

Purchasing UK Public Sector Property and Construction Professional Services: Competition v Quality

Michael Hoxley,
Department of Built Environment,
Anglia Polytechnic University

Abstract

The procurement of UK public services has seen considerable changes during the final twenty years of the millennium. Successive governments have legislated to impose firstly compulsion to compete on price, followed by a duty to achieve Best Value. Property and construction professional consultants were under an obligation to their professional bodies not to compete on price less than twenty years ago. The first part of this paper chronicles the main stages in this period of great change. Many commentators in the public and private sectors have predicted a decline in service quality as firms have been forced to cut costs in order to survive in highly competitive markets. The second part of the paper reports an empirical study that has investigated whether there is any substance to these predictions. One hundred and eighty nine public sector clients have assessed private sector consultants with a view to establishing whether those consultants appointed by competitive fee tendering perform less well than those appointed by other methods. The development of SURVEYQUAL, a twenty-five item service quality assessment scale is described briefly. Service quality is not significantly lower for those consultants appointed by competition. However the data suggest that public service clients can positively influence service quality by taking great care with the pre-selection of tenderers.

Keywords: Public Sector, Property and Construction Professionals, Service Quality, Competitive Fee Tendering.

Introduction

When Leonidas' 300 Spartans died defying the vast numerical superiority of the Persian Empire, it was a defeat of quality by quantity, of expensive military experts by comparative, if anachronistic cannon fodder. Most marketplaces from time to time must suffer from the Thermopylae factor and that appears to be increasingly the case in the competitively tendered world of real estate. Those genuinely able to provide a service lose out on a value for money calculation to somebody who does not really understand what that service is.

This rather jaundiced view of competitive fee tendering is provided by a UK property professional (Whitehead, 1999) who appears to have been on the wrong end of the value for money calculation recently! Yet the majority of property and construction professional services carried out by the private sector for the UK public sector are now let on a fee tendered basis. Following the abolition of professional institution mandatory fee scales for such work less than twenty years ago, there has been unrelenting pressure from successive UK governments for competition to prevail. This paper charts this development and then attempts to answer the question implied by the final sentence of Whitehead's statement – has fee tendering led to lower standards of service quality in the provision of public sector professional services in the property and construction field?

The Background to Competition

The current economic climate in which construction professionals operate is highly competitive with commissions of any size rarely being awarded without some form of

fee tendering exercise. Yet it is only 17 years since the RICS amended Bye-law 24 from :

No member shall with the object of securing instructions or supplanting another member of the surveying profession, knowingly attempt to compete on the basis of fees and commissions.

to

... no Member shall ... quote a fee for professional services without having received information to enable the Member to assess the nature and scope of the services required. (RICS, 1990, p4)

At about this time all of the institutions representing construction professionals were capitulating to the Conservative Government's pressure for competitive forces to prevail. This pressure intensified in the early 1990's as Compulsory Competitive Tendering (CCT) was introduced for a range of local and central government services. This up-beat message was communicated in a White Paper in 1991 :

Competition is the best guarantee of quality and value for money. In the 1980s, the Government's policy of increasing competition gave a new dynamism to the British economy. We mean to extend these policies in the 1990s. We will expand the frontiers of competition outwards, bringing new benefits to all those who use or work in public services .

(HM Treasury, 1991, p1)

The White Paper, entitled *Competing for Quality* proposed legislation (under the Local Government Act 1988) to expand competition in the provision of services by Central Government Departments, the National Health Service and Local Authorities.

In 1992 the Secretary of State for the Environment announced that compulsory competitive tendering (CCT) was to be extended to a range of local authority professional and corporate services. In February 1994 proposals for the implementation of CCT for professional construction-related and property services were announced (DOE, 1994). The initial timetable for metropolitan districts and London boroughs was to implement CCT for 35% of these services on 1 October 1995 rising to 65% from 1 April 1996. Shire Counties and districts subject to possible unitary authority re-organisation were exempt from these requirements until after the re-organisation review has been completed. The latest government guidance on CCT for professional services required only 55% of an authority's construction and property services to be exposed to competition (DETR, 1997).

