



The University of Liverpool

The Management School

Operations and Supply Chain Management

MSc Project

**CRITICAL ANALYSIS OF CONTRACT
MANAGEMENT PROCESSES IN NHS
PROCUREMENT**

Project No.: MEEHAN-01

Final Report

by

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15th September 2016

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Summary

Critical Analysis of Contract Management Processes in NHS Procurement

The NHS is a complex institution due to its bureaucratic nature and this is reflected in selection and contract management by procurement teams. One of the main issues in this organisation is that contract management processes are not a priority within the NHS Procurement, which could potentially decrease any effort in creating value and reducing costs.

For this reason, the study describes and analyses the current situation of the NHS Procurement, the usage of effective contract management in the NHS and the aim is to provide a base for recommendations for better practices in contract management processes in the NHS Procurement. In order to achieve this, a literature review was conducted and secondary data analysis was utilised.

The main findings that emerged from this study indicated that the adoption and implementation of contract management processes is at best adhoc, at worse nonexistent, the non-adherence to framework agreements due to complexity issues, and the extension of extent existing contracts by clinicians to avoid complications in the tendering process. These findings suggest a certain level of inefficiency within this institution. In order to address the problems identified, a base of recommendations were provided for better practices in contract management processes in order to achieve value-adding improvements.

Acknowledgements

I would like to express my deepest gratitude to my supervisor Dr. Joanne Meehan for giving me the opportunity to conduct my Masters dissertation, for her continuous support throughout the process, for her enthusiasm and immense knowledge. Her invaluable guidance has encouraged me to work with diligence and motivation, not only in this project but for the rest of my academic experience. Also, I would like to express my warm thanks to Dr. Laura Menzies for her insightful comments and feedback in the last stage of the project.

My sincere thanks also goes to Mr. Brian Mangan and his team at the NHS North West Procurement Development Hub for their support and guidance.

Finally, I would like to thank my family for their unconditional love and support, my friends for their encouragement throughout this Masters course, and especially to my country Peru through the National Scholarship and Academic Loans Programme (PRONABEC) which allowed me to pursue postgraduate studies at the University of Liverpool.

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CHAPTER I: INTRODUCTION

1.1 National Health Service (NHS) and the NHS Procurement

During the last few years, there has been an increasing interest in the performance of public healthcare services in institutions such as the National Health Service (Tallis and David, 2013; Talbot-Smith et al, 2006; Harrison and Dixon, 2000). This institution is one of the most publicly funded health services in the world, and specifically in England, it employs around 1.2 million people and has been classified as one of the best systems in the world in terms of efficiency, effective care, safe care, co-ordinated care, patient-centred care and cost-related problems (NHS Choices, 2016). With regard to procurement actions, the NHS purchasing power is a massive force compared to any other public institution in the UK, as informed by the Department of Health and NHS England (2013), which states that £20 billion are spent annually in the procurement of goods and services.

Despite the explained above, there are areas where the scope of improvement is significant, as explained by the Department of Health and NHS England (2013), which includes the reduction of expenditure in clinical supplies and the achievement of an effective national procurement in order to ensure best practice in procurement and supply chain management. According to the NHS England (2016), one of the 10 priorities for the period 2016/2017 is to control costs and enable change in partnership with NHS Improvement by designing and implementing a framework for decision making activities in order to ensure the best value. This suggests a genuine interest for improving processes in this institution.

1.2 Procurement process and contracts

Regarding to the procurement process and public contracts, it involves the NHS Supply Chain, the NHS Business Services Authority and Trusts all over the country. According to the NHS Supply Chain (2016), the procurement process is performed under the EU Procurement Regulations, specifically with the application of the European public contracts directive (2014/24/EU). In this case, potential suppliers must go through a formal tendering process by identifying the forthcoming tender opportunities for NHS Supply Chain Contracts in the procurement calendar and once it is successful, the product is listed on a framework agreement, which are let for a period of two years with a possibility of extension of 1 and 3 years.

When it comes to the selection, suppliers are evaluated in terms of financial criteria, clinical acceptability, ease of use, quality and value for money, as described by the NHS Supply Chain (2016), who also highlights that Clinical Consultation groups, consisted by clinicians and medical staff are also included in the decision-making process. In addition, an e-Tendering service, Intenda is utilised in order to manage contract negotiations and tendering activity on-line involved in the purchasing lifecycle.

1.3 Problem statement

One of the weaknesses within the NHS is the wider institutional complexity due to its bureaucratic control and this is reflected in selection and contract management by procurement teams. According to Sanderson et al (2015), uncertainty and information asymmetry causes that contracts are written ex ante in order to manage supplier opportunism, even though this greatly favours suppliers. Another weakness is the fact that clinicians extend existing contracts due to bureaucracy, laborious steps, and pricing structures, avoiding further complications in the

tendering process (Menzies, 2016). On the other hand, many problems in NHS Procurement are caused by a lack of adherence to framework agreements, as described by Caldwell et al (2005), who explains that is estimated in the NHS only 50 percent of contracts are adhered to framework agreements. Besides, other problems such as no volume commitment worsens the situation of the NHS procurement teams.

However, according to Sanderson et al (2015), a combination of contractual and monitoring mechanisms such as framework agreements and quality audits has been used by the NHS Procurement and Supply Agency and Trusts in order to tackle the problems mentioned above. Also, a good practice contract management framework was developed by experience procurement professionals for managing a broad range of contracts. Figure 1 illustrates 11 areas in which public sector organisations should focus when planning and delivering contract management (National Audit Office, 2008).



Fig. 1. *The good practice contract management framework* - Source: National Audit Office (2008, p. 6)

Despite these efforts, it seems that contract management is still not a priority within the NHS Procurement. According to the North West NHS Procurement Development Hub (2016) the adoption of contract management processes is at best adhoc, at worse nonexistent. That means that contract management processes are described in contracts and framework agreements for a certain purpose, however, processes are not being implemented.

This issue could potentially decrease any effort in creating value and reducing costs. The National Audit Office (2008) states that better practices in contract management could generate savings up to £290 million annually and could improve aspects such as risk management and service quality.

1.4 Aims and objectives

Having described the problem statement, the aim of this project is to provide a base for recommendations regarding contract management in the NHS Procurement. For this project, a literature review regarding contract management topics such as supplier opportunism, intentional trust and interorganisational relationships will be developed in depth. In order to achieve this, a range of academic resources such as journals, textbooks, previous studies of contract management and NHS reports will be considered. For data collection, secondary data related to contract procedures will be provided by the North West NHS Procurement Development Hub. Also, publicly available documents such as annual reports, business plans and tendering documents will be considered.

The objectives of this project are described as follows:

- 1. Describe and analyse the current situation of the NHS Procurement**
- 2. Analyse the usage of effective contract management in the NHS in order to create additional value.**
- 3. Provide a base of recommendations for better practices in contract management in order to improve the NHS Procurement.**

1.5 Scope and limitations

The scope of the project is mainly focused on contract management processes in NHS England, even though relevant information provided by the North West NHS Procurement Development Hub is focused on North West of England. In any case, the purpose of this project is to provide a series of recommendations for better practice in contract management that could be applied anywhere else in the NHS England. One of the limitations is the usage of secondary data, which might not be as relevant and current as primary data (O'Leary, 2014), since the development of interviews or survey questions to procurement managers is not considered.

Also, the application of the series of recommendations in the NHS Procurement is not explained in practice, for this reason it will be unknown to what extent these recommendations are truly applicable in certain situations in public procurement. Finally, the viewpoints of suppliers that work with public institutions is not considered either.

1.6 Structure

The structure of the dissertation is designed as follows:

Dissertation Project Structure				
Supervisor: Dr. Joanne Meehan – Dr. Laura Menzies				
Task No.	Task name	Start date	End date	Duration (Days)
1	Proposal planning	10/06/2016	22/06/2016	12
2	Proposal submission	23/06/2016	27/06/2016	4
3	Chapter I: Introduction	28/06/2016	06/07/2016	8
4	Chapter II: Literature Review	16/07/2016	29/07/2016	13
5	Chapter III: Methodology	01/08/2016	12/08/2016	11
6	Chapter IV: Findings and Discussion	15/08/2016	26/08/2016	11
7	Chapter V: Recommendations	29/08/2016	02/09/2016	5
8	Chapter VI: Conclusions	05/09/2016	09/09/2016	5
9	Dissertation submission	12/09/2016	15/09/2016	3

Table 1: *Dissertation Project Structure*

The project has been divided in nine tasks and the dissertation in six chapters. The start date and the end date of each task is specified in Table 1. The literature review (Chapter II) is the longest task, which lasts 13 days. The subsequent tasks, Methodology (Chapter III) and Findings and Discussion (Chapter IV), last 11 days each. Originally, it was considered a single chapter for Conclusions and Recommendations. However, since the aim of this project is to provide a base of recommendations, it was decided to dedicate Chapter V only to them and Chapter VI as a single chapter for conclusions.

CHAPTER II: LITERATURE REVIEW

2.1 Introduction

This literature review intends to explore and contrast some studies performed with regard to contract management, supplier opportunism and intentional trust, which have recently been topics of interest in public procurement (Tallis and Davis, 2013; Talbot-Smith et al, 2006; Harrison and Dixon, 2000). This study also seeks to compare some authors' viewpoints, case studies related to these topics, discussions and possible solutions.

2.2 Contract management

It is necessary here to clarify exactly what is meant by contract management. In the field of procurement, various definitions of this term have been found. Only three of them are relevant for this study.

Lowe (2013, pg. 268) defines contract management as:

The process of managing and administrating the contract from the time it has been agreed at contract award, through the end of the service period.

