stakeholders may be segmented by functional background (e.g. teachers) or role in the process (e.g. authors of acquisition plans) or geography (e.g. metro vs. regional); and
- there will be a balance between reactive communication and some proactive communication driven by champions of the procurement process.

The public authority will maintain a register of specific contact points for stakeholders, such as their email addresses and telephone numbers, as well as a suggested frequency of contact and the relevant channel of communication. There may be formal or informal networking meetings between participants in the procurement process to discuss:

- contract performance;
- opportunities for variety reduction or standardisation of specifications;
- opportunities for better co-ordination or aggregation;
- developments in local procurement governance;
- training needs and/or training courses planned; and
- sharing good practices.

### Better practice for a large Public Authority [\$11m]

Public authorities with procurement authority levels of \$11m will have allocated relationship managers for specific stakeholder groups, and may have a dedicated

role focused on stakeholder communication. There will be formal engagement mechanisms and there may be a formal communication plan 'pushing' content to selected stakeholders including:

- lessons learned from recent sourcing events with implications for developing acquisition plans;
- lessons learned from recent contract management reviews with implications for contract management;
- guidance on good procurement practice;
- category developments that may be relevant to the stakeholder; and
- networking opportunities with other departments or jurisdictions.

Feedback mechanisms may include stakeholder surveys, either as part of a broader departmental initiative or commissioned by the procurement team, to capture feedback on the performance of the procurement process as currently managed in the organisation and of particular suppliers.

In addition, indirect communication channels such as telephone, email and intranet will be supplemented by direct communication, for example, through face-to-face meetings, including at the stakeholder's workplace. Some of these meetings may focus on coaching or mentoring the stakeholder, or otherwise upgrading their capability. The need for proactive stakeholder engagement could be triggered by contract management reviews and/or acquisition planning.

## 4. Principle 5.2

Principle 5.2 states:

Transparent and ethical relationships are established with key suppliers.

This principle requires public authorities to ensure that:

- what constitutes an ethical and transparent process with suppliers has been defined and that this has been followed appropriately;
- feedback from suppliers and potential suppliers on how procurement relationships are managed is sought using suitable questionnaires/surveys; and
- confidential reporting channels are available for whistle-blowers, including suppliers, to report misconduct by public authority personnel.

Types of outputs that relate to this principle include:

- contract management or ethical and probity related policies and procedures including gift and hospitality policy;
- documentation of confidential reporting channels for supplier feedback;
- feedback from suppliers;



- procurement policies and procedures related to ethical behaviour standards, probity and transparency; and
- fraud prevention policies, risk management framework or plan.

All public authorities should be able to provide evidence of objective and transparent treatment of suppliers, including the following 'classes' of supplier:

- active suppliers who rank in the 'top ten' suppliers by spend;
- currently active or 'incumbent' suppliers with whom the public authority has transacted business within the last twelve months;
- active suppliers who are working co-operatively with the public authority, or who are subject to supplier development initiatives to develop their capability;
- active suppliers who are not currently meeting their KPIs, and who may be subject to performance review;
- inactive suppliers who are receiving no business from the public authority due to a deliberate decision, for example due to previous performance issues;
- inactive or dormant suppliers who have previously supplied the public authority, but have received no business in the past twelve months; and
- currently inactive potential suppliers who are actively seeking to be included on bid lists.

Better practices in respect of this principle apply to all public authorities, irrespective of their authority level, though larger public authorities may demonstrate more sophistication in supply base management. Larger public authorities may have a structured approach to supplier relationship management, though there will be a suite of core behaviours and standards which apply to all suppliers and potential suppliers, irrespective of their significance to the public authority.

For example, decisions to stop transacting business with a particular supplier should be supported by appropriate evidence, whenever possible. Evidence might include performance review feedback, correspondence with the supplier, minutes of contract review meetings, or user complaints.

The definition of which suppliers are 'key' suppliers will depend on the public authority's own judgement, sophistication and resourcing, but there are some essential prerequisites of relationship management that should be demonstrated for all suppliers. During the sourcing phase of a project, probity principles may be especially important. Public authorities need to display fairness and transparency at all stages of the procurement process, not allowing personal preferences to cause the organisation to favour one supplier over another. Choices made should not only be defensible, but appropriate in the circumstances.

