Small- and medium-sized enterprises in public procurement in primary social and healthcare services

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Abstract: Small- and medium-sized enterprise (SME) policies tend traditionally to focus on supply-side support instruments. However, public procurement provides a potential demand-side SME policy tool to enhance SMEs and maintain competition in the market. SMEs are often under-represented in public procurement compared to their overall economic weight. Existing literature provides limited information on the instruments of public service providers to create business opportunities for SMEs. The aim of this single case study is to describe the role of SMEs in the statutory public service provision of primary social and healthcare. The study also provides insight into the public service provider’s ability to facilitate SME access to public procurement and thereby to enhance the efficiency of the local market. We found that a service voucher system could be an additional option for public procurement, as it allows more flexibility in involving small businesses in the production of public services.

Keywords: public procurement; small- and medium-sized enterprise; SME; SME policy; entrepreneurship; social and healthcare; micro-companies; micro-enterprises; public business support; service voucher; sparsely populated area; Finland.

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1 **Introduction**

There has been growing interest in active government policies to enhance economic growth and employment via entrepreneurship and small- and medium-sized enterprise (SME) policy. However, these programs of direct or indirect assistance to SMEs are
mainly supply-driven. SME policy is incomplete without a consideration of demand-driven elements, in particular the initiatives which aim to foster entrepreneurship through public procurement (Preuss, 2011). The relation between SME policy and public procurement relies on the view that selecting SMEs and micro-companies as suppliers promotes innovation and entrepreneurship and thus contributes to job creation and economic growth; it also helps to support local and regional developments and therefore benefits the wider society (Nicholas and Fruhmann, 2014). According to Arrowsmith (2010), the use of public procurement as a policy tool is a longstanding phenomenon and is associated with more than one policy area, for example, regional development and providing economic opportunities for disadvantaged groups. In contrast with the primary objective of public procurement, which is to purchase goods and services under the best possible terms, these policies can be referred to as secondary policies (Arrowsmith, 2010) or as non-procurement goals (Flynn et al., 2012).

Figure 1  The focus of this study in the frame of public SME support system

SMEs represent the lifeblood of the economy (Hausman, 2005), have an important role in supply chains (Gunasekaran et al., 2009) and can be seen as an engine of growth and job creation (World Bank, 2013). Via procurement, public actors may assume a significant role in the regional and local economy. Thus, the decisions that the contracting entities make regarding service production, procurement and business collaboration are meaningful and relevant to the region’s development and competitiveness. Generally, small and medium businesses tend to be local (Loader, 2013). Small companies may also operate as national level suppliers, but more often, they operate locally. Therefore, by taking account of small businesses in public procurement, local market dynamics will improve (Loader, 2007).

In the European Union (EU), public procurement plays an important role in the economy. Public authorities spend around 18% of GDP on supplies, works and services (European Commission, 2011) through their procurement. Procurement represents the starting point for the control of public expenditures and good economic development (Fernandes and Vieira, 2015). It also represents an important market, particularly in areas such as health, transport and energy (European Commission, 2010). How the public sector uses its purchasing power, has a considerable impact on market development. The allocation of public procurement could have a significant impact on vitality and development activity at both regional and local levels (Peck and Cabras, 2010). Particularly during economic downturns, public purchases have an important role in replacing decreased private demand as well as in supporting regional economic development (Ancarani and Di Mauro, 2013). In addition, public procurement can be an
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important source of innovation to promote service development to the local community and increase the technological competitiveness of the local industry and research environment (Vecchiato and Roveda, 2014).

One objective of the EU Public Contracts Directive (Directive 2014/24/EU) (European Parliament, 2014) is that public procurement should also be adapted to the needs of the SMEs. Given the potential of SMEs for job creation, growth and innovation, encouraging SME participation in public procurement is vital. Public procurement is a tool by which governments can provide support to small business (Loader, 2013) and is a way in which governments can assist SMEs while simultaneously reducing the need for direct financial support and improving the delivery of government services (Pickernell et al., 2011). According to Blackburn and Smallbone (2011), it is surprising that no more attention has been given in the academic literature to public procurements, considering the large amounts spent, in comparison to attention received by other issues, such as access to finance and business advice services. The dilemma for policymakers is how to encourage this participation while at the same time working within the framework of fair competition, which is fundamental to economic policy (Fee et al., 2002) and the procurement regulations of the EU. According to the EU Public Contracts Directive, contracting authorities have to treat suppliers equally and without discrimination, and act in a transparent manner (European Parliament, 2014). However, maximising value for money and regulatory compliance need not exclude achieving other objectives (Flynn et al., 2012).