A second definition made by Sanderson et al (2015, pg. 48) considers that contract management is:

The decision to award a contract to a provider or supplier, to the process of agreeing contractual terms and conditions, and to efforts to ensure that those terms and conditions are honoured either through monitoring and enforcement or, where necessary, dispute resolution.

A further definition is given by the CIPS (2016, pg. 3) which describes the following:

Contract life cycle management is the process of systematically and efficiently managing contract creation, execution and analysis for maximising operational and financial performance and minimising risk.

There is a similarity between the second and the third definitions, since they describe contract management as a process that does not end once the contract between the buyer/agency and the supplier/provider is setup and executed but as an instrument for monitoring performance. On the other hand, the third definition includes the word efficiency, which is one of the challenges the NHS is currently facing in terms of procurement. Nevertheless, according to Menzies et al (2016), there are gaps in foundational activities such as contract management, especially in the post-contract phase due to a lack of resources and a limited ability in Procurement to provide a more strategic contribution, which also shows a lack of procurement maturity.

Recently it has been noted the importance of contract management. For example, the CIPS (2016) considers that contract management is increasingly gaining some recognition due to the pressure in public sector when it comes to the improvement of financial and operational performance and aspects such as regulatory requirements, complexity and increasing contract volumes have led to more structured contractual processes and procedures. Besides, software applications have been utilised in order to tackle the problems derived from ineffective contract management.

However, contract management has not always been a priority in public procurement. For example, in his analysis of the Australian National Audit Office's (ANAO) perspective on contract management, McPhee (2006) agrees with the efficient and effective nature of a contract in order to provide value for money and the achievement of obligations and operational objectives for the majority public sector programs, despite the fact that is still not an important focus during the

procurement process. The latter is also supported by Meehan et al (2016), who explains that contract management is considered a time-consuming process rather than a core process where potential savings delivery and value-adding opportunities are feasible when working closely with suppliers. On the other hand, the National Audit Office (2008) explains that aspects such as risk and value opportunity are related to contract management. Figure 2 illustrates that the higher the risk, the higher the value opportunity, which contributes to a more strategic development of contract management (National Audit Office, 2008).

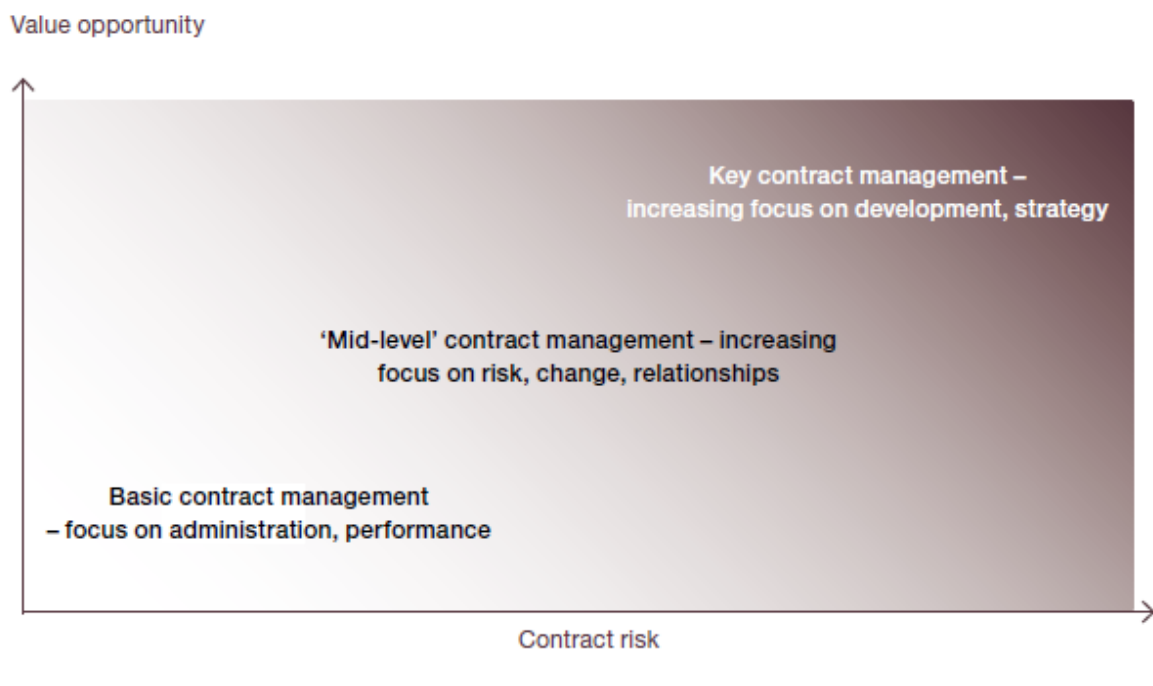


Fig. 2. *Contract Management Priorities* - Source: National Audit Office (2008, p. 22)

If contract management is ignored, at some point ineffectiveness in any contract could lead to poor contract performance and this has been the case of Public Private Partnership contracts (PPP) which are described as deficient with a failure to ensure value for money, as explained by Burnett (2013). Burnett's research highlights the need to work on three key elements for an effective contract management: the award process, the management of contract modifications and the practical application of contracting management techniques to secure value for money in contract performance.

Inside this complex contracting process, there are components that could lead to a more effective contract performance, these have been identified by Brown and Potoski (2003) and they are: feasibility assessment capacity, implementation capacity and evaluation capacity. Feasibility assessment capacity determines whether a good or service can be purchased and if contracting is feasible. Implementation capacity refers to contract bidding processes, suppliers' selection and negotiation. Finally, evaluation capacity is focused on evaluation performance over time, that is, the collection of data regarding to suppliers, procurement staff and audits.

There seems to be some evidence to indicate that contract management is a core process within public procurement that must be managed effectively in order to achieve financial and operational improvements and value for money. However, it must not be only focused on the process, but also on the relationship with external elements, as explained by Lonsdale and Watson (2007), who considered the importance of managing effectively commercial tensions in a way that still permits cooperation, that is, the ability for contracting and dominate relationship management skills.

It is important to take into account some issues when setting up a contract. According to Sanderson et al (2015), contracting is affected by the power of both negotiating parties, the concept of trust, supplier opportunism and contractual mechanisms, which could lead to a frequent uncertainty and contractual

incompleteness in business-to-business contracting. Besides there is a constant recognition of the importance of caution during decision-making processes in procurement, especially in the award phase (Lonsdale and Watson 2007).

Additionally, there is also the problem of uncertainty (Klein 1996) which influences the way contract management is applied. For example, Williamson (1985) recommends the hiring of experienced contract managers, specifically when uncertainty increases and an effective procurement management is required in order to work with suppliers. Sanderson et al (2015) explain that in public sector contracting, a complete reliance on market forces is not a convenient policy due to the increase of uncertainty. While the development of complete contracts under a 'sharp in, sharp out' approach might be feasible for basic products and services, there is a constant risk on relying to the market, as supplier performance could decrease, for this reason, other actions are required for contracting out. On the other hand, Lacity et al (1996) suggest that complex purchases, with a high level of risk, all the activities regarding contract management must be broken in smaller elements and some of them must be managed 'in-house', as it is the most efficient mechanism when uncertainty increases (Health Select Committee, 2010) .

Contract management is not only focused on goods but also on services, especially those with high asset specificity, this is exemplified in the work undertaken by Hefetz and Warner (2012) who performed a survey to government managers in order to measure 67 services related to contract management difficulty. One of the top findings was that the nature of service and the nature of the contract play a key role when setting up a contract, however it must be taken into account the kind of sourcing decisions made by managers has an important effect, for this reason a wider framework is needed.

In view of all the aforementioned aspects, contract management is even more central to public procurement than ever before due to all the implications from the moment the contract is setup and put into effect and concepts such as supplier opportunism and intentional trust, which will be explained in the following section.

2.3 Supplier opportunism and cautious approach

In the contracting literature, two theories are focused on suppliers' opportunistic behaviour: Agency theory and TCE. According to Sanderson et al (2015), both theories consider the problematic nature of supplier opportunism, as Agency theory faces information asymmetry and the usage of contractual mechanisms ex ante by designing complete contracts in order to mitigate supplier opportunism, while TCE faces bounded rationality or the fact that contracts ex ante are incomplete, which are not enough to mitigate supplier opportunism, and suggests the usage of extra contractual mechanisms (spot market contestation, monitoring, negotiation and adjudication) in the most cost-efficient way.

There is a critical debate within the public procurement literature over the emphasis that should be placed upon supplier opportunism in the contract management process. Williamson (1985, pp. 47-48) refers to opportunism as 'the incomplete or distorted disclosure of information, especially to calculated efforts to mislead, distort, disguise, obfuscate or otherwise confuse', while Milgrom and Roberts (1992) defines opportunism as a group of self-seeking advantages without the constraint of morality.

In Williamson's definition, the issue of information asymmetry is the central topic, which could be a considerable advantage for only one of the parties, influencing in contracting conditions and this is also explained by Parker and Hartley (2003), who state that when there is a certain degree of uncertainty in terms of time, technologies and costs, contracts cannot be fully optimal, and this situation of imperfect information is opportunistically exploited by the parties. Opportunism also could be a potential problem when it comes to asset specificity (Williamson, 1985), as suppliers may charge opportunistically a high price to the buyer or the latter may underpay the supplier, which could be tackled by writing well-negotiated contracts (Investopedia.com, 2012). In any case, the problem of opportunism is based on how much information is handled by one of the parties for its own interest, which could be worsen in uncertainty scenarios.