Similarly, staff with responsibility for sourcing should be accessible to potential suppliers, willing to meet with them when the public authority has a requirement relevant to their capability, and allow the supplier to demonstrate their value proposition. Potential suppliers should be evaluated objectively, and any choices made should be based on the pursuit of value for money.

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## Better practice for all Public Authorities

All public authorities will have on their intranet site or otherwise available to stakeholders:

- ethical and probity policy;
- ethical and probity guidance;
- hospitality and gift register policy;
- guidance on dealing with existing or perceived conflicts of interest; and
- relevant templates such as a conflict of interest declaration.

In addition, for major acquisitions it will be possible to locate:

- probity plans;
- declarations of no conflict of interest; and
- contract management plans.

As part of the induction process for new starters, there will be guidance issued on:

- how procurement is organised in the public authority;
- the key processes to acquire simple acquisitions;
- the governance processes applicable to simple and complex acquisitions;
- good practice in securing value for money; and
- how to deal with supplier complaints.

Existing staff will be subject to regular refresher training on key procurement governance and good procurement practice, for example, no less frequently than every 36 months. The public authority will have a whistle-blower policy and guidance will be available to internal and external stakeholders on how to register feedback.

Suppliers will be offered debriefing and officers conducting debriefing sessions will have guidance available to them as to what they can and cannot say, and how to design and conduct the debriefing session.

## Better practice for a medium sized or large Public Authority [\$4.4m and \$11m]

Public authorities with higher procurement authority levels may have a structured supplier relationship management (SRM) strategy, perhaps supported by a SRM policy framework. This will be evidenced by a proactive plan to engage with suppliers at an agreed frequency based on the relative importance of the supplier to the public authority. This may include the identification of specific officers tasked with building relationships with selected 'key' suppliers.

The rationale behind relationship management choices will be transparent and based upon a structured process. Feedback from suppliers about opportunities for improvement in procurement processes should also be recorded and explored as part of continuous improvement.

## 5. Principle 5.3

Principle 5.3 states:

Effective contract management processes are established and monitored.

Public authorities will have relationships with many suppliers, including some who are currently contracted to supply against agreements. The focus of supplier relationship management is to develop appropriate relationships with all suppliers, for example by targeting different categories of supplier, such as potential suppliers, tenderers as well as incumbent suppliers. The focus of contract management is to ensure that the public authority 'gets what it pays for' and to harvest the potential benefits created from the sourcing phase of the procurement process.

This principle requires public authorities to ensure that:

- the documentation, communication and application of contract management processes occurs in accordance with good practices such as those identified in the State Procurement Board's Contract Management Guideline;
- all major contracts have key performance indicators that are monitored throughout the term of the contract with formal feedback provided to suppliers; and
- feedback from suppliers using suitable questionnaires/surveys indicates contracts are managed effectively by the procurement function.

Types of outputs that relate to this principle include:

- contract management related policies, procurements, processes, systems and templates;
- contract management plans for complex, high value contracts;
- performance monitoring reports for major contracts; and
- feedback from suppliers re contract management effectiveness.

### Better practice for a small Public Authority [\$1.1m] or greater

All public authorities will have at a minimum:

- contract management related policies, procedures, processes, systems and templates;
- contract management plans for complex, high value contracts;
- a contract management schedule that reminds contract managers of upcoming milestones in order to be proactive rather than reactive;
- performance monitoring reports for major contracts;
- feedback from suppliers about contract management effectiveness;
- a contract register showing what contracts are in place; and
- a list of key contract managers.

In addition, for major contracts it will be possible to locate:

- periodic contract reviews;
- notes of contract review meetings;
- records of supplier's KPIs reports;
- evidence of post contract reviews, such as reports to the APU; and
- evidence of issues being dealt with locally, or else escalated to the contract manager in the event of a dispute.

#### Better practice for a medium sized Public Authority [\$4.4m] or greater

Public authorities with procurement authority levels of \$4.4m or greater will have:

- a repeatable methodology or tools for mobilising, managing and closing out contracts (such as agendas, planning tools, etc.);
- role clarity regarding the expectations of contract managers; and
- development plans for staff with part-time involvement in the procurement process who have contract management responsibilities.