The purpose of public procurement regulations is to open up the public procurement market for all economic operators irrespective of their size (European Commission, 2008). Smaller suppliers define competitive markets in terms of lack of barriers to do business (Caldwell et al., 2005). Although public sector contracts represent an important potential market opportunity for SMEs, in practice, SMEs often face considerable barriers in accessing these contracts. SMEs are under-represented in public procurement compared to their overall weight in the economy (Hatzis, 2009; Thomassen et al., 2014). This is due to the procurement practices of public bodies and the weaknesses and capacity constraints among potential SME suppliers (Blackburn and Smallbone, 2011; Karjalainen and Kemppainen, 2008). Walker and Preuss (2008) also identified that there are common problems with regard to SMEs, such as the lack of a track record. On the other hand, challenges lurk in the procurement process, not least in the recommendation that the public sector should aggregate its spending to achieve greater economies of scale. Special attention needs to be paid to the question of the access of SMEs to those markets (European Commission, 2008).

An increased involvement of SMEs in public procurement will result in higher competition for public contracts, leading to better value for money for the contracting authorities. In addition to this, more competitive and transparent public procurement practices will allow SMEs to unlock their growth and innovation potential with a positive impact on the European economy (European Commission, 2008; Fee et al., 2002). Loader (2007) noted that public sector procurement actors would like to cooperate with small firms, but in practice, their primary aim is to prefer value for money. Small business-friendly policy has not been part of procurement practice, particularly in the case of micro-companies. According to Flynn and Davis (2015), even more than SMEs, micro-companies have reported that adequate support measures are not implemented,
Despite that micro-companies are the principal targets of policy support and, numerically, are the dominant enterprise type in the economy.

**Figure 2** Difference between the share of SMEs in public procurement above the EU thresholds (average 2009–2011 in terms of value) and their role in the economy (EU-27)

Source: Thomassen et al. (2014, p.35)

Including small businesses in public procurement is particularly important for the development of the peripheral regions of member states of the EU (Fee et al., 2002). A successful SME sector ensures the vitality of the regions, especially in sparsely populated areas (Saarela et al., 2015). The demographic decline and the concentration of the remaining population in the main settlements bring challenges to vital business and effective competition. The strong position of small businesses in the service market may contribute to strengthening and retaining competition and hence to better value from the public buyer perspective.

1.1 Finnish social and healthcare

Healthcare in Finland is provided first and foremost by the public sector and is financed through taxation. It can be characterised as an integrated public healthcare system, similar to those of other Nordic countries, the United Kingdom and southern Europe (OECD, 2012). According to Finnish law, primary social and healthcare services are constitutional rights, and municipalities’ task is to produce these services for residents.

Public expenditure on health- and long-term care is expected to grow steadily over the next 50 years. The larger number of dependent persons due to the increase in longevity will imply growing needs for long-term care and will contribute to the projected rise in total public health expenditure (OECD, 2014). To develop the social and healthcare sector and to answer future challenges, a recently published report recommends a controlled increase of the private sector’s role. Although the public sector has its own stable and strong position, the private sector is encouraged to come alongside the industry, bringing more innovation, new ways of working and greater efficiency (Ministry of Employment and the Economy, 2015). The role of municipalities is changing from service producers to service organisers that enable and ensure the levels of service laid down by the political decision makers (Reichard, 2006).

The distinctive feature of the Finnish social and healthcare system is a high degree of decentralisation (OECD, 2012). Tynkynen et al. (2013) noticed that the outsourcing of service provisions in the healthcare sector in Finland is unusual compared to other
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Procurement is executed at the level of the municipalities, while elsewhere, procurement is mainly done at the regional or national levels. Hence, the sizes of Finnish procurement are small (Tynkkynen et al., 2013). Developing the procurement competence of public organisations is one key area in which to improve partnership between the private and public sectors (Ministry of Employment and the Economy, 2015).