The UK stood alone in Europe as the only country to introduce compulsion to tender (Pottinger, 1995, p25) and CCT has had many critics, including Sir Michael Latham:

I do not like compulsory competitive fee bidding as a route for selecting consultants. I agree with a very large and experienced private sector retail client, with an annual spend of umpteen million pounds, who told me that he would never dream of selecting a consultant on such a basis, and always used negotiation. He did not pay what the contractor asked for, still less contemplate a scale fee, but he did not believe in a sacrificial fee either. He wanted the best service, and expected to pay for it. If he did not get it, he looked elsewhere next time.

(Latham, 1997, p58)

The Labour Government announced within weeks of being elected that it would eventually replace CCT with a Duty of Best Value (DOE,1997). CCT was seen as discouraging local ownership and responsibility, neglecting service quality and inflexible in practice (DETR, 1998, p5). Other criticisms included the fact that all too often the process of competition became an end in itself (DETR, 1998, p6) and in many cases the lack of any interest in an external competition (DETR, 1998, p20). This reflected the mixed response from the private sector :

Many private sector firms were reluctant to become involved because of the complexity of the CCT process and its often adversarial nature. Some firms had a policy of not bidding if there was an in-house bid.

(RICS, 1997)

The principal concern in the public sector was over the possible loss of jobs and the extensive reorganisation necessary to separate client and supply functions.

The duty of Best Value was enacted in the Local Government Act 1999 and the main provisions of the legislation are:

- All CCT legislation was repealed on 2 January 2000.
- Authorities to publish Best Value Performance Plans by 31 March 2000 and external auditors to report on them by 30 June 2000. These plans to set out a programme of Best Value Reviews, including an assessment of previous performance in 1999-2000 and set measurable targets for the years ahead.
- The Duty of Best Value was imposed from 1 April 2000 when the process of 5 year review cycles commenced. These were supported by an external audit and inspection regime.

- The Secretary of State has powers to intervene where an authority is failing to provide best value. (DETR, 1999a)

The reviews are central to Best Value and must include demanding performance targets to ensure continuous improvement. The government suggests that the reviews should incorporate the “4Cs” :

- **challenge** why and how the service is being provided;
- secure **comparison** with the performance of others across a range of relevant indicators, taking into account the views of both service users and potential suppliers;
- **consult** local taxpayers, service users, partners and the wider business community in the setting of new performance targets;
- consider fair **competition** as a means of securing efficient and effective services.

(DETR, 1999b)

Thus it will be seen that the Best Value concept has its origins in the fundamental late Twentieth Century management concepts of competition, benchmarking and continuous improvement. The big difference between Best value and CCT is that in the new regime *service quality* is given as much emphasis as the cost of the work.

The Fee Tendering Process

Several guides to good practice for fee tendering have been produced (e.g. CIC, 1992 and CIRIA, 1994). An analysis of these documents suggests that each of the following factors is critical to achieving a successful outcome :

- adequate specification of the service required at the time of going out to tender;

- careful pre-selection of tenderers;
- adequate weighting to ability given in the final selection process.

Of particular relevance to this final point are the findings of the Construction Industry Board (CIB) who were tasked “..... to choose and then endorse a specific quality and price assessment mechanism for the engagement of professional consultants”, which was part of Recommendation 13.5 of the Latham Report (Latham, 1994, p47). Working Group 4’s Report, “Selecting Consultants for the Team : Balancing Quality and Price”, (CIB, 1996) contains detailed guidance for the adoption of such a mechanism.

Service Quality and Competition

The Whitehead (1999) quotation, with which this paper commenced, implies that competition can lead to lower service quality. Such assertions have been common throughout the last thirty years. It is of interest to consider what, if anything, was predicted about the possible effects on service quality of the removal of mandatory fee scales when abolition took place. The Monopolies and Mergers Commission (MMC) report on professional services of 1970, which paved the way for abolition, considered this briefly, remarking that :

Price Competition might create serious dangers in relation to quality of services of a particularly personal nature or of whose quality the public are generally incapable of judging. Some clients might accept incompetent service at a lower price without appreciating the risk involved. (Monopolies & Mergers Commission, 1970, pp 78-79)

The MMC concluded that such cases would be likely to be exceptional. However, many professional services are high in credence qualities (Zeithaml, 1981, pp 186-190). That is, clients find them difficult to assess because they do not possess the skills to do so. This suggests that the scenario described in the 1970 report may be more common than the MMC anticipated.