Lonsdale et al (2016) identify two ways of opportunism: *blatant opportunism*, which refers to hold-up problems, that is, when a provider partially or completely detains the supply unless its increased demands are met and *subtle opportunism*, which happens when the supplier deliberately offers a product or service taking advantage of the buyer's lack of awareness and information in terms of quality. These types of opportunism may suggest that negotiations of contracts could have been made from a weak position (Lonsdale, 2005), which could explain the supplier's power. Also, there are other types of opportunism that includes quality shading, shirking, failing to fulfil obligations, adverse selection and moral hazard (Lonsdale and Watson (2007); Grossman and Hart, 1986; Milgrom and Roberts, 1992).

One important theme emerges from the aforementioned factors: the cautious approach, in which authors such as Williamson (1985, 1993) have a less optimistic view of how contract management issues must be handled. First of all, Williamson's work considers that contracts should be always based on an assumption of supplier opportunism (Williamson, 1993) with extensive management control structures, especially in hazardous transactions (Williamson, 1985). Others, like Forder et al, (2004) suggests a need for caution in procurement and contract management in order to tackle the fear of opportunism.

With regard to the main aspects of the cautious approach, Watson et al (2012) identify five aspects. The first is related to the *extensive internal focus*, which has been considered as a public sector weakness (National Audit Office, 2011). This refers to the necessity of a public institution to appeal for an extensive set of requirements, specifications, and agreed protocols in order to deal with the supplier. The second refers to the *emphasis put on protection against opportunism*, especially when it comes to hold-up problems and asymmetric information, which is also a great problem in public institutions due to the need to legal actions. The third considers *monitoring with incentive provisions*, (Baron and Besanko, 1987) who maintains the same level of effort in procurement as well as in the contract management phase. The fourth one refers to the *active promotion of contingent*

renewal and reputation, which enables the buyer to count with the supplier for future purchases if the latter performs appropriately (Bowles and Gintis, 1999) and also the suppliers' reputation in order to gain future markets (Klein 1996). The last aspect refers to the *threat of legal action*, which is the last resource for buyers due to its implications such as cost, relationship damage, time-consuming and a possible legal defeat.

Opportunism is suggested to be connected to public institutions. For example, in the UK, Walsh (1995) explains that the environment for bidding public contracts is typically commercial and it is often characterised by supplier opportunism. This is evident in the case of a study performed by Lonsdale et al (2016) with 180 procurement managers and found opportunism problems in public buying organisations within an uncertainty environment, which could be tackled by adopting a defensive procurement and supply management actions.

Also, Steinle et al (2014) made a research and found that problems related to information asymmetry in 87 buyer-supplier relationships was due mainly to moral hazard, which is a way of opportunism. In contrast, Lonsdale et al (2010) performed a research in the NHS regarding to nursing agencies in terms of exploitation and opportunism. The authors observed that, while if it is true there were no partnerships, opportunism was not present in all suppliers, even though formal collaborative relationships were being considering at the time of the survey.

Having discussed what is meant by opportunism and the main aspects of the cautious approach, there are some authors such as Lonsdale et al (2010) who consider that relationships based on trust do exist between buyers and suppliers, a cautious approach is still needed, as it is not easy to identify which suppliers are prone to opportunism actions (Williamson, 1993). In any case, there are possible solutions for procurement managers in order to cope with opportunism. For example, Klein (1996) explains that buyers and suppliers should contract formally by designing legal clauses and private enforcement capitals. Other authors such as Argyles and Mayer (2007) propose the usage of 'contract design capabilities'

by both parties in order to avoid contract gaps during the early stages of the contract life, especially when uncertainty increases. Lonsdale and Watson (2007) proposes that maintaining competitive tension between 2 or 3 suppliers for as long as possible. Finally, Watson et al (2012) propose two actions to address opportunism: an extensive research into the prices and past performance of suppliers and a detailed negotiation and contract drafting by designing balancing provisions and performance incentives.

Supplier Opportunism and the Cautious approach	
<p>Types of opportunism:</p> <ul style="list-style-type: none"> - Blatant opportunism and subtle opportunism (Lonsdale et al, 2016) - Quality shading, shirking (Lonsdale and Watson, 2007) - Failing to fulfil obligations (Grossman and Hart, 1986) - Adverse selection and moral hazard (Milgrom and Roberts, 1992). 	<p>Five aspects of cautious approach (Watson et al, 2012)</p> <ul style="list-style-type: none"> - Extensive internal focus - Emphasis put on protection against opportunism. - Monitoring with incentive provisions - Active promotion of contingent renewal and reputation - Threat of legal actions.

Table 2: *Supplier Opportunism and the Cautious approach*

2.4 Intentional trust

The concept of trust within public procurement and contract management has received considerable critical attention and it has been addressed by many authors (Walsh, 1995; Huxham, 2003; Coulson, 2005; Bovaird (2006) ; Reeves, 2008). For example, Nooteboom (2002) defines intentional trust as the expectation of one of the parties that the other one will not take advantage of commercial gaps, while Sanderson et al (2015, p. 66) considers trust as a self-enforcement mechanism, which is explained as:

Trust is the prime mechanism at the early exploration stages; trust and contract are said to support each other in the development stages; and the emphasis is then believed to be more on the contract during the later stages.

This definition highlights the fact that trust is present throughout the contracting process, however the emphasis may differ depending on which stage of the contracting process it reaches (Olander et al, 2010). Besides, it is suggested a co-existence between trust and formal contracts only if they are not too restrictive, as explained by Bovaird and Halachmi (2001), Ford (2001) and Hughes and Rayer (2009). Another argument is that formal contracts could be considered as a complement for trust, the same is supported by Olander et al (2010, p. 101), who determined after a qualitative research that both contracts and trust are complements, stating also that 'their roles differ at different stages of the procurement and contract management process'. Klijn and Tiesman (2005) suggest the development of trust during the early stages, that is, pre-contractual negotiations without a controlling behaviour. Nevertheless, other authors such as Bertrandias et al, (2010) found that a possible incompatibility with trust might happen due the way formal contracts are setup.

Regarding to the development of trust when contracts are framed, Spekman et al (1998) refer to it as easy and costless, while Chiles and McMackin (1996) considered it as a way to develop a value-adding relationship between buyers and suppliers by creating willingness to share information. This might be not always the case between buyers and suppliers, especially when information is a key resource of one of the parties, as described by Granovetter (1985), as trust-based relationships could lead to an enhancement of opportunism.

Having discussed what is meant by trust as a complement of contracts, it is suggested that a development of a formal contract could be omitted and only the existence of trust could be enough. An example of this is the study carried out by Malhotra and Murnighan (2002) in the USA about laboratory conditions and one of the findings was that the development of trust could be related to the absence of a formal contract due to the belief that co-operation might be simply mandatory, making relationship management a crucial element. The latter is illustrated by Poppo and Zenger (2002), who also performed a research among information systems managers in the USA and the key finding was the considerable interdependence between customised contracts and high level of relationship management, which impacts positively in its own performance.

It could be assumed then that the usage of trust building techniques such as feedback loops (Huxham, 2003), reward schemes for high delivery performance (Lonsdale and Watson 2007) and dispute resolution mechanisms (Office of Government Commerce, 2002) could greatly enhance the relationship between buyers and suppliers, as described in both case studies.

Also, Chiles and McMackin (1996) explain the benefits of buyer-supplier relationships based on trust, such as low transaction costs, as contracting costs and monitoring costs are no longer considered, and a high level of value creation. However, it could be argued the usage of trust for public procurement contracts. For example, Williamson (1993) supports the idea of ignoring trust as part of contract management, specifically for public sector managers. Williamson's work

proposes that the focus must be on contractual protection and monitoring, containing a consistent logic with regard to expected supplier behavioural disposition, consequent level of hazard (for example, asset specificity) and consequent contract and relationship response.

Erridge and Greer (2002) performed a research in the UK Central Government Policy on Public Procurement, in which a survey and interviews were conducted to 60 heads of procurement, agencies and other public bodies in order to assess supply relations and its impact on the procurement function. Two findings are interesting in regard to trust and opportunism. First, some interviewees showed their reluctance to partnership relations, since they consider trusting relations can be abused and when setting up a contract, the process itself, rules and procedures established trust and prevented opportunism to arise at some point during the contract life. The second one refers to the increase of opportunism between networks: As interdependence is enhanced as well as the flow of information, if suppliers do not meet expectations or fulfil obligations and use the information deliberately in order to have an advantage, there is a significant problem that is even notorious in long-term partnership arrangements, which creates difficulties in the relationship.

Another example of what is meant by trust is the study made by Oruezabala and Rico (2012) in fifteen French hospitals in which public buyers and private providers were interviewed regarding sustainable supplier management and one of the top findings was their long-term relationship with providers, in which trust and cooperation were considered important factors in order for health workers and clinicians to rely on high-value suppliers.

In view of all the aforementioned aspects, intentional trust could be considered as complement to contracts or the explanation to the absence of a formal contract, as well as the base of buyer-supplier relationships, even though its usage is dubious in public procurement contracts.

2.5 Interorganisational relationships

When it comes to relationships with suppliers, there's a notable amount of literature (Oliver, 1990; Turnbull et al, 1996; Pinch and Patterson, 2000; Erridge and Greer, 2002; Ford et al, 2003; among others). First of all, the introduction in public sector of the Compulsory Competitive Tendering (CCT), which is a group of management tools that encourage competition in the market and collaboration in order to improve procurement teams in the public sector and the relationship with providers resulted in a central strategy, especially in the NHS (Pinch and Patterson 2000). However, it is argued that CCT does not enable lasting buyer-supplier relationships. According to Erridge and Greer (2002), the procedures in the CCT are formal and rigid and any degree of trust and interdependence is discarded once a new tender is open for competition. For this reason, building closer relationships are not expected in CCT.