A typical feature of the social and health sector public procurement is that the services are consumed by a third party; the actual end users of services are very dependent on service producers. Voucher systems have also become part of social and healthcare service provision in Finland. Besides public procurement, a voucher is a demand-side instrument which, for example, can address improvement in targeting public subsidies to the needy, can empower consumers by providing a choice of providers and can promote provider competition and responsiveness, thus leading to improved quality of healthcare services (Schmidt et al., 2010).

The complexity of public service procurement in the social and healthcare context was earlier revealed, for example by Rubery et al. (2013), who explored commissioning practices for social care for older adults in local authorities, and by Lonsdale et al. (2010), who studied supplier behaviour in public contracting in the nursing market. Commissioning in the social care context has been based on multiple objectives such as reducing costs, improving quality, empowering users, or ensuring national standards (Rubery et al., 2013). This paper highlights the objective of SME participation in the statutory public service provision of primary social and healthcare.

2 Aims, methods and data

The public sector market is significant and attractive to suppliers of all business sizes (Loader, 2013). Thus, investigation into the allocation of public expenditures via public procurement is interesting and revealing. The aim of the present study is to describe the role of SMEs in the statutory public service provision of primary social and healthcare in a northern sparsely populated area (NSPA). This paper also provides insight into the public service provider’s ability to facilitate SME access to public procurement and thereby to enhance the efficiency of the local market. Based on the identified need to enhance SMEs’ role in public procurement and service provision, this study presents the following research questions:

1. How are public expenditures formed via public procurement and service vouchers used for primary social and healthcare service provision?
2. What are the opportunities and challenges of partnerships between a public statutory service producer and small businesses in service provision in the primary social and healthcare context?

Following a case-based approach, this study was undertaken concerning the public social and healthcare service provider located in an NSPA. According to Yin (1989, p.23), “a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not evident and in which multiple sources of evidence are used”. A case study is a research strategy that focuses on understanding the dynamics present within single settings.
One rationale for a single-case design is to use a common case where the objective is to capture the circumstances and conditions of everyday situations (Yin, 2013).

Mixed methods (see, for example, Saunders et al., 2007) for collecting and using quantitative and qualitative data were utilised in conducting the present study. According to Teddlie and Tashakkori (2009), multiple methods are useful if they provide a better opportunity to answer research questions and where they allow a better evaluation of the extent to which the findings can be trusted and the interferences drawn from them. The two major advantages of a multiple methods design are using different methods for different purposes (e.g., to answer different research questions) and using different methods for triangulation (Saunders et al., 2007).

The present study was undertaken concerning the joint municipal authority (JMA) of Kallio, established by the municipalities of Alavieska and Sievi and the cities of Nivala and Ylivieska, which started operating in 2008. Kallio arranges the social and health services in the area of these municipalities and cities. The operation area is located in the Northern Ostrobothnia in Finland. The region is defined as an NSPA. The population of Kallio’s operation area is approximately 33,500 inhabitants.

Figure 3  The operation area of case organisation JMA of Kallio

The JMA of Kallio was selected as the case organisation because it is the most significant stakeholder in the region in economic terms; its solutions are of great importance to the vitality and market development of small business in the regional social and health sectors. The service provision of the social and health industry is changing, and the importance of outsourcing in order to increase the efficiency of service provision is growing. Kallio represents the public operator, whose allocations of the expenditures of public procurement have a significant regional impact in this sparsely populated area. This case study is novel in that the subject can be viewed using the entire organisation’s history.
Case studies can be used to accomplish different aims (Eisenhardt, 1989). Kallio can be seen as a common case of a primary social and healthcare producer, which can yield insights into small business opportunities in the primary social and healthcare sector. The present case study provides both a description of and new insights into the investigated phenomenon. In addition, the study presents the viewpoints of the service producer, which has a statutory service mission but the independence to implement it freely. The case organisation operates in a traditional public monopoly market, which is gradually opening and evolving business opportunities for the private sector, including SMEs.