In their evidence to the 1977 MMC report on surveyors' services, the Institute of Quantity Surveyors said that if the abolition of fee scales led to price cutting then this would "go hand in hand" with a general fall in standards. (Monopoly and Mergers Commission, 1977, paragraph 257, p 66), The Association of Consulting Engineers were as vociferous as any of the construction and property professions in defending the status quo. In some respects consulting engineers had more to lose than any of the professions, working as many of them did directly for the government on the very large road building programme of the time. The Association expressed a belief that to allow fee competition might pave the way for a variety of evils : among them the loss of professional trust and public responsibility, a greater incidence of penny-pinching, and inadequate designs which might result in injury and even death (Mansfield, 1986).

Have these fears been realised? As Latham reports "Few professional consultants are likely to admit openly that they have personally reduced their services because of competitive fees" (Latham, 1994, p 44). There is however at least some anecdotal evidence of a decline in professional standards in the construction professions which could possibly be attributed to the lower level of fees resulting from intense competition. The Association of Consulting Engineers in their evidence to Latham

presented the results of a questionnaire survey of 53 of its members. They presented several statistics about fee tendered services, which included the following:

- 73% give less consideration to design alternatives;
- 31% give less consideration to checking and reviewing designs;
- 40% consider that the risks of design errors occurring are higher;
- 74% admit that they are producing simpler designs to minimise the commitment of resources to a task;
- 84% assess the number of claims for additional fees to be higher;
- 69% see less trust between client and consulting engineer;
- 94% bid low to maintain the cash flow or (on occasion) to test the market;
- 35% bid low with the intention of doing less than in the enquiry;
- 61% bid low with the intention of making up fees with claims for variations.

(Latham, 1994, pp 44-45).

Latham also referred to a report by the Royal Incorporation of Architects in Scotland which contains the following quotation from one firm :

"We look to limit our service in the fee tendered service and are prepared to claim for extra services. We only make the client aware when appropriate. We cut back on (stages) A to D, and severely limit service after (stage) G, and are ready to claim for any additional efforts. We cut down on meetings / site visits / number of drawings and manufacturer's drawings. We do not do site minutes, we design it only once, and alterations will be on (a) time (basis)." (Latham, 1994, p 44).

Within the main profession under investigation during this research, Chartered Surveyors, fears were being expressed as this research commenced that fee levels had sunk too low. In 1993 in an article subtitled “Have surveyors gone too low?” in the weekly journal, evidence of very low commissions was presented. The article states,

Few surveyors will own up to fee cutting but in reality they're all doing it, some even going beyond the bounds of healthy free-market competition into loss making territory. Most players in the market acknowledge that when fee levels get below a certain point there is a danger that the quality of work will suffer. (Morgan, 1993, p28).

Research Hypotheses

The evidence provided above came almost exclusively from the professions but of course it is public sector clients' perceptions which are important here. With this fact in mind the following hypotheses were stated as the basis for the research reported in this paper:

Hypothesis 1: Clients' perceptions of service quality are lower for commissions let by competitive fee tendering than with other methods of appointment.

Hypothesis 2: Clients' perceptions of service quality are increased when they have adequately specified the service required prior to tendering.

Hypothesis 3: Clients' perceptions of service quality are increased when they have carefully pre-selected tenderers.

Hypothesis 4: Clients' perceptions of service quality are increased when they have given adequate weighting to ability in the final selection process.

Hypothesis 5: Clients' perceptions of service quality are lower when the fee bid is more competitive.