For major contracts, the public authority will have:

- evidence that supplier performance as measured by KPIs, is evaluated by the public authority;
- evidence of feedback to suppliers to promote compliance to agreed contractual standards;
- reports to the APU on contract close out that reviews the contract's performance;
- lessons learned, captured and shared at an agreed frequency; and
- evidence of a 'feedback loop' from contract management to inform revised behaviour in the (re)tendering process.

#### Better practice for a large Public Authority [\$11m]

Public authorities with procurement authority levels of \$11m may have dedicated tools and resources to support contract management, such as a system to capture information on supplier performance and trigger contract management actions at appropriate timescales. This will include:

- a mechanism to record, store, share and access key contract documents promptly and efficiently;
- pro-active behaviour based on milestones for key contractual events that allow the public authority to take timely action resulting in no missed deadlines;
- dedicated officers who recognise and accept their role in contract management and attribute appropriate time and effort to contract management activities; and

- evidence of personal development plans for dedicated contract managers that include periodic refreshment of key capabilities through training or development.

For major contracts, the public authority will have evidence:

- of feedback to suppliers on opportunities for improvement, as well as basic compliance with contractual standards;
- of incremental improvement in processes, outputs or outcomes based on dialogue with suppliers at contract reviews;
- of the capture and dissemination of transferable lessons learned at an agreed frequency; and
- that there is a working ‘feedback loop’, capturing lessons learned and subsequently amending procurement practice to adopt updated behaviours; as an example, contract management reviews may highlight that the specification used in the tender documents was not adequate, causing the public authority to issue a variation; good practice would be that it was possible to track the adoption of updated procurement practices to the lessons learned or contract reviews on previous contract iterations.

## 6. Principle 5.4

Principle 5.4 states:

Supplier development strategies are planned for and implemented as appropriate.

This principle requires public authorities to:

- demonstrate that the need for creating capacity in the market has been considered and, where appropriate, implemented;
- consider the potential impact of major procurements on the market (where relevant);
- establish contract or relationship management processes and owners for each major category;
- establish formal processes for key suppliers; and
- ensure that ongoing engagement and communication occurs with key suppliers across major market segments.

Types of outputs that relate to this principle include:

- acquisition plans for major procurements that include documentation on supplier development strategies and/or consideration of the impact of selected strategies on the supply market;
- documented supplier development strategies; and
- documented engagement and communication with key suppliers.

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### Better practice for all Public Authorities [\$1.1m] or greater

All public authorities will have:

- evidence of which market approaches have yielded the least competition, or where there is a gap between the contractual standards in the contract and the performance delivered by the supplier(s);
- policy on supplier debriefing and dealing with unsuccessful bidders;
- notes of meetings with unsuccessful bidders, where suggestions have been raised as to how the supplier might be more competitive in future; and
- a business case which evidences:
  - that the decision to use the procurement process in general, (and supplier development in particular) to contribute to policy outcomes was reached after consideration of alternative options, such as policy or grants;
  - that a cost/benefit analysis has been undertaken suggesting that the investment of time and resources in developing a particular supplier is likely to yield a net benefit to the State.

In addition, for major categories with limited competition, the public authority will be able to:

- show that potential solutions to enhance competition have been considered (as well as, or in place of, public advertising);
- evidence that (subsequent) acquisition plans or market approaches include strategies to stimulate competition; and
- evidence of meetings with suppliers, at which improvement programs have been discussed, implemented and/or reviewed.

### Better practice for a medium sized Public Authority [\$4.4m] or greater

Public authorities with procurement authority levels of \$4.4m or greater will have:

- guidance on dealing with small and medium-sized enterprises, addressing how the public authority will consider suppliers:
  - who are small in scale with no prior experience in dealing with government;
  - whose current insurance levels are below the level appropriate for the acquisition;
  - whose workplace health and safety policy or standards are currently below that which is appropriate for the acquisition;
- evidence of participation with suppliers in joint problem solving exercises, or 'troubleshooting' meetings to address performance issues; and
- support of, or participation in, 'meet the buyer' or similar initiatives to maximise opportunities for smaller businesses to compete for government contracts.