Much research has now focused on partnerships (Parker and Hartley, 1997; Erridge and Nondi, 1994) to establish long-term relationships with suppliers, as they allow lower transaction costs, better relationships with private sector suppliers and building social capital by establishing networks (Steane and Walker, 2000). As a consequence, the UK government has taken an initiative for a more strategic view of public procurement as a key policy in order to emphasize inter-departmental co-ordination, long-term partnership relations with suppliers and inter-organisational networks with a multiplicity of stakeholders (Erridge and Greer, 2002; Tranfield et al, 2005). In fact, Allen et al (2009) describes the NHS as a network of coordinated purchasing and supplier relationships and operating internally and throughout extended supply chains, hence the need to apply relational mechanisms in public procurement. Nevertheless, public procurement could face difficulties when utilising relational mechanisms such as power imbalance, post contractual supplier lock-in, inappropriate risk and benefit sharing and different strategies in both contractual negotiations (Zheng et al, 2008).

Also, the literature addresses approaches and theories related to interorganisational relationships such as the Resource Dependency Theory (Pfeffer and Salancik, 1978), in which buyers and suppliers rely on each other's resources for their survival and success and a main topic is the dynamic of the buyer-supplier relationship within a wider network (Sanderson et al, 2015). Then, another theory is the relational contract theory (Macneil, 1983), which highlights the importance of relational patterns than just a mere economic analysis. Also, concepts such as focal networks (Alajoutsijärvi et al, 1999) and strategic nets (Parolini, 1999) have been present in the industrial network approach. Finally, the concept of power relationships in supply chains (Cox et al, 2002) is based on power structures that enable collaborative interactions within the supply network in order to improve overall performance. The application of these theories and approaches, however, differ in terms of design and managerial aspects. For example, it is argued by Sanderson et al (2015) that the Resource Dependency Theory does not imply a managerial vision, which is indeed a major topic in notions such as focal networks and strategic nets.

2.6 Conclusions

The most obvious finding to emerge from the literature review is that contract management is still considered a group of time-consuming activities (Meehan et al, 2016) Also, there is a critical debate in public procurement for mitigating problems of supplier opportunism when it comes to information asymmetry, uncertainty, bounded rationality and the application of theories such as TCE and Agency theory that discuss contracts design and the usage of contractual mechanisms. Also, topics such as intentional trust and its impact in contract designs as a complement of contract and its benefits to enhance buyer-supplier relationships, as well as the importance of long-term partnerships relations with suppliers and its strategic view in public procurement.

However, there is a gap in the literature review as the focus on research contract management processes in public procurement is not enough and further studies on how to achieve more effective and value-added contract management in a cost-efficient way are needed. While other authors focus on partnerships and interorganisational relationships between buyers and suppliers, others focus their attention on opportunism or trust issues, leaving the gap unattended. For this reason, the purpose of this project is to analyse the usage of effective contract management and its impact on public institutions such as the NHS Procurement in the most cost-efficient way in order to create additional value.

CHAPTER III: METHODOLOGY

3.1 Introduction

This chapter provides an outline of the research methodology in order to address the research problems for the achievement of the project's aims and objectives. In the following sections, the advantages, disadvantages and limitations of the chosen method will be explained, the process of the documentary collection as well as the usage of relevant information in order to answer the research questions.

3.2 Research approach

Having already established the theoretical basis of this dissertation through the literature review, the next stage is to define the research questions in order to fill the gaps in the literature, as follows:

- 1. How to achieve a more cost-effective and value-added contract management in the NHS Procurement?**
- 2. How supplier relationship management approach could benefit contract management procedures in the NHS Procurement?**

It was decided that the most suitable method for this research is the Qualitative research method through secondary data analysis, as prior studies enable a new research interest or an alternative perspective from the original work (Heaton, 1998). Also, secondary data analysis avoids the problem of collecting the information by doing surveys, questionnaires or interviews, as it only involves utilisation of existing data (O'Leary, 2004). For example, the NHS information about contract procedures is publicly available online. Besides, the North West NHS Procurement Development Hub has provided key information for a further understanding of the current situation of the NHS Procurement. Moreover,

secondary data analysis enables saving of time and money and generates new insights by reanalyzing data from previous studies (Ghauri and Gronhaug, 2005). Nevertheless, there are certain drawbacks associated with its usage. According to (Saunders, Lewis et al. 2009) there is a lack of control over data quality, even when government agencies are in charge of data collection. Also, the inappropriateness of the data (Denscombe 2010), as it could be not updated for the research purposes.

On the other hand, this research is mainly focused on contract management of the procurement of goods (i.e. medical supplies) rather than services because these are generally associated to other activities such as maintenance or trainees' employment, which are not of interest for this project. For this reason, all documents related to procurement of services have not been considered. Additionally, this project focuses on procurement issues in the NHS England, specifically the North West Region.

3.3 Research Process

This section explains how the evidence has been collected and processed to support the arguments:

Step 1 - Selection of documents publicly available: Four documents have been selected from the NHS Procurement collection located on the website www.gov.uk: the NHS Terms and Conditions for the Supply of Goods and Services (Department of Health, 2015), Framework agreements for the Supply of Goods, NHS Procurement & Commercial Standards (Department of Health, 2016) and the Better Procurement, Better Value, Better Care: A Procurement Development Programme for the NHS (Department of Health and NHS England, 2013). Also, information related to contract notices and tenders has been considered: Tenders Direct website, the Contracts Finder website, data related to procurement processes from the NHS Supply Chain website, the NHS Annual

Report 2015/2016 (NHS England, 2016) and the Good Practice Contract Management Framework (National Audit Office, 2008).

Step 2 – Information requirement to the North West NHS Procurement Development Hub: Once the aforementioned documents were revised, some doubts emerged, which were resolved by the NW NHS Procurement Development Hub. Additionally, extra information was provided, which consisted in a Tender Evaluation and Recommendation Report and a report from a session with the operational procurement managers.

Step 3 – Revision of case material provided by the academic team: The third step was the revision of case material regarding procurement decisions in hospitals in the North West of England (Menziez, 2016), and two conference papers regarding to Procurement Maturity in Public Healthcare Procurement (Menziez et al, 2016) and aggregation versus value based procurement in public healthcare (Meehan et al, 2016). Likewise, a revision of journals related to contract management, supplier relationships and public procurement was performed.

Step 4 – Selection of relevant information for the research: It was a complicated task due to the quantity of information and the complexity of the topic. After an in-depth revision, some findings emerged and were included in Chapter IV for further analysis and discussion and a base of recommendations was designed.

3.4 Research Contribution

In general, the process in which the research has been carried out has helped the author to understand the current situation of the NHS Procurement, specifically contracting procedures. Since it is a critical analysis, the chosen method (secondary data analysis) has provided a specific technical viewpoint when it comes to contracts design and tender documents as well as a deeper understanding of the procurement process in the NHS.

However, it was not possible to evaluate and revise actual awarded contracts, as it is a confidential document due to their legal nature. In particular, the analysis of NHS Terms and Conditions for the Supply of Goods and Services - Contract version (Department of Health, 2015a) and Framework agreements for the Supply of Goods (Department of Health, 2015b) was problematic, due to their extension and great detail.

The collected information has allowed the analysis of the contract management in the NHS. Now, the next section, Findings and Discussion will present the evidence of the current situation of contracting in the NHS Procurement.

CHAPTER IV: FINDINGS AND DISCUSSION

4.1 Introduction

The purpose of the next chapter is to analyse the relevant information collected from the sources mentioned in the methodology section in order to identify issues, contrast viewpoints and a deeper understanding about the implications of the results of this research. Besides, the findings are aimed to answer the research questions. The chapter is organised in four parts: The NHS Procurement current situation analysis, Contract Manager Role, Clinicians Perspective, and Discussion.

4.2 NHS Procurement current situation analysis

As explained in Chapter I, the NHS is a massive purchasing power that spends around £20 billion in the procurement of goods and services. This organisation is currently facing challenges due to an increasing demand of patients that seeks for quality of care and funding pressures due a constrained budget, hence the importance of efficiency and better value services in healthcare (Department of Health and NHS England, 2013). Having reviewed the most recent publicly available documents, two issues were identified:

First, there are many initiatives to improve the NHS Procurement performance, especially processes. According to the 2015/16 Annual Report (NHS England, 2016), it is said that improvements have been made up to that period for developing strategic procurement, supplier relationship management and contract management. Specifically in contract management, the core issue of this dissertation, more effective processes and tools have been implemented to manage and track contract performance and risk. Besides, an initiative called 'no purchase order, no contract, no pay' (NHS England, 2016) has been developed in NHS England in order to achieve a better engagement with suppliers and it is

intended that these improvements continue during the period 2016/17 as part of an organisational planning process.

Despite all the efforts made to improve strategic procurement, supplier relationship management and contract management, there is no further information regarding these specific processes and tools or the action plans being setup, which would be more helpful in order to identify the improvements already made.

Conversely, the Department of Health (2016) points out that the NHS Procurement & Commercial Standards comprise three maturity levels, in which Level 3 shows an outstanding commercial and procurement performance (See Appendix A) where in the criteria 'Contract and Supplier Management', value beyond existing contracts is delivered, suppliers are incentivised to improve and a benchmarking of supplier performance takes place. Interestingly, in a research within the context of the NHS performed by Menzies et al (2016) participants were asked to qualify common areas related to procurement maturity, and one of the top findings was the perception that procurement is currently stuck at Stage 0 in relation to activities undertaken. Table 3 shows that Stage 0 involves, for instance, a limited supplier engagement while Stage 3 involves a value-based commercial contract management and assessments (Menzies et al, 2016). It is evident then that improvements are needed in order to achieve Level 3.