Measuring Service Quality

Testing these hypotheses involved measuring public sector clients' perceptions of service quality but is this as easy as it might at first seem? Given that "Quality is an elusive concept" (Gummesson, 1981, p111) how does one attempt to measure it? A group of service marketing researchers in the United States have developed a generic service quality assessment scale that has been used extensively in industry and academe in recent years. Parasuraman, Zeithaml and Berry's (1988 and 1991) twenty-two item scale is known as SERVQUAL and measures quality across the five dimensions that they discovered (see Table 1).

Table 1: The SERVQUAL Scale (Parasuraman, Zeithaml and Berry, 1991)

Dimension	Description	Number of Items
Tangibles	Physical facilities, equipment, and appearance of personnel	4
Reliability	Ability to perform the promised service dependably and accurately	5
Responsiveness	Willingness to help customers and provide prompt service	4
Assurance	Knowledge and courtesy of employees and their ability to inspire trust and confidence	4
Empathy	Caring, individualised attention the firm provides its customers	5

The SERVQUAL development work has been replicated by many researchers and several have recommended that the scale be adapted to suit each particular service setting. The SURVEYQUAL scale which has been used to test this study's hypotheses was developed by carrying out a comparison of the SERVQUAL study and three other studies, which were :-

- a study of architectural service quality (Cravens, Dielman and Kent, 1985),
- RESERV - a scale for assessing US real estate brokers (Nelson and Nelson, 1995),
- a study of UK building surveying service quality (Hoxley, 1994).

The resulting scale has 25 items upon which clients were requested to rate an anonymous consultant using a balanced Likert 7 point attitude scale. Three items which were included originally were dropped following purification of the scale because they were found to have insufficient correlation with other scale items and therefore with "service quality". Two items were concerned with the consultant's office - with its location and its appearance and the other with the size of the firm. The 25 scale items are shown in Table 2 below.

Table 2 : SURVEYQUAL Statements

Statement
<i>XYZ use up-to-date technology</i>
<i>The staff of XYZ are always tidy in appearance</i>
<i>The written and graphical output of XYZ is well presented</i>
<i>XYZ's solutions to problems are technically correct</i>
<i>The design element of XYZ's work shows creativity and capability</i>
<i>XYZ provides its services at the time it promises to</i>
<i>XYZ tells me when it will perform the service for me</i>
<i>XYZ provides prompt service</i>
<i>XYZ and its employees are always willing to help me</i>

<i>XYZ and its employees are never too busy to respond to my requests</i>
<i>Employees of XYZ are easily accessible to me</i>
<i>I feel safe in my dealings with XYZ</i>
<i>XYZ and its employees are always polite to me</i>
<i>Employees of XYZ have the knowledge and competence to solve my problems</i>
<i>XYZ and its employees have experience relevant to the service I require</i>
<i>XYZ provide me with personal attention</i>
<i>XYZ have only my best interests at heart</i>
<i>XYZ understand my problems</i>
<i>I will benefit from a long term working relationship with XYZ</i>
<i>XYZ and I have similar views about things that are important</i>
<i>XYZ provide good cost control of projects</i>
<i>The partners or directors of XYZ stay involved with my projects</i>
<i>The site supervision of projects by XYZ is good</i>
<i>The standard of verbal presentation by employees of XYZ is good</i>
<i>XYZ and its employees understand my organisation</i>

Data Collection

The scale was sent to 400 public sector client organisations located throughout the UK and 189 clients responded (47%) by anonymously assessing consultants. Figures 1 and 2 below indicate the types of clients who responded and the professions of the consultants assessed. It will be seen that 70% of the clients were local authorities and that nearly 60% of the professionals were Chartered Surveyors (and over half of these were Quantity Surveyors).

