



How to Structure Procurement Teams: A Two-Part Series

Part 1: To Be Centralized or Decentralized?

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Background

How should a city, state, or county government organize its procurement function? What level of responsibility should sit within a central office versus at the department or agency level? Should authority for certain categories of purchases always be delegated out to departments or agencies?

These questions are often top of mind for any government looking to speed up procurement processes, improve collaboration, and make procurement more strategic. However, the answer isn't straightforward. The Government Performance Lab's work with dozens of governments and in-depth interviews with procurement experts suggest that there is no perfect organizational structure for procurement. Each unique structure features strengths and tradeoffs that exist along two dimensions, which we label:

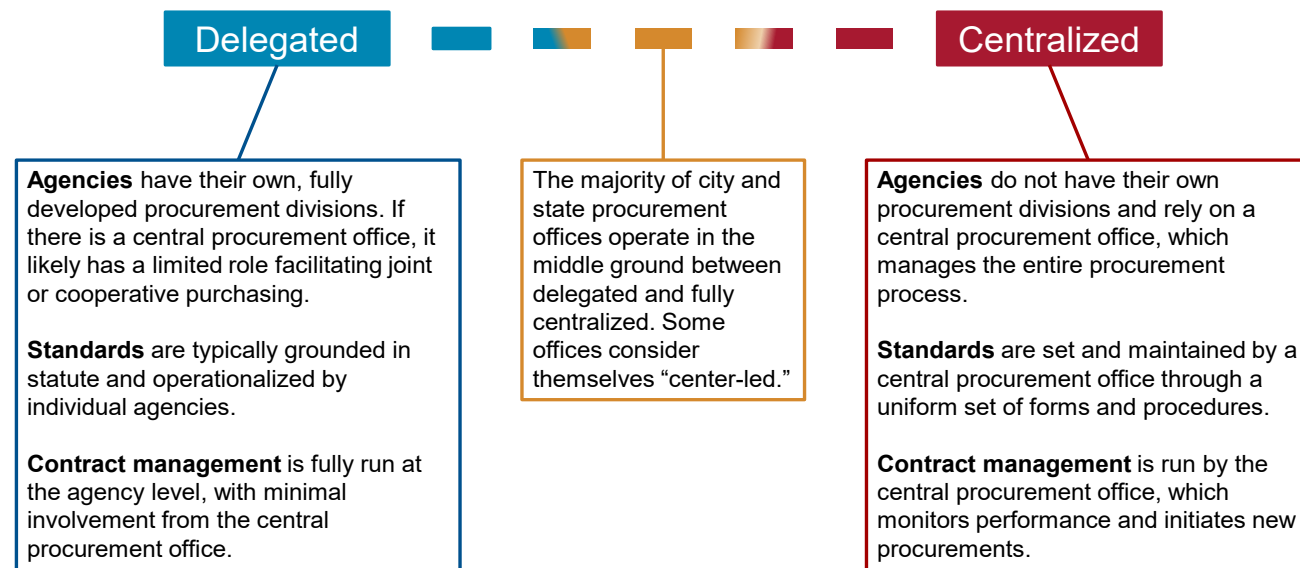
- **Centralization:** to what extent a central office operates procurement functions or delegates authority to departments or agencies; and
- **Proficiency:** to what extent a central office takes on increasingly advanced, strategic activities, including supporting departments or agencies in improving their competencies and capabilities.

In this two-part series, we'll describe each dimension and offer examples of effective approaches used across the United States by procurement organizations with different structures.

Dimensions of Organizational Structure - Centralization

Procurement offices operate under different levels of **Centralization**. We position procurement structures on a spectrum from *delegated* to *centralized* (see the figure below for a description of each term). Within a government, the degree of centralization may also vary by commodity, service type, or dollar amount of purchase. For example, authority for small dollar, informal purchases may rest within a department or agency, while major professional services contracts are procured through a central entity. Just because a jurisdiction centralizes their procurement of construction contracts doesn't necessarily mean they'll do the same for a smaller purchase of office supplies.

A system's degree of centralization is rarely the product of an intentional, strategic decision: often regulations, history, and inter-agency norms determine whether procurement responsibility is fully centralized, delegated, or operates in a middle ground between delegated or centralized. Transition between levels of centralization often occurs because of changes in administration or political leadership, or after high-profile problems are revealed that require a response. Major ethics violations, for example, may lead a government to further centralize their oversight over procurement processes.



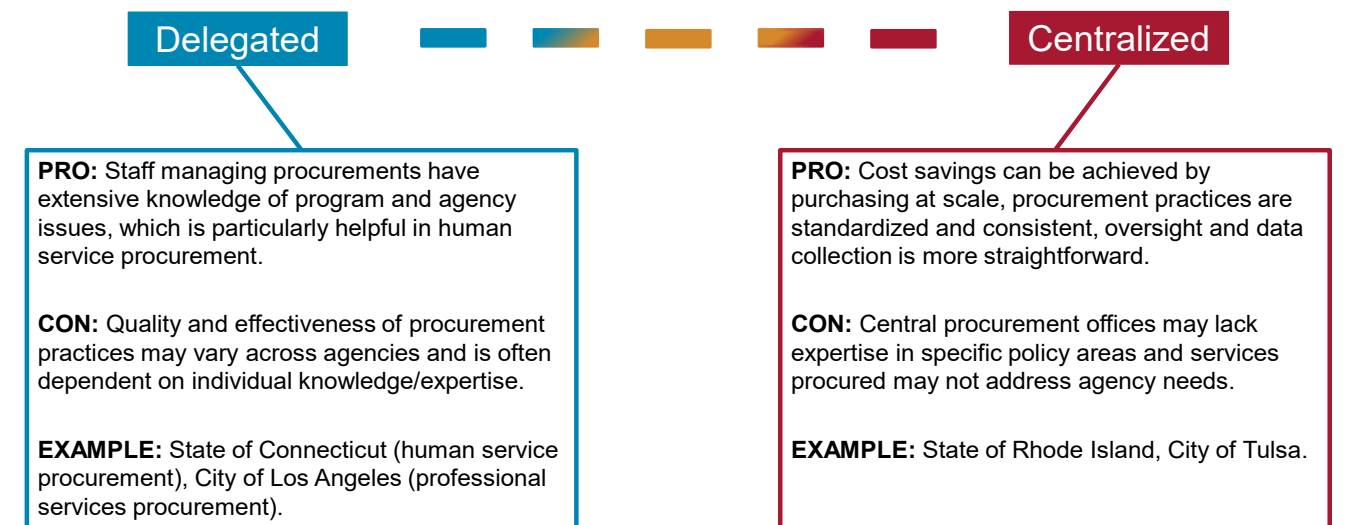
Delegated systems delegate procurement responsibility to departments or agencies, often to the same staff who are responsible for managing contracts or related financial operations. By sharing that responsibility, delegated systems leverage agencies' programmatic expertise so that purchased goods and services closely meet the needs on the ground. Delegated systems may