The quantitative data was collected from the most recently available accounting records of Kallio, those from 2014. To address the first research question, the accounting records concerning expenditures of public procurement, both under and below of threshold, and service vouchers are utilised. The archives are treated here as secondary data, as they were originally collected for a different purpose, that is, for administration and management control. Even though the accounting records were not originally collected for this study, they represent the reality being studied (see Hakim, 2000).

To address the second research question, data was collected by interviewing representatives of Kallio. The interviews were carried out as group interviews of the leading authorities of Kallio (Director of JMA, Chief Medical Officer, Director of Health Sector, Director of Social Sector, and CFO). In-depth interviews were conducted with a key person (the CFO) regarding service procurement and private business partnership and with another key person (Development Manager) regarding the development of the service voucher system in Kallio. Two researchers carried out the group interviews. The in-depth interviews were conducted by the first author, and the recorded data was transcribed. To improve coding reliability and to confirm the findings, each transcript was coded by three researchers. The interviewed representatives had been involved in the operations associated with this study from the beginning of the establishment of Kallio.
Kallio’s role as a local economic actor is broader and more comprehensive than the scope covered by this study. Kallio not only arranges services via procurement, but it also acts as a service provider itself. Altogether, the operating expenditures of Kallio for 2014 were approximately €140,000,000, including the services Kallio provides itself. Furthermore, the scope does not cover expenditures concerning specialised healthcare services, which accounts for about 25% of the total annual expenditure. However, in the case of Kallio, the role of private actors in public specialised healthcare services is almost non-existent. Also, the product markets in the healthcare industry require experimentation, research and evidence, and therefore, the main operators in these markets are usually large foreign producers. In addition, annual volumes of product procurement are significantly smaller than volumes of service procurement. In practice, primary social and health services are open to private actors and accessible for small businesses via procurement. Because of these concerns, the scope of the present study is focused on primary social and health services.

3 Results

3.1 Public expenditures via public procurement and service vouchers

The total primary social and healthcare service expenditure of Kallio via public procurement in 2014 was approximately €19,000,000. According to the distribution of services by value, 55% of the services were core services, and 45% were support services. From the core services, 83% related to social care and 17% to healthcare services. In this study, social care services also include early childhood education services. In social care services, the most significant subsections are housing services for elderly people, disability services and child welfare services. Figure 5 illustrates Kallio’s public procurement by the value of realised expenditures in 2014.

Figure 5 Description of Kallio’s public procurement by type of partner and by operation area of supplier (euros spent in 2014)

Based on the results by volume of expenditure, the public sector’s role in the provision of outsourced services is quite large (45%), which can also be noted in the share of local providers, due to the fact that most of the public partners are located in the operation area of Kallio. Most procured services provided by the public sector are associated with food
supply and cleaning services. A total of 80% of outsourced core and support services are produced by suppliers located in the operating area of Kallio (77%) or in neighbouring municipalities (3%). The major part of the expenditures related to service procurement was allocated to operators in the area, with €16,910,000 channelled to local, neighbouring or regional suppliers in 2014.

When interpreting results, it must be taken into account that the public operator may also provide services in the form of businesses (i.e., via public companies). In this study, these actors are classified as public sector suppliers. The value of third-sector partnerships is 9% in economic terms, but it is greater in non-economic terms. The most significant reason is that service contracts with the third sector (including associations, etc.) are associated with services of rehabilitation. Third-sector actors mainly provide places and environments for rehabilitation, and the direct cash flows of this kind of provided services are low.

Figure 6  Description of Kallio’s public procurement by size of private supplier and by operation area of private supplier (euros spent in 2014)

When looking at the distribution of cash flows via procurement only by private suppliers according to value (total value approximately €8,950,000), 89% of these services are core services, and 11% support services. From the core services, 90% relates to social care and 10% to healthcare services. Figure 6 illustrates that 13% of the expenditures via public procurement are allocated to micro-companies (1–9 employees). The results show that small-sized companies (10–49 employees) have a major distribution (67%) of service providers. The large enterprises’ share of outsourced services procured by Kallio is 15%. It is notable, when examining only the operation area of private partners, that locality is highly realised in the public procurement of Kallio (66%). However, nationwide partners (or wider) also have a reasonably large share of services (19%).