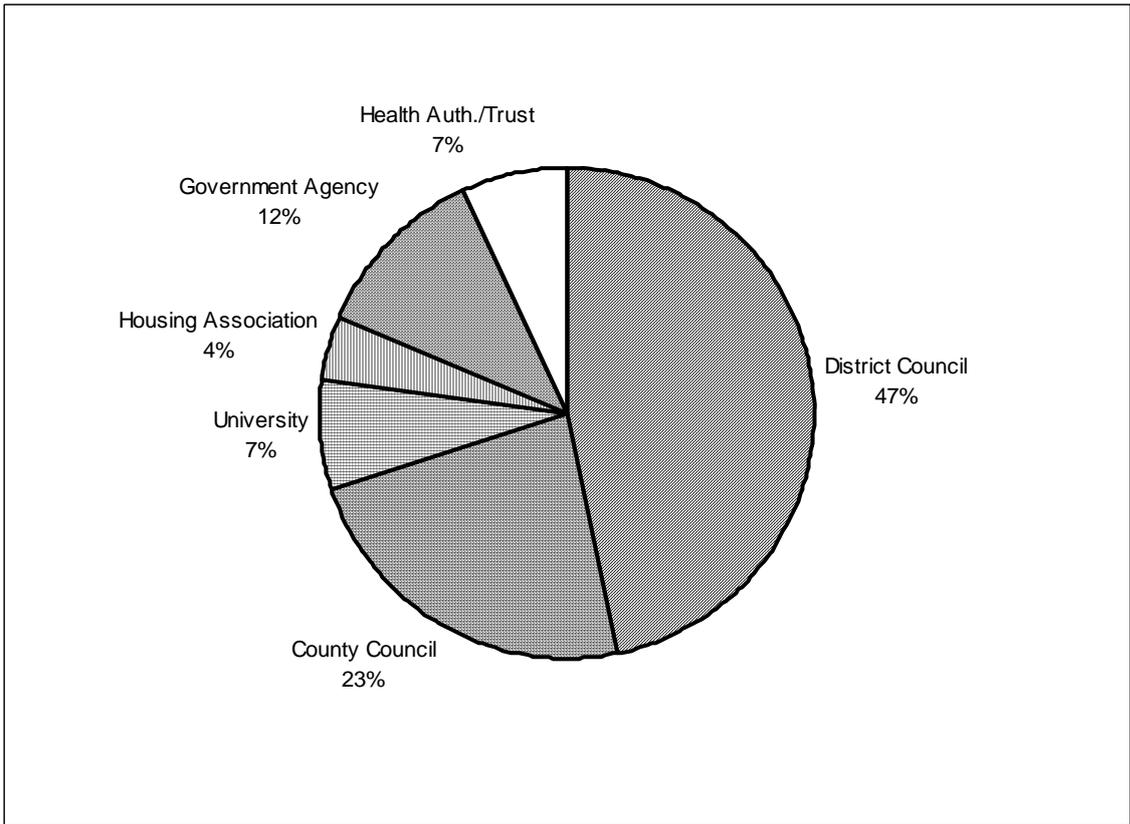


Figure 1 : Respondent Client Organisations

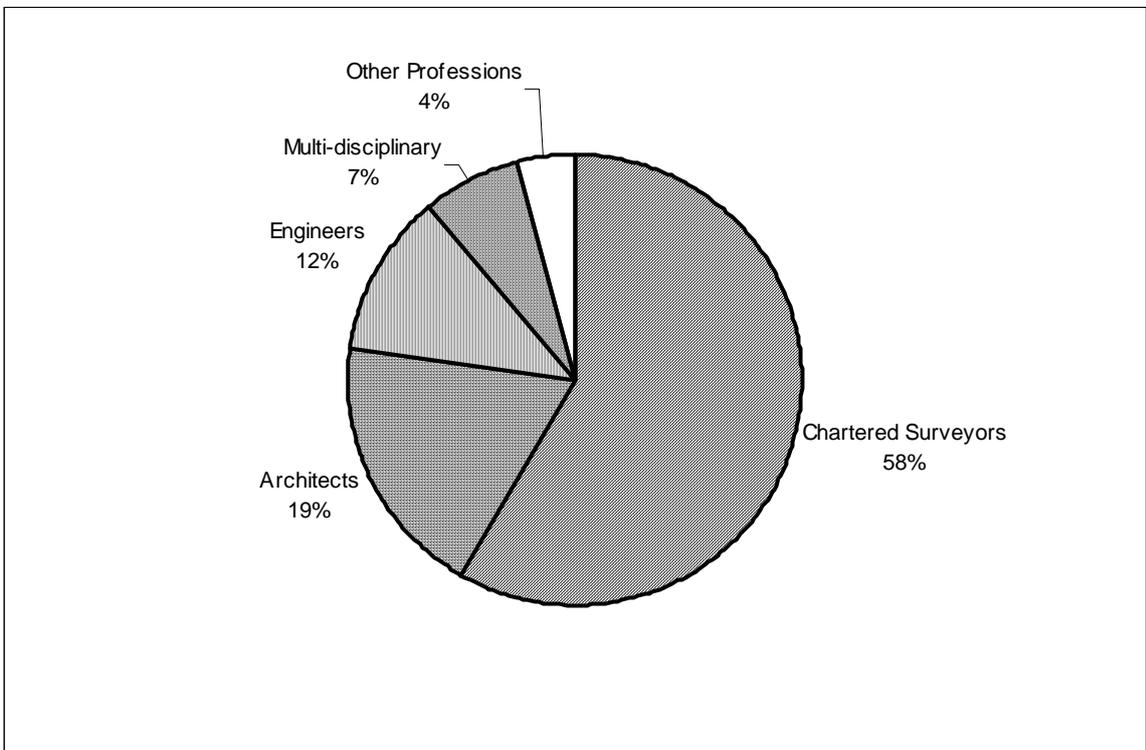


Figure 2 : Professionals Assessed

Data Analysis

An exploratory factor analysis condensed the 25 scale items into 4 factors which the researcher has named “What,” “When” “How” and “Who”. The statistical analysis confirmed that SURVEYQUAL is both a reliable and valid instrument to measure service quality in a construction profession context. (For a full account of the development of the SURVEYQUAL scale and a copy of the research instrument for the full data set see Hoxley, 2000a).

Results

In addition to the assessment of the consultant, clients also answered questions that were associated with the five hypotheses. Thus they indicated the method by which the consultant was appointed (fee tendering, negotiation, direct appointment, etc), and also answered questions relevant to the other hypotheses. In order to test each hypothesis the service quality score, using the SURVEYQUAL scale, was computed for each case. Means of this score (the dependent variable) were then computed and tabulated for each value of the independent variable associated with each hypothesis. Finally a one-way analysis of variance was computed to test the null hypothesis that there are no differences between these means.

The mean scores for the three main methods of appointment are indicated in Figure 3 below.