be quicker and more responsive, with less interagency collaboration required to jump-start a procurement cycle, though the capacity and maturity of agency-level procurement offices may vary.

In a delegated system, agencies themselves determine when a new procurement must take place and are responsible for producing and releasing a solicitation. They may receive support from a central procurement office in clarifying policy or using the procurement portal or website, but ultimately agency staff will evaluate proposals, make awards, and finalize contracts—typically with approval from a central procurement office or other oversight body. Agencies are also responsible for managing contracts and tracking vendor performance.

Procurement offices that are highly **centralized** are often more administratively efficient, with streamlined organizational charts and clear responsibilities. They can more easily secure bulk purchasing discounts, standardize processes, and implement new rules and requirements. They may also be more up to date on procurement best practices and technology. These are significant advantages, and jurisdictions that identify inefficiencies or redundancies across agencies' procurements could consider centralization as a solution. However, running a large, centralized procurement office, through which all a jurisdiction's procurement needs flow, can be administratively complex and requires procurement staff to build strong relationships with agencies and program areas so that there is mutual understanding of procurement needs, timelines, and rules.

In a highly centralized system, the central procurement office is responsible for identifying when a new procurement is required by tracking existing contracts and soliciting needs from partner agencies. After collecting that information from agencies, central procurement office staff draft, release, and evaluate (often with agency input) an RFP or solicitation and negotiate and implement



a contract with awarded vendors. Agency engagement with procurement is often limited to providing a Scope of Work, scoring proposals, utilizing the purchased services, and sometimes documenting performance to report up to the central procurement office when the time comes to reprocur the goods or services.

Many governments occupy a middle ground between these two poles, with features of both delegated and centralized systems. Or, a government may be fully centralized when it comes to the procurement of goods and commodities, but heavily delegate professional services RFPs to agencies.

Agencies may need to collaborate with a central procurement office to purchase the goods and services they need, combining the consistency of a dedicated procurement office with the specialization of agencies. Here's one example: in Michigan, the Department of Technology, Management & Budget (DTMB) houses a center-led state procurement model, with a particular focus on relationship-building with agency procurement offices. DTMB's dedicated Customer Experience Team works with peer agencies to understand their needs and provide support in managing contracts where necessary. Other specialties in the relationship management division include supplier relationship management, data & analytics, insurance & risk, and agency support sections. This team structure allows the central procurement office to provide procurement expertise and best practices to agencies, while leveraging agencies' programmatic knowledge.

Agencies may also be empowered to conduct contracting below a dollar value threshold, allowing the central procurement office to focus on achieving significant savings on large purchases rather than processing large volumes of small, niche procurements. As another example, Columbus, OH allows city departments to handle their own procurements for divisional service contracts, as well as goods below a \$5,000 threshold. The central purchasing office is responsible for coordinating larger procurements, specifically over four hundred city-wide contracts, where potential cost savings from centralized purchasing are greater.

A government that works to truly understand its stakeholders' procurement needs may also find that the ideal management structure, best practices, and timeline can vary across different programs, services, and goods. Responsibility for some commodities or types of procurement for which programmatic expertise is crucial, such as human services or professional services, might be delegated out to agencies, while a central procurement office manages goods and service procurement needs that are common across the government. States such as Connecticut and Michigan take this approach, treating human service and goods and service procurement as separate universes to which different rules and challenges apply.

Conclusion

There is no one right way to organize a procurement office. Although many government leaders may believe organizational transformation is the solution to all their procurement woes, there are pros and cons to every kind of structure. Rather than revolutionizing your current setup, it may be more beneficial to invest in strengthening what already exists. In the next piece in this two-part series, we'll dive into how your procurement office can build new proficiencies by interpreting a procurement office's role more broadly, forming partnerships with program staff at the department or agency level, offering training and best-practice guidance that develops staff skills, and continuously re-evaluating your processes to search for opportunities for improvement.

The **Procurement Excellence Network** is an initiative of the Government Performance Lab designed to help public sector leaders use government procurement as a tool to improve resident outcomes and advance equity. The **Government Performance Lab**, housed at the Taubman Center for State and Local Government at the Harvard Kennedy School, conducts research on how governments can improve the results they achieve for their citizens. An important part of this research model involves providing hands-on technical assistance to state and local governments. Through this involvement, we gain insights into the barriers that governments face and the solutions that can overcome these barriers. By engaging current students and recent graduates in this effort, we are able to provide experiential learning as well.

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