MATURITY LEVEL GOALS	INDICATIVE PROCUREMENT ACTIVITIES
Stage 0	Process compliance; Tendering; Tender analysis and evaluation; Regulatory advice; Limited supplier engagement; Non-volume committed framework agreements; Product/service standardisation; Targets not aligned to market opportunities
Stage 1	Developing cost and value data metrics; Baseline spend profiles; Developing purchasing segmentation strategies; Exploring market drivers for key categories; Exploring internal value drivers for key categories; Target setting; Supplier engagement; Internal stakeholder engagement; Skills assessment; Training.
Stage 2	Data mining; Market intelligence infrastructure; Category management; Value-based contracts; Supply base rationalisation; Supplier evaluation; Identification of potential suppliers; Targeted sourcing strategies; Contract data management;
Stage 3	Volume-committed contracts; Supplier evaluation systems; Data analytics; Integrated stakeholder category management; Pre-market engagement; Value-based commercial contract management and assessments; Smoothing of capacity and demand; Risk management planning; Supplier relationship management; Commercial intelligence to drive sustainable patient outcomes; Contracts aligned to sustainable value; Collaborative long term planning; Co-creation of innovation throughout supply networks; Social capital creation and capture.

Table 3: *Procurement maturity stages in public healthcare procurement* Source: Menzies et al (2016)

Second, the improvement of productivity and efficiency are the drivers of performance in the NHS Procurement. According to Roberts et al (2012), the Quality, Innovation, Productivity and Prevention Challenge (QIPP) is directed to improve the productivity and close the funding gap of £30 billion annually by the year 2021, which will definitely impact the performance of the NHS Procurement in the short-term (NHS Supply Chain, 2013). Also, Monitor (2013) recognises that financial challenges could be tackled only by keeping a high rate of productivity improvement. On the other hand, Menzies et al (2016) explain that in the NHS

Procurement, there are annual savings targets and the pressures on buyers to meet these targets is extremely high. It is clear then that the higher the productivity and efficiency, the higher the savings. However, a contradiction emerged: according to the NHS Supply Chain (2013) non-pay expenditure has increased in the last years, with a 10% annual increase and non-pay expenditures account more than 30% of a trust operating expenditure. Additionally, the Department of Health and NHS England (2013) account that only in the period 2011-12, NHS trusts spent £20.6 billion on goods and services (See figure 3).

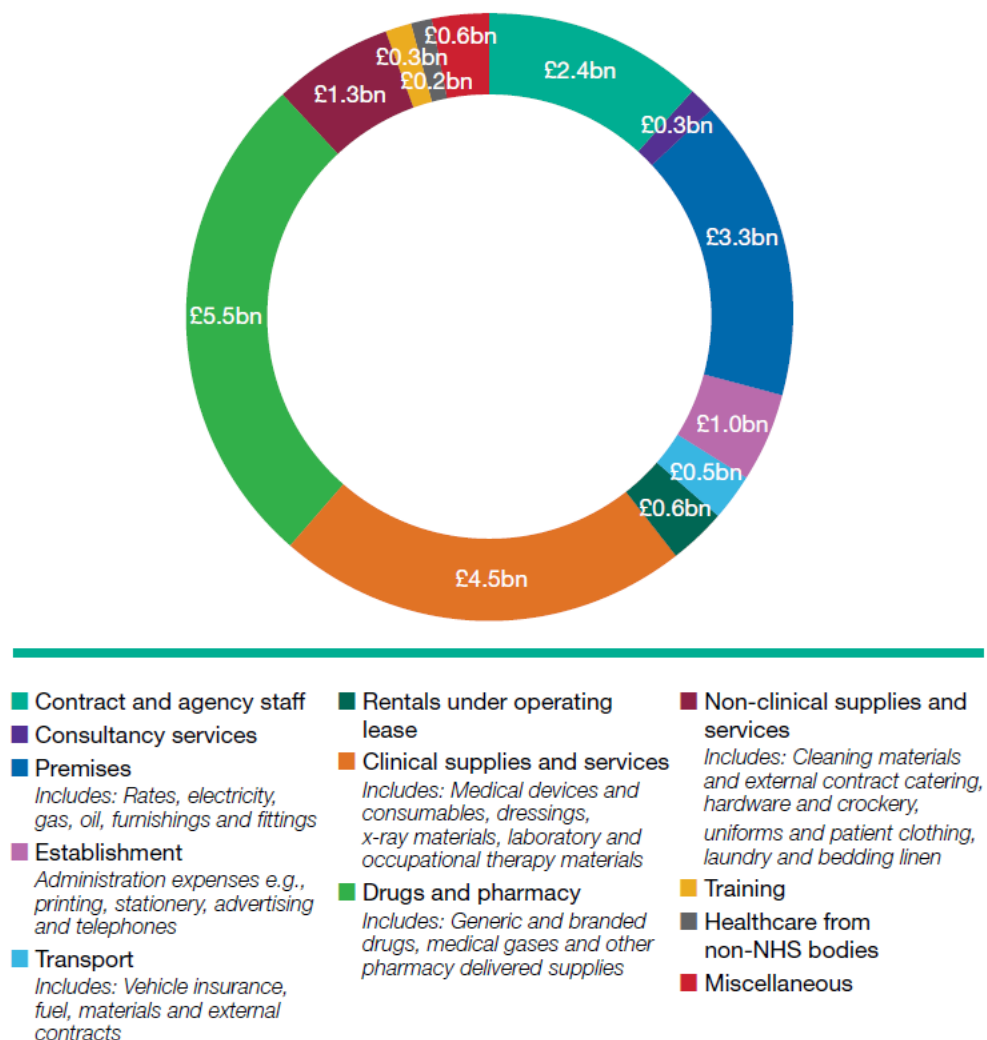


Fig. 3: Non-pay expenditure Source: Dep. of Health and NHS England (2013, p. 9)

Therefore, it is evident that the NHS in general is facing some financial challenges and key performance improvements in the NHS Procurement are needed. In any case, consistency is undoubtedly important between initiatives undertaken by the NHS and current activities within this institution, otherwise funding gaps and ineffective processes will always be present.

4.3 Contract Manager Role

Having reviewed the content of two of the main tender documents: the NHS Terms and Conditions for the Supply of Goods and Services - Contract version (Department of Health, 2015a), and the Framework agreements for the Supply of Goods (Department of Health, 2015b) which are basically templates publicly available in the NHS Procurement collection website, another issues were identified:

Contracts and Framework agreements are utilised by the Procurement teams for the purchasing of goods and services. While contracts represent the arrangement of two parties where one of them commits to purchase a certain volume of goods or services to the other over a period of time, framework agreements, on the contrary, do not specify any amount of goods (CIPS, 2016). There are significant differences between these documents, for example, contracts include clauses such as: supply of goods, delivery, intellectual property, packaging, and optional key provisions, as there is a certain level of specification whereas framework agreements differ to include those mentioned clauses, however, those regarding supplier's appointment, authority commitments and a separate call-off terms and conditions for the supply of goods are considered.

On the other hand, contract management is included in the NHS Terms and Conditions for the Supply of Goods and Services - Contract version (Department of Health, 2015a) and the Framework agreements for the Supply of Goods

(Department of Health, 2015b). For example. In the Schedule 1 – Key provisions, at the beginning of the contract and the framework agreements, there is a space to fill the names and roles of two contract managers: one for the Contracting Authority and another for the supplier. In addition, in the Schedule 2 – General Terms and Conditions, the Contract Management (Clause number 8) establishes the following processes:

1. Each party appoints a Contract Manager as a primary point of contact.
2. Both Contract Managers must have the enough experience to make daily decisions regarding the operations of the contract.
3. Close cooperation between the Authority's Contract Manager and the Supplier.
4. Each party attends to review meetings in order to evaluate performance in monthly intervals.
5. Supplier shall provide a written contract management report regarding the supply and the operation of the contract.
6. Supplier shall provide management information in order to produce statistics and share it with another Contracting Authority for analysis purposes.

What is interesting in this clause is the level of detail, as responsibilities for each party are clearly defined when it comes to Contract Management, hence it could be argued that Contract Management is an important element in the NHS Procurement (See Appendix B). If we now turn to the most surprising fact, in practice, according to the information provided by the North West Procurement Development Hub (2016), the adoption of contract management processes is at best adhoc, at worse nonexistent. That means contract management processes are described in these documents for a certain purpose, however, there is no supervision in place. A possible explanation for this might be the bureaucratic nature of the NHS Procurement, its size and the number of suppliers this organisation is working with. Another interesting finding is that for major projects, Contract Management processes do exist, which could be inconsistent, given the

fact that projects are temporary in nature while procurement processes of goods and services are recurrent (North West Procurement Development Hub, 2016).

However, according to the North West Procurement Development Hub (2016) some efforts have been made in order to tackle this inconsistency. For example, the most recent Operational Procurement managers meeting, where Trusts representatives, heads of procurement, contract managers and senior procurement professionals agreed to consider contract and supplier relationship management areas that require a best practice approach for achieving cost savings and value-adding results.

4.4 Clinicians' perspective on procurement decisions

The role of clinicians in the NHS has been mostly focused on healthcare until 1991, where the reforms made within this institution introduced a 'quasi-market' that allowed health professionals, among which are managerial bodies and general practitioners that control budgets, to assume the role of purchasing, in order to assess healthcare needs, also introducing written contracts to formalise procurement decisions (Wyke et al, 2003; Dopson and Locock, 2002). In this way, clinicians were not only focused on healthcare but also on decisions regarding the procurement of goods and services.