For major contracts, the public authority will have evidence that:

- early supplier engagement or other methods have been used to begin a dialogue with existing and/or potential suppliers;
- the scope and/or specification of contracts has been designed to optimise participation by smaller suppliers; and
- improvement targets have been jointly set and are periodically reviewed when supplier performance has affected business operations.

### Better practice for a large Public Authority [\$11m]

Public authorities with authority levels of \$11m may have specific procurement programs (eg industry participation and/or socially responsible procurement programs), and/or targeted initiatives to work co-operatively with selected suppliers and industry groups to develop market capacity and/or capability. This will be evidenced by:

- policy, targets or goals based on higher-order government policy objectives (for example, in respect of socially responsible procurement, engagement of disadvantaged groups or the avoidance of association with suppliers and/or processes which might increase reputational risk);
- definitions of value for money that feature the deliberate inclusion of geographical or social criteria as part of the non-economic bid evaluation framework (and with weightings above the prescribed minimum);
- the inclusion of reverse marketing, procurement marketing, and/or supplier development as an integral part of a procurement strategy and/or acquisition plan; and
- liaison with other jurisdictions, the Industry Capability Network, or trade associations to stimulate market interest in categories with limited competition.

For major contracts, the public authority will have evidence of:

- dis-aggregation of total spend on a category so that some of the spend is bundled into smaller 'parcels' to facilitate access by smaller suppliers;
- joint buyer/supplier teams working collaboratively on targeted improvement programs to secure improved outcomes for each party;
- metrics and reports assessing progress on realising improvement goals; and
- networking with other levels of government or other jurisdictions to promote industry wide change in capacity and/or capability.

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## ***Attachment - Glossary of Terms***

### **APU**

Accredited Procurement Unit – (also known as a Procurement Governance Committee) is a committee comprising nominated senior officers that oversee the purchase of goods and services within a prescribed delegation. It is the role of the APU to support principal officers in procurement decision-making.

### **Category**

Category is a term applied to a distinct grouping of goods or services that are relatively homogeneous. Stationery is a broad category, and within that category there are sub-categories such as writing implements. Professional services is an example of a services category, displaying commonalities between sub-categories such as consultancy services and audit services, and possibly sharing common suppliers.

### **Power/Interest Matrix**

A matrix based approach to stakeholder segmentation that dimensions stakeholders in terms of their interest in a project/process and their power or influence over the project.

### **Procurement**

Procurement can be a process, a department or a job role. Every public authority manages the procurement process whether or not they have dedicated procurement practitioners. In the context of this category of principles, procurement refers to the end-to-end process (not only the tendering phase) that begins with defining the need through to contract management and close out of the supplier, as well as the disposal of the goods.

### **Relationship Management**

Supplier Relationship Management is the deliberate development of a portfolio of relationships with suppliers, based on the recognition that not all suppliers are equally significant to government, and government is not always significant to suppliers. Appropriate relationships need to be developed and managed throughout the procurement life cycle. Accordingly, contract management is a sub-set of relationship management.



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## Segmentation Tools

Tools that can be used to profile stakeholders, acquisitions or categories and that can differentiate behaviour based on the criticality and/or contribution of the stakeholder or supplier. Such tools create a consistent and defensible rationale for behaviour, and help prioritise, manage and focus efforts where they will have most effect.

## Stakeholders

People who are involved in, or impacted by choices that are made during the procurement process. Within public authorities, stakeholders will include end users as well as decision-makers who review proposed acquisition plans, or officers who manage contracts. Suppliers will have sales managers or account managers who are responsible for client relationships, as well as accounts payable staff and staff involved in service delivery.

## Supply Positioning

A matrix which segments the spend portfolio by risk and opportunity. It allows the public authority to develop procurement strategies for different acquisitions based on a repeatable and consistent methodology.

## Variety Reduction/Specification Standardisation

The process of reducing the number of solutions in use to meet substantially the same need. Standardisation implies the adoption of a single solution, but there may be operational reasons why a number of solutions may be used, instead of just one.