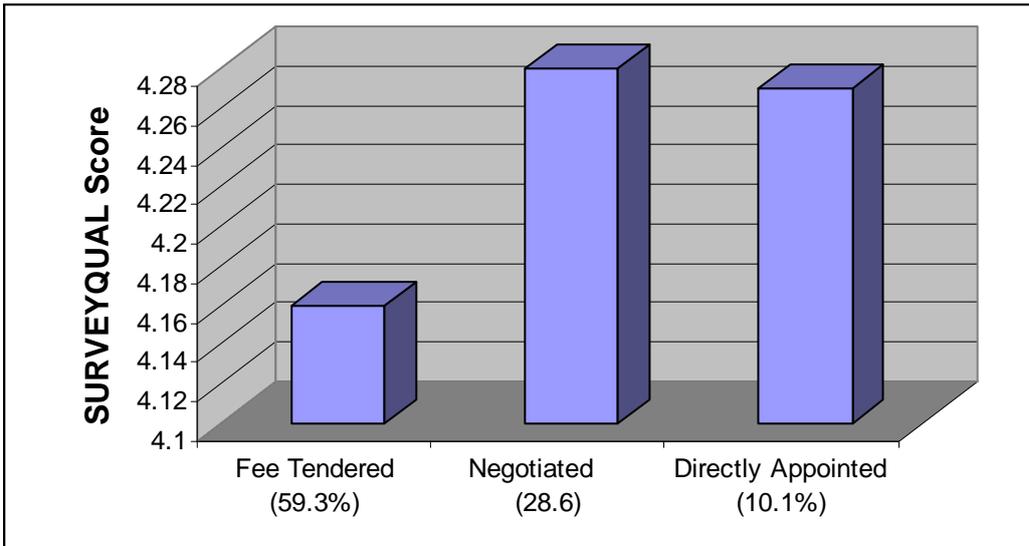


Figure 3 : Mean SURVEYQUAL Scores by Method of Appointment

Nearly 60% of the consultants assessed were appointed by competitive fee tendering. The main hypothesis was however not supported by the data collected, in that although a lower score was recorded for those consultants appointed by competitive fee tendering, this result was not statistically significant ($p=0.34$). Similarly the hypotheses that service quality is lower when the fee bid is more competitive and higher when the service has been well specified and when adequate weighting has been given to ability in the final selection process, have not been supported by the data. However the hypothesis that service quality is higher when care has been taken with the pre-selection of tenderers is supported by the analysis of the data ($p=0.04$).

Discussion

The main result of this study has provided reassuring evidence to the institutions representing construction and property professions that their members have not allowed their standards to slip in the face of increased competition. Similarly public

sector clients can take comfort from the result that government imposed competition has not resulted in a substandard service. The data collection phase of this research took place when CCT was in operation. As discussed previously the Best Value regime has been introduced in order that both quality and cost are considered when public services are provided. This study suggests that high levels of service quality were already being delivered during the CCT era. There is much evidence that fee levels have fallen to a significant extent since the introduction of competition. If service quality has not declined, this can only mean that profitability has fallen and/or that consultants have become more efficient. Certainly professional firms are much leaner than they were 15 years ago. The introduction of IT has contributed to a reduction in the number of clerical and technical staff employed by professional organisations during that time. Although a small proportion of professional firms have not survived in this highly competitive market, those that have survived, have done so by increasing their efficiency and/or accepting reduced profit levels.

Conclusion

Fee levels have fallen to a significant extent since the abolition of mandatory fee scales some seventeen years ago. The data collected as part of this study suggest that fee tendering is now the principal route for the appointment of construction professionals for public sector work in the UK. However the main result of this study is that fee tendering has not led to a decline in clients' perceptions of service quality. Another finding is that public sector clients can positively influence the likely level of service received from their consultant by taking care with the pre-selection of tenderers. Thus the public sector clients surveyed as part of this study do not share

Whitehead's (1999) view that those consultants successful in the value for money calculation do not understand the service they are providing.

Acknowledgements

The research reported in this paper is the result of the analysis of a subset of a larger data set. For the results of the analysis of the full data set see Hoxley, 2000b. The writer gratefully acknowledges the funding provided by the Education Trust of the Royal Institution of Chartered Surveyors which has enabled this research to be undertaken.

References

Cravens, D.W., Dielman, T.E. and Kent, C., 1985, "Using Buyers' Perceptions of

Service Quality to Guide Strategy Development, in *1985 AMA Educators'*

Proceedings, Eds. R.F. Lusch, G.T. Ford, G.L. Frazier, R.D. Howell,

C.A. Ingene, M. Reilly and R. Stampfl, American Marketing Association,

Chicago, pp. 297-301.

CIB, 1996, Working Group 4, *Selecting Consultants for the Team : Balancing*

Quality and Price, Construction Industry Board, London.

CIC, 1992, *The Procurement of Professional Services for Construction :*

Guidelines for the Application of Competitive Fee Tendering, Construction

Industry Council, London.

CIRIA, 1994, *Value by Competition : A Guide to the Competitive Procurement of*

Consultancy Services for Construction, Special Publication 117, Construction

Industry Research and Information Association, London.