According to Sanderson et al (2015), as clinicians have the necessary expertise to choose the best treatment options from providers, the understanding of specific needs of their patients, and a strong incentive to look for the most efficient providers with shorter lead times and best quality of care, they are in a better position than any other administrative body or non-clinical manager to make effective procurement of goods and services. Hence, it is suggested that their clinical judgement has a considerable influence in those types of decisions.

This is evidenced in the case study regarding procurement decisions in hospitals in the North West of England (Menzies, 2016), where GP's are involved in the tendering process when contracts' expiring date is close or when a supplier is introducing a new product, then their clinical expertise is highly needed. Two interesting issues emerged from this case study. First, making procurement decisions is considered among clinicians as a tedious job due to bureaucracy, EU regulations, pricing structures and they fail to view procurement as a function with wider potential value propositions (Menzies et al, 2016).

Moreover, the process requires three laborious steps: rewriting the tender, checking suppliers' information which lengthens the process and testing new products. All of this causes that clinicians extend existing contracts in order to avoid further complications in the tendering process. Second, there is a pressure on institutions such as the NHS Procurement to improve efficiency, and this is reflected in the reduction of spending, as explained in section 4.2, however when clinicians describe what value means for them when making procurement decisions, aspects such as reliability and ease are in the top of the list while price is often at the bottom. This could be an inconsistency, since no matter how expensive a medical supply is, the GP's clinical expertise will always be taken into account. On the other hand, since budgeting pressures are on the rise, the importance of making savings has now become more important.

The evidence in the case study described above reveals that GP's clinical expertise might not always be successful. In a research regarding the UK Total Purchasing Experiment, Wyke et al (2003) explain that GP's have limitations as purchasers, even though their clinical judgement makes them more competent than bureaucratic personnel. Wyke's work (2003, p. 256) analyses these limitations and concludes that:

General practitioner based purchasing organisations are likely to be more appropriate in circumstances where the main purchasing task is to alter the balance and location of care between hospital and extramural settings. This

implies that the expectation that they will be able to improve the quality of patient experience or alter the use of resources may not be generally realised.

This means that GP's clinical judgement would be more adequate for healthcare big decisions but not for with quality issues. This confirms how complex the NHS Procurement could be. Now if we return to the first point of the case study (Menzies, 2016), the fact that clinicians extent existing contracts to avoid complications in the tendering process, perhaps believing that by doing that they are saving time and money could be considered a lack of awareness in terms of quality, as clinicians are contributing to the inefficiency of contract management processes, the main issue of this dissertation.

4.5 Adherence to Framework Agreements

The use of framework agreements in the NHS Procurement is a general practice in which suppliers have been working on for a while. According to Department of Health and NHS England (2013), the NHS Procurement is striving for a better practice in order to maintain a world-class performance. Therefore, a more strategic procurement is needed for the delivery of greater value and efficiency and framework agreements are the best way to achieve it. Their development allows standardising specification and requirements and economies of scale that lead to collaborative procurement (GO Shared services, 2015). Besides, Caldwell et al (2005, p. 244) points out that 'framework agreements allow the central negotiation of a contract, whilst permitting devolved users to manage their spending'. Moreover, their usage reduces the level of opportunism, as suppliers are legally constrained by establishing prices and clauses clearly defined (Lonsdale, et al, 2010).

Furthermore, the CIPS (2016) considers the usage of framework agreements as a 'smarter' way to procure goods and services due to the fact that minimises repetitive purchasing tasks, as 'call-offs', individual contracts under framework agreements, enable contracting authorities to save time by not wading through contracting procedures steps again. Having reviewed the content of the Framework agreements for the Supply of Goods (Department of Health, 2015b), it is evident the usage of 'call-offs': in the Appendix A - Call-off Terms and Conditions for the Supply of Goods, it is explained that when a new purchase order is referred to a Framework Agreement, a new contract is automatically issued by the Contracting Authority and the Supplier and this new contract contains terms and conditions such as: supply of goods, delivery, staff, etc., that is, the same clauses of a single contract.

Despite of the aforementioned benefits of framework agreements in procurement, there is a contradiction regarding the adherence to this practice. Caldwell et al (2005) estimate that in the NHS the adherence to these arrangements is around 50 percent. On the other hand, the North West Procurement Development Hub (2016), claims that, in practice, suppliers do not normally stick to framework agreements and it is becoming a major issue. It is somewhat surprising, as the non-adherence is practically happening on both sides, the Contracting Authority and the Supplier. Besides, the Department of Health and NHS England (2013), reports that Trusts are making use of framework agreements as a quick source of suppliers, choosing the ones that suit their needs.

These findings are disappointing, as the world-class procurement that the NHS strives to maintain is inconsistent, and an inefficient management of resources is evident. A possible explanation for this, again, is the complexity of the NHS. According to the Department of Health and NHS England (2013), more than 80 complex categories and sub-categories of spend are managed by a single trust and between 5 and 10 procurement personnel are dedicated to the management of these categories. Therefore, it is likely that these categories of spend, in which

a wide range of medical supplies are under contracts and framework agreements, are not given the regular tracking they deserve.

In this way, innovation could be the driver for improvement. According to Caldwell et al (2005), commitment and innovative leadership of procurement managers could lead to a better support and tracking of current framework agreements, with the help of purchasing consortia. Karjalainen (2011) suggests the usage of centralised framework agreements for making savings in order to achieve a value-added procurement approach.

4.6 Discussion

Having explained and analysed the relevant four major findings in this research, we turn in this section to discuss whether the collected information leads us to the answer to the research questions.

As mentioned in Chapter III, it was concluded that there is gap in the literature when it comes to the achievement of a more effective and value-added contract management in a cost-efficient way. Topics such as supplier opportunism, intentional trust, buyer-supplier relationships and partnerships are recurrent in the contract management literature. However, there are not enough case studies regarding the achievement of contract management efficiency and more research is needed.

For example, the first finding about the NHS Procurement current situation analysis concluded that in regard to the improvements that have been made for the developing of contract management mentioned in the 2015/16 Annual Report (NHS England, 2016), there is no further information about specific processes being improved or action plans being setup, they are not even mentioned in another sources publicly available. Also, funding difficulties due to the efficiency

and productivity corporate objectives and a higher non-pay expenditure are an issue in this institution. The second finding points out that the adoption of contract management processes are mentioned and fully detailed in framework agreements and contracts, however, those processes are not monitored or, at worse, they are not being followed at all by the procurement team. The third finding is focused on the clinicians' perspective on procurement decisions where the most interesting aspect was that existing contracts are extended in order to avoid further complications in the tendering process due to bureaucracy and budgeting pressures. Finally, the fourth finding is the non-adherence to framework agreements, which is becoming a major issue.

In regard to the four major findings in this research, they were all related, in one way or another, to a lack of efficiency within the NHS Procurement. Therefore, it could be assumed that it is merely an efficiency problem. However, it could be argued that these problems also are related to bureaucracy and complicated procedures that are not adding value.

With respect to the first research question, the creation of cost-effective and value-added contract management should involve everyone in the NHS Procurement: Trusts, Contracting Authorities and Suppliers, and their roles and responsibilities must be defined from the very beginning, hence the importance of contracts design, which could lead to considerable improvements and avoid post-contractual problems. If we turn to the NHS Procurement, there are many tools that allow to have a world-class procurement. First of all, there is accessibility to complete contracts in web pages such as Contracts Finder, Tenders Direct, tender documents publicly available, hence, a certain degree of transparency is evidenced. In general, the NHS Terms and Conditions for the Supply of Goods and Services - Contract version (Department of Health, 2015a) and the Framework agreements for the Supply of Goods (Department of Health, 2015b) have clauses that are well defined, hence, a safeguarding role is evidenced (Williamson, 1985). Nevertheless, there is no further monitoring, as the contract management processes outlined are not put in practice. And second, the world-class

procurement is reflected in many ways with the creation of framework agreements, information transparency, quality patient care, outlined strategies, especially when it comes to effective and efficient procurement capabilities, one of the best in the world (Department of Health and NHS England, 2013). Despite these achievements, it seems that there is still a lot to do in order to maintain these standards over the years.

With respect to the second research question, it was found that there are contract management procedures that enables the establishment of relationships with suppliers. If we go back to section 4.3, it is suggested that suppliers' close cooperation with the Contracting Authority is necessary in order to enhance the contract management process and, of course, the purchasing processes. However, it seems that working closely with suppliers is not a strong necessity, when, in fact, should be an important part of the whole process.

4.7 Conclusions

Having examined the four major findings and taken together, the suggestion is that it would be necessary the enhancement of procedures, because they are all outlined, there are resources that allow a better world-class procurement, the main achievement would be the involvement of the procurement team in the NHS as well as Trusts and most of all, Suppliers. In the next chapter, a base for recommendations regarding to contract management in the NHS Procurement will be provided.

CHAPTER 5: RECOMMENDATIONS FOR BETTER PRACTICES IN CONTRACT MANAGEMENT

5.1 Introduction

Having described and analysed in Chapter II the relevant literature available and discussed the main findings in Chapter IV, this section is mainly focused on proposing a framework of better practices on contract management procedures to be put on practice in the NHS Procurement.

Throughout this study, it has been suggested that in the NHS Procurement, more attention and improvements are needed in order to achieve efficiency and effectiveness, specifically in Contract Management. For this reason, programmes such as the NHS Procurement Development Programme (Department of Health and NHS England, 2013) and the Good practice contract management framework (National Audit Office, 2008) were launched as a guidance for supporting all the changes needed.

On the other hand, authors such as Lonsdale et al (2010) have performed a study about public contracting in the English agency nursing market and recommended a more sceptical approach to contract and relationship management. Also, the Department of Health and NHS England (2013) recommends an early engagement between Contracting Authorities and Suppliers with open dialogue about strategic direction in order to allow suppliers to develop their business models and products to meet our future needs.

