

Auction vs. Negotiation under Public Scrutiny

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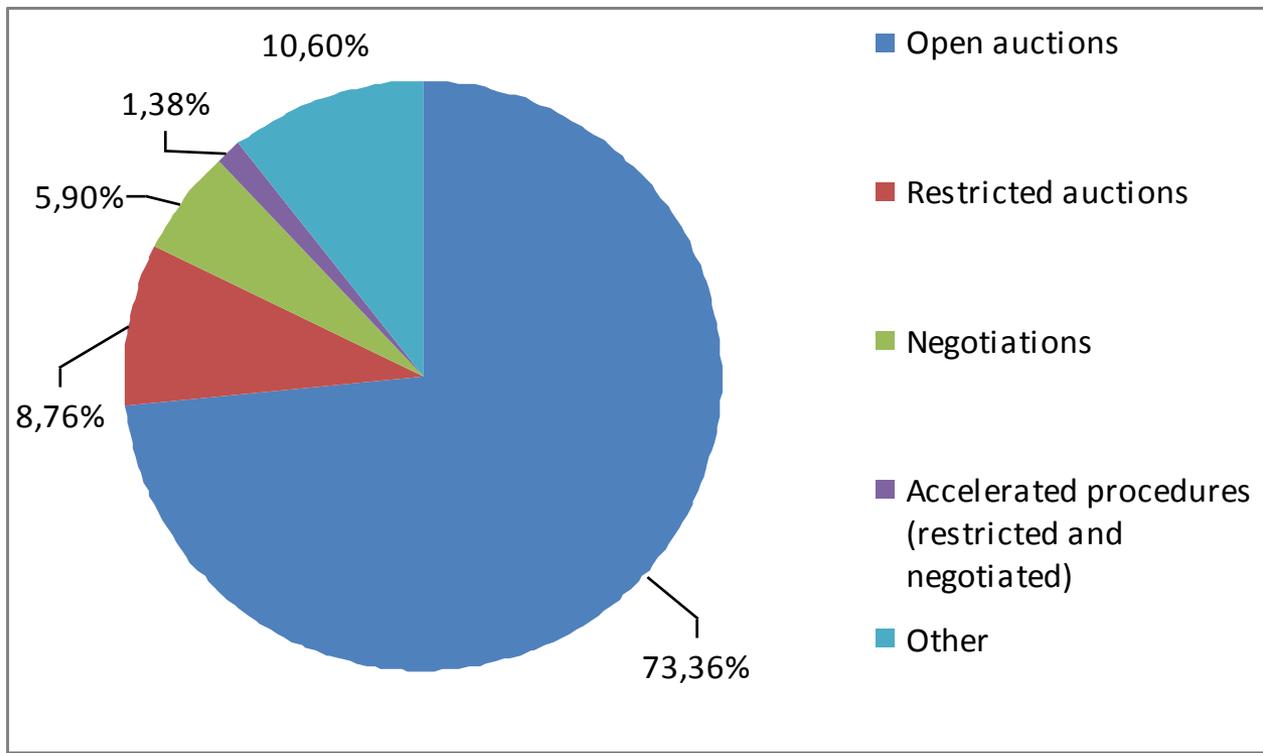
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Motivations

Diversity of award procedure used for public procurement in the EU



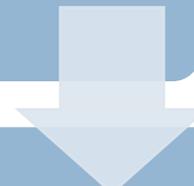
(Source: EU Internal Market Scoreboard. 2009)

Motivation

Auction vs. Negotiation in Public Procurement

- Bajari et al. (2006, 2009), Estache et al (2009)
 - Chong, Staropoli, Yvrande-Billon (2011)
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Political aspects of Public Procurement decisions

- Hyytinen et al. (2007), Coviello & Gagliarducci (2011)
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Third party opportunism in Public Procurement

- « probity transaction » Williamson (1999)
- Spiller (2009, 2011)

Motivation

	Probit/ dependent variable: Auction (1/0)
NbProp	0.010***
Exp	-0.001
ExpAuction	0.042***
ExpNego	-0.181***
Ln(Population)	0.091***
Ln(Contract Value)	-0.020
Duration	0.001
NSubContractors	0.022
Constant	0.428
N	2671
Pseudo R2	0.2567
Log Likelihood	-1073.88