- DETR, 1997**, *Guidance on the CCT Framework for Professional Services*, Department of the Environment, Transport and the Regions, November 1997.
- DETR, 1998**, *Modernising local government: Improving Local Services through Best Value*, Department of the Environment, Transport and the Regions, March 1998.
- DETR, 1999a**, *Preparing for Best Value*, Department of the Environment, Transport and the Regions letter to local authorities, 9 April 1999.
- DETR, 1999b**, *Implementing Best Value – a Consultation Paper on Draft Guidance*, Department of the Environment, Transport and the Regions, October 1999.
- DOE, 1994**, *Consultation Paper on the Implementation of Compulsory Competitive Tendering for Professional Construction and Property Services*, DOE, London.
- DOE, 1997**, *Better Value for Local Authority Services*, News Release, 2 June 1997.
- Donnelly, J.H. and George, W.R., 1981**, *Marketing of Services*, American Marketing Association, Chicago, Illinois, USA.
- Gummesson, E., 1981**, "The Marketing of Professional Services - 25 Propositions", in *Donnelly and George*, pp 108-112.
- HM Treasury, 1991**, *Competing for Quality : Buying Better Public Services*, HMSO, London.
- Hoxley, M., 1994**, "Assessment of Building Surveying Service Quality : Process or Outcome?", *RICS Research Series Paper*, Vol. 1, No. 8, 1994.
- Hoxley, M., 2000a**, "Measuring UK Construction Professional Service Quality: The What, How, When and Who" in *International Journal of Quality and Reliability Management*, Vol. 17, Number 4/5, pp 511-526.

- Hoxley, M., 2000b**, "Are Competitive Fee Tendering and Construction Professional Service Quality Mutually Exclusive?" in *Construction Management and Economics*, Vol. 18, Number 5, pp 599-605.
- Latham, M., 1994**, *Constructing the Team : Final Report of the Government / Industry Review of Procurement and Contractual Arrangements in the UK Construction Industry*, HMSO, London.
- Latham, M., 1997**, "Introduction to Part Two," in *Practice Management for Land, Construction and Property Professionals*, edited by B. Greenhalgh, E & FN Spon, London, pp53-60.
- Mansfield, N.R., 1986**, "Some International Issues From the Early Eighties Facing British Consulting Engineers", *Proc. Instn. Civ, Engrs.*, Vol. 80, Oct. 1986.
- Monopolies Commission, 1970**, *Report on the General Effect on the Public Interest of Certain Restrictive Practices so far as they Prevail in Relation to the Supply of Professional Services*, Command Paper 4463, HMSO, London.
- Monopolies and Mergers Commission, 1977**, *Surveyors' Services : A Report on the Supply of Surveyors' Services with Reference to Scale Fees*, HMSO, London.
- Morgan, D., 1993**, "Fee Cutting : Have Surveyors Gone Too Low?" *CSW - The Property Week*, 7 October 1993, The Builder Group, pp28-29.
- Nelson, S.L. and Nelson, T.R., 1995**, "RESERV : An Instrument for Measuring Real Estate Brokerage Quality" in *The Journal of Real Estate Research*, vol. 10, no. 1, pp. 99-114.
- Parasureman, A., Zeithaml, V.A. & Berry, L.L. 1988**, "SERVQUAL : A Multiple-item Scale for Measuring Consumer Perceptions of Service Quality", in *Journal of Retailing*, Vol. 64, No. 1, Spring 1988, pp. 12-40.

- Parasureman, A., Zeithaml, V.A. & Berry, L.L. 1991**, "Refinement and Reassessment of the SERVQUAL Scale", in *Journal of Retailing*, Vol. 67, No. 4, Winter 1991, pp. 420-450.
- Pottinger, G., 1995**, "Changes to Public Sector Procurement of Property Advice : Implications for Private Sector Firms", in *Proceedings of Practice Management for Land, Construction & Property Professionals Conference*, Liverpool, October, 1995, pp 21-30.
- R.I.C.S., 1990**, *The Chartered Surveyors' Rule Book, Rules of Professional Conduct*, RICS Books, London.
- R.I.C.S., 1997**, *Better Value for Local Authority Services - Comments by the Royal Institution of Chartered Surveyors*, July 1997, R.I.C.S., London.
- Whitehead, N., 1999**, "What Price Expertise?", in *Constructing the Future*, Issue 4, Summer 1999, BRE, Garston, Watford.
- Zeithaml, V.A., 1981**, "How Consumer Evaluation Processes Differ Between Goods and Services", in *Donnelly and George*, pp 186-190.