Furthermore, Aylesworth (2003) and Rozemeijer (2000) suggests the usage of consortia purchasing in an effort to achieve innovative procurement, which also impacts the design of contract management. Additionally, Karjalinen (2011) suggests the usage of centralized framework agreements for managerial purposes on those categories that are deemed as suitable for a centralized approach in contract management. However, given the fact that it is unknown to what extent

these recommendations could be applied in certain situations, some recommendations for improvement on contract management procedures were developed based on the findings discussed in Chapter IV.

5.2 Recommendations for improvement on contract management procedures

Recommendation N°1: Procurement teams' level of involvement should be equally relevant throughout the procurement process and contract management present in all procurement phases.

In the early stages, clinicians are fully involved in procurement decisions due to their technical expertise according to Menzies et al (2016). However, Menzies' work also explains that procurement teams have low involvement in the first phase and the post contract phase, leaving contracts unmanaged, while it is evidenced a much higher level of involvement in the tendering and contract award phases, as illustrated in Figure 4.

On the other hand, the National Audit Office (2008) points out that contract management must be planned from the very beginning of the procurement process and that it should be seen as a continuum rather than a phase itself. In accordance with these discussions, it is proposed that procurement teams' level of involvement is equally relevant during the procurement process and contract management is present in all procurement phases. In order to achieve this, the author suggests that procurement teams work closely with clinicians in early stages, where pre-contractual negotiations take place and trust can be developed (Klijn and Tiesman, 2005) in order to obtain lower transaction costs (Chiles and McMackin, 1996), hence, a cost-effective result is obtained.

At the same time, it is also recommended that procurement teams must have a relevant role in the post-contract phase, applying the usage of extra contractual mechanisms (spot market contestation, monitoring, negotiation and adjudication) in the most cost-efficient way (Sanderson et al, 2015). A key policy priority should therefore be to plan for an integral advisory support from procurement teams to clinicians and anyone involved in the procurement process in the NHS.

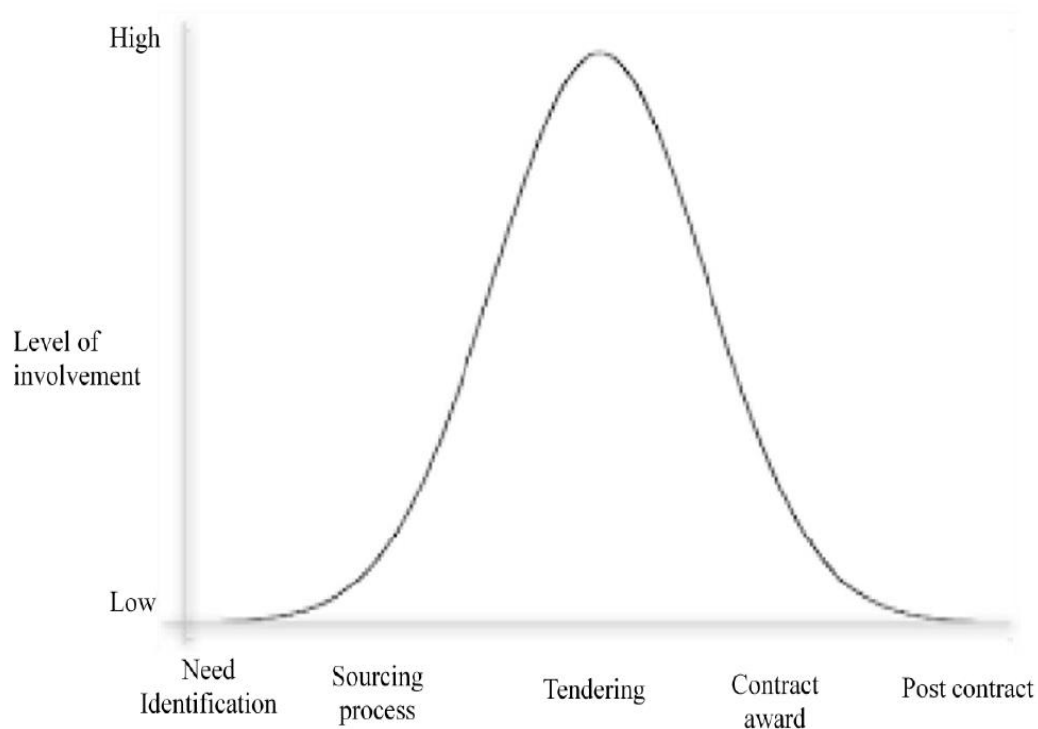


Fig. 4: *NHS Procurement's involvement in generic procurement cycle* Source: Menzies et al (2016)

Recommendation N°2: Simplify contract management processes in order to involve procurement teams.

One of the findings in Chapter IV discussed the role of contract managers described in contracts and framework agreements and the fact that contract management procedures were not implemented due to its bureaucratic and time-consuming nature and the little involvement of procurement teams in the post-contractual phase, in which contract management procedures are mainly focused. A reasonable approach to tackle these issues could be that those processes are modified and simplified in order to involve procurement teams more accordingly in the post-contractual phase, as well as put into practice, in this way, any inconsistency between procedures and actions been taken will be avoided and most of all, tracking and monitoring in contract management is enabled.

Recommendation N°3: Well-trained contract managers should provide effective feedback, leadership and assistance to procurement teams.

On the other hand, the National Audit Office (2008) suggests that contract managers have appropriate skills, expertise and properly trained as they are responsible for driving organisation-wide contract management performance. Williamson (1985) suggests the hiring of experienced contract managers in times of uncertainty. In this case, it is proposed that contract managers are focused not only on key contracts related to projects, but for the ordinary procurement of goods and services and provide effective feedback, leadership and assistance to procurement teams.

Recommendation N°4: Purchasers and clinicians should work together in the early stages of the procurement process when awarding contracts and selecting suppliers.

One of the top findings explained by Wyke et al (2003) is that clinicians have limitations as purchasers, even though their clinical expertise makes them more competent than procurement teams. However, for the early stages of the procurement process, specific skills are needed especially when awarding contracts and selecting suppliers, and these decisions should rely on a set of defined clinical and cost-efficient criteria. Besides, Watson et al (2012) point out that extensive research into prices, past performance, detailed negotiation and balancing provisions are key drivers for a better practice in contract management.

Moreover, the National Audit Office (2008) considers that contracts have a certain level of risk due to a potential cost overrun and they may need careful budgeting and payment, as well as clear processes when it comes to minor changes or contract variations, mainly focused on a cost/effort approach in order to provide value. Furthermore, Menzies et al (2016) explain that clinicians extend existing contracts in order to avoid further complications in the tendering process.

Therefore, there is a need for specific know-how that clinicians do not have, in this way, the extension of existing contracts without taken into account any cost-efficient criteria will be avoided. In this case, it is recommended the involvement of purchasers when making decisions in terms of costs, prices and performance assessments to potential suppliers, which is clearly is an opportunity for procurement teams to provide this expertise to clinicians in the early stages of the procurement process.

Recommendation N°5: Procurement teams should utilise contract management software for control and purposes in order to assess supplier performance

It has been noticed that there is no evidence in the literature or the information publicly available to confirm the usage of any contract management software. Also, it has been suggested in Chapter IV that there is no further information about process improvements in annual reports or any other document publicly available, therefore more transparency about specific processes is needed. Regarding to these two findings, the National Audit Office (2008) is very emphatic when stating that contract management software helps to record ongoing contract management information and that the benefits of clear processes ensure that suppliers are focused on continuous improvement in order to achieve value for the customer, in this case, it would be the Contracting Authority.

These findings suggest that courses of action must be taken. For this reason, it is proposed that procurement teams utilise contract management software for control purposes, more transparency in specific processes improvements, and most of all, the assessment of supplier performance through procurement standards using clear, objective and meaningful metrics. Ensuring appropriate systems, services and support for contract management should be a priority for public procurement.

Recommendation N°6: A Supplier relationship management approach should be considered for a more strategic view in procurement and contract management procedures.

In regard to interorganisational relationships with suppliers, continued efforts are needed for a more strategic view, as the NHS is considered a network of supplier relationships and operating internally and throughout extended supply chains (Allen et al, 2009). Hence, the need to apply relational mechanisms in contract management is a key driver. The National Audit Office (2008) states that by using

a supplier relationship management approach with the supplier base, the Contracting Authority is aware that strategic changes could have a considerable impact on them when providing services and using a supplier relationship management approach is a sophisticated contract management activity and an appropriate response to risks. Also, the National Audit Office (2008) points out that contract management should address potential value opportunities, for this reason, it is necessary to consider contract management processes as strategic tools, along with supplier relationship management.

CHAPTER 6: CONCLUSIONS

In this dissertation, the aim of this project is to provide a series of recommendations in order to improve contract management processes in the NHS Procurement with an overall aim of reducing costs and create additional value. Thus, the following research questions were posed:

- 1. How to achieve a more cost-effective and value-added contract management in the NHS Procurement?**
- 2. How supplier relationship management approach could benefit contract management procedures in the NHS Procurement?**

One of the more significant findings to emerge from this study is that contract management processes are properly described and Contract Manager Roles are clearly defined for the Contracting Authority and Suppliers in contracts as well as in framework agreements. However, the adoption and implementation of contract management processes is at best adhoc, at worse nonexistent due to the bureaucratic reasons, the size of the NHS and the number of suppliers this organisation is working with.

Another interesting finding is the non-adherence to framework agreements due to the complexity of the NHS and a wide range of products are under contracts and framework agreements, where regular tracking is needed. Additionally, this study agrees that clinicians extend existing contracts to avoid complications in the tendering process, with the purpose to save time and money, which could be considered as a lack of awareness in terms of quality. These findings suggest that in general, contract management processes are not being implemented, which indicates a certain level of inefficiency. In order to address the problems identified, six general recommendations were provided for better practices in contract management processes in the NHS Procurement.