Literature	Choice of auction procedure	Expected sign	Our results
Porter & Zona (1993) Klemperer (2002)	Intensity of competition	+	+
Bajari et al. (2006, 2009)	Project's complexity	-	Non significant
Goldberg (1977) Bajari et al. (2009)	Buyer's experience and expertise	+	- / +

Contribution of this paper

- Explain this puzzle through political explanation
 - *“Probity and the suspicion of lack of probity is what drive much of the feature of public contracting » (Spiller, 2009)*
 - ↳ Public buyer’s motivation for choosing auction procedure: avoid suspicion
 - ↳ Risk of suspicion increases with third party opportunism
- **WHAT IS THE IMPACT OF PUBLIC (POLITICAL) SCRUTINY ON HOW MUNICIPALITIES AWARD THEIR PUBLIC WORK CONTRACTS?**
- Empirical test of Spiller’s proposition on third party opportunism (political competitor)
 - ↳ **THE HIGHER POLITICAL SCRUTINY, THE MORE PUBLIC BUYERS WILL CHOOSE AUCTION PROCEDURE**

Empirical strategy

- Data:
 1. Contracts data: Original exhaustive database of 2671 public work contracts signed by 897 french municipalities in 2007 (OEAP)
 2. Political data: Municipal election results in 2001 (Ministry of Internal Affairs)
 - Electoral system: combination of majoritary and proportional system – two rounds
- Probit estimation
 - Dependent (dummy) variable: *Auction*
 - Explanatory variables:
 - Proxies for complexity: *Lnvalue, NbSub, duration*
 - Proxy for competition: *NbOffers*
 - Public buyers experience: *Exp, ExpAuction, ExpNego*
 - Proxies for political scrutiny

} ~ Chong et al. (2011)

Political variables

Measurement of the intensity of political scrutiny:

1. *HHI: electoral competition in the political market (first round)*
2. *ScoreDiff = ScoreWinner - Score Opposition*
3. *RelStrength = (ScoreWinner - ScoreOpposition) / ScoreWinner*
4. *Turnout (first round)*

Variables	Political scrutiny	Expected impact on the use of auctions
HHI	-	-
ScoreDiff	-	-
RelStrength	-	-
Turnout	-	-

Results

	(4a)	(4b)	(5a)	(5b)
Dep. Var.	Auction	Auction	Auction	Auction
HHI		0.774*		0.254
ScoreDiff	-0.209**	-0.646**		
RelStrength			-0.216**	-0.343*
Turnout	0.474	0.469	0.477	0.489
NbOffers	0.010***	0.010***	0.010***	0.010***
Exp	-0.001	-0.001	-0.001	-0.001
ExpAuction	0.041***	0.042***	0.042***	0.042***
ExpNego	-0.180***	-0.179***	-0.180***	-0.179***
LnValue	-0.018	-0.013	-0.016	-0.013
Duration	0.001	0.001	0.001	0.001
NbSub	0.023	0.020	0.022	0.021
LnPop	0.088**	0.114***	0.094***	0.109***
Constant	0.212	-0.339	0.164	-0.089
<i>Nature of Public Works</i>	<i>Incl.</i>	<i>Incl.</i>	<i>Incl.</i>	<i>Incl.</i>
<i>Number of observations</i>	<i>2671</i>	<i>2671</i>	<i>2671</i>	<i>2671</i>
<i>Pseudo R2</i>	<i>0.2585</i>	<i>0.2596</i>	<i>0.2586</i>	<i>0.2589</i>

Results

1. The higher the difference between the winner's score and the second best score \Leftrightarrow the less pressure public buyers undergo \Rightarrow the lower the probability to choose auction
2. *HHI* and *Turnout* impact is non consistent

Conclusion

- First attempt to include political aspects as determinants of the choice between « Auction and Negotiation » in public procurement
- Preliminary results suggest that competition in the political market leads to inefficient choices in term of public procurement policy