Returning to the research questions posed at the beginning of this study, it is now possible to state that the achievement of a cost-effective and value-added contract management is a complicated task that should involve the entire personnel in the NHS Procurement, not only buyers but the whole supplier base and Trusts. Regarding to the second research question, a supplier relationship management approach is a strategic move that impacts positively in contract management processes. The six recommendations provided in this study might be considered generic in terms of specifications, however, this study offers some insight into what should be improved in the NHS Procurement.

The study is limited by the lack of information on tendering processes due to availability issues in the North West NHS Procurement Development Hub and time constrains, as it is a complex topic. For this reason, it was not possible to assess cost-effective alternatives in order to improve contract management processes; therefore, the recommendations provided have not addressed cost-effective alternatives in the first research question and are more focused on value-adding improvements. On the other hand, this study was limited by the usage of secondary data due to ethical approval. Also, it was not possible to assess actual tendering documents, only templates publicly available; therefore, it is unknown if there are any other problems related to contract management processes and public procurement in general.

Additionally, it would have been interesting to include interviews or surveys to procurement managers in order to have a better picture of the situation in the NHS Procurement. Besides, further studies of contract management processes need to be carried out in order to validate the recommendations provided in this dissertation. In any case, this research will serve as a base for future studies on the topic. What is now needed is a cross-national study involving procurement managers that can share their experience in contract management. This would be a fruitful area for further work.

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Appendix A: NHS Procurement & Commercial Standards

Dimension	Ref	Criteria	Level 1 – Procurement and Supplies Focus	Level 2 – Procurement & Commercial Activity Organisation-wide	Level 3 – Procurement & Commercial Activity – Internal & External Involvement
	3.2	Contract and Supplier Management	<ul style="list-style-type: none"> Database of contracts managed by the Procurement team, flagged for renewals with action plan. Expenditure is categorised and analysed to identify and prioritise opportunities to pursue through contract management. Basic contract management processes are developed and implemented with key suppliers. For example ad hoc management of contract key performance indicators (KPIs). 	<ul style="list-style-type: none"> Evidence of a robust and well maintained contract database system in place making it is easy to access a complete list of contracts for a specific supplier from across the organisation. Contract management system/process provides electronic alerts for renewals. Effective activity and demand management in place for key contracts. Strategy for contract and supplier management across the organisation is in place with clarity on responsibility on who leads. 	<ul style="list-style-type: none"> Benchmarking of supplier performance with other organisations in place. There is a focus on delivering value beyond existing contract (innovation, quality, costs). Plans and mechanisms are adopted to incentivise suppliers to continuously improve and develop (innovative products/services and ways of working, risk and reward schemes).
	3.3	Supplier Relationship Management (SRM)	<ul style="list-style-type: none"> An assessment process has been undertaken to identify key suppliers. Evidence that Procurement are involved in the performance of some key strategic suppliers. Procurement team reactively supports innovation within the organisation when requested. 	<ul style="list-style-type: none"> Detailed Supplier Relationship Management (SRM) programme in place with key suppliers with clear roles and responsibilities. Key suppliers identified have structured supplier appraisal with agreed representatives from the organisation. Review of both qualitative and quantitative measures (for example quality, delivery, total cost of ownership, innovation). Joint meetings/seminars/workshops held with key suppliers with clearly defined objectives and development plans. Procurement team has a mechanism/process in place for encouraging new suppliers who can provide new ideas and solutions. 	<ul style="list-style-type: none"> Procurement leads the SRM process, organisation and systems. Organisation has achieved or following the principles of BS11000 – collaborative business relationships. Evidence that supplier ideas and innovations are being trialled and implemented.

Source: Department of Health (2016, p. 11)

Appendix B: NHS Framework agreement for the Supply of Goods

- 1 Contract management
 - 1.1 Each Party shall appoint and retain a Contract Manager who shall be the primary point of contact for the other Party in relation to matters arising from this Contract. Should the Contract Manager be replaced, the Party replacing the Contract Manager shall promptly inform the other Party in writing of the name and contact details for the new Contract Manager. Any Contract Manager appointed shall be of sufficient seniority and experience to be able to make decisions on the day to day operation of the Contract. The Supplier confirms and agrees that it will be expected to work closely and cooperate fully with the Authority's Contract Manager.
 - 1.2 Each Party shall ensure that its representatives (to include, without limitation, its Contract Manager) shall attend review meetings on a regular basis to review the performance of the Supplier under this Contract and to discuss matters arising generally under this Contract. Each Party shall ensure that those attending such meetings have the authority to make decisions regarding the day to day operation of the Contract. Review meetings shall take place at the frequency specified in the Specification and Tender Response Document. Should the Specification and Tender Response Document not state the frequency, then the first such meeting shall take place on a date to be agreed on or around the end of the first month after the Commencement Date. Subsequent meetings shall take place at monthly intervals or as may otherwise be agreed in writing between the Parties.
 - 1.3 Two weeks prior to each review meeting (or at such time and frequency as may be specified in the Specification and Tender Response Document) the Supplier shall provide a written contract management report to the Authority regarding the supply of the Goods and the operation of this Contract. Unless otherwise agreed by the Parties in writing, such contract management report shall contain:
 - 1.3.1 details of the performance of the Supplier when assessed in accordance with the KPIs since the last such performance report;
 - 1.3.2 details of any complaints by the Authority in relation to the supply of Goods, their nature and the way in which the Supplier has responded to such complaints since the last review meeting written report;
 - 1.3.3 the information specified in the Specification and Tender Response Document;
 - 1.3.4 a status report in relation to the implementation of any current Remedial Proposals by either Party; and
 - 1.3.5 such other information as reasonably required by the Authority.
 - 1.4 Unless specified otherwise in the Specification and Tender Response Document, the Authority shall take minutes of each review meeting and shall circulate draft minutes to the Supplier within a reasonable time following such review meeting. The Supplier shall inform the Authority in writing of any suggested amendments to the minutes within

five (5) Business Days of receipt of the draft minutes. If the Supplier does not respond to the Authority within such five (5) Business Days the minutes will be deemed to be approved. Where there are any differences in interpretation of the minutes, the Parties will use their reasonable endeavours to reach agreement. If agreement cannot be reached the matter shall be referred to, and resolved in accordance with, the dispute resolution process set out in Clause 5 on the Key Provisions and Clause 22.3 of this Schedule 2.

- 1.5 The Supplier shall provide such management information as the Authority may request from time to time within seven (7) Business Days of the date of the request. The Supplier shall supply the management information to the Authority in such form as may be specified by the Authority and, where requested to do so, the Supplier shall also provide such management information to another Contracting Authority, whose role it is to: (a) analyse such management information in accordance with UK government policy (to include, without limitation, for the purposes of analysing public sector expenditure and planning future procurement activities); or (b) manage the Framework Agreement with the Supplier ("Third Party Body"). The Supplier confirms and agrees that the Authority may itself provide the Third Party Body with management information relating to the Goods purchased, any payments made under this Contract and any other information relevant to the operation of this Contract.
- 1.6 Upon receipt of management information supplied by the Supplier to the Authority and/or the Third Party Body, or by the Authority to the Third Party Body, the Parties hereby consent to the Third Party Body and the Authority:
 - 1.6.1 storing and analysing the management information and producing statistics; and
 - 1.6.2 sharing the management information, or any statistics produced using the management information with any other Contracting Authority.
- 1.7 If the Third Party Body and/or the Authority shares the management information or any other information provided under Clause 1.6 of this **¡Error! No se encuentra el origen de la referencia.** of these Call-off Terms and Conditions, any Contracting Authority receiving the management information shall, where such management information is subject to obligations of confidence under this Contract and such management information is provided direct by the Authority to such Contracting Authority, be informed of the confidential nature of that information by the Authority and shall be requested by the Authority not to disclose it to any body that is not a Contracting Authority (unless required to do so by Law).
- 1.8 The Authority may make changes to the type of management information which the Supplier is required to supply and shall give the Supplier at least one (1) month's written notice of any changes.

Source: Department of Health (2015b, p. 10-12).

Self-assessment

From the beginning I was really interested to take part of this project because in I had previous work experience managing contracts in an international cargo agent in my home country. For this reason, I showed my interest in this project to Dr. Meehan. Since the purpose of this project was the design of a base of recommendations in order to make improvements in the NHS Procurement, I thought that my experience could greatly contribute to this project.

In general, I believe the quality of the project is good. One of the challenges is that it was the first time I write a dissertation in academic English rather than my native Spanish. This has been a difficult task but not impossible, as I had been practising my writing during my academic experience in the Masters course. Also, I was capable of developing critical analysis in several parts of the report.

Throughout the project, I was also capable of managing my own time and follow a schedule with due dates, which has been really useful in order to meet deadlines properly. In addition, whenever I had a meeting with my supervisor, I made sure to have a certain number of questions so I had no doubts of what to do afterwards, which helped me to be more organised.

When it comes to the experience of planning the project, it was a difficult task in the beginning due to a lack of knowledge of the UK healthcare sector. However, my supervisor explained me some issues in order to understand the aim of the project. In any case, my supervisor was incredibly supportive throughout the project.

Regarding to factors that affected my progress, I depended, in one way or another, on the information provided by the North West NHS Procurement Development Hub. As mentioned in the dissertation, due to time constrains, it was not possible to assess cost-effective alternatives in order to improve contract management processes. Anyway, I managed to fulfil the objectives in order to provide recommendations for better practices in contract management procedures.