In addition to public procurement, a voucher system is an important aspect of the small business approach in service provision. The JMA can provide services via a service voucher in which the JMA agrees to pay for the services provided by private actors. In the economic sense, a voucher system means over €5,000,000 turnover annually. The results in Figure 7 show that service vouchers are used in the production of service only in social service sectors. Early childhood education, intensified housing services and housing care of those with intellectual disabilities are currently the most significant service sectors. According to the results, the dominant part of the service voucher system cash flow is allocated to local business, with more than 99% of the cash flows going to a local service provider.
Figure 7 illustrates the distribution of voucher expenditures to service providers by the size of provider. The share of micro-companies is 16%. The rest of the service payments are allocated to small enterprises. Results indicate that a dominant part of the service voucher cash flow goes to small companies, in particular, to enterprises employing 10–20 persons.

Figure 7  Distribution of expenditures of service vouchers paid by Kallio by service sector and by size of provider

3.2 Opportunities and challenges of partnerships between public service producer and small businesses

The service strategy of Kallio outlines that it should actively strengthen the region’s attractiveness and competitiveness. This idea is based on the fact that Kallio is the largest employer in the area and is also a significant actor in economic terms. Thus, the decisions it makes regarding service procurement and business collaboration are meaningful and relevant for the region’s development and competitiveness.

The central part of the implementation of the service strategy is that Kallio does not produce all the services itself, but services are also provided through partnerships. In addition, since it intends to promote the involvement of the private sector to produce services, Kallio clearly tries to define, via conducted market dialogue with suppliers, the framework for which services are publicly procured. The purpose is that business planning becomes easier and participation as attractive as possible, from the SME perspective, when Kallio sets clear boundaries concerning how much any given service will be outsourced.

“We facilitate small firms to get involved in service production by defining a clear frame for the types and the amount of services Kallio seeks to purchase. That is also a way to facilitate the private sector in their business planning”

According to the interviews, even though opportunities for small businesses are taken into account by Kallio, when possible, the basic premise of the contracting entity is to optimise the best price-quality ratio in the service provision; that is, in the contracting considerations, this ratio takes precedence over the small business aspects. However, the local aspect appears in the terms of the accessibility of the services. Naturally, the key feature of the services is that they cannot be stored and must be able to be produced in a reasonable way from the customers’ point of view. Thus, social and healthcare services
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usually must be locally produced, and in competitive bidding, particular attention must be assigned to criteria related to the accessibility of the services.

If sufficiently large providers, or smaller providers who are able to produce the required volume of services, are not located in the area, service provision can be produced with a framework agreement via competitive bidding, and a large number of suppliers can be accepted into the framework agreement in order to secure a sufficient volume of service providers.

According to interviews with the representatives, the purpose of partnerships with private sector providers is to achieve flexibility, innovativeness and operations which will develop service provision. The outsourcing of services is seen as a partnership which should benefit both parties. The process of procuring services is associated with the modification and adaption of services and the development of new service approaches.

Considering partnerships with the private sector, it must be noted that Kallio is statutorily obliged to produce social and health services. If a significant portion of the services is outsourced, it is important to be able to verify and ensure the availability of the services and also to back up the services in cases of disturbance. Thus, the basic premise of outsourcing is to optimise the best price-quality ratio in the service provision.

Procedures of service procurement are case-specific and depend on the particular service. Kallio conducts market research and discussions with potential suppliers for future service needs in the operation area. Due to the sparsely populated operation area, SMEs in the social and health sector are all well known by Kallio.

According to the interviews, the strength of micro-companies, the smallest group of SMEs in size, is agility. Micro-companies can be very flexible in implementing projects and carrying out rapid openings in cooperation. On the other hand, the certainty of availability of services is one of the main challenges in terms of partnership with micro-companies. The supplier must be able to verify and ensure that even in a crisis, services can be provided. Challenging situations may arise when the entrepreneur falls ill and the service cannot be produced for the time being. Another typical challenge is the business competence of micro-companies.

Based on the interviews, micro-companies that do not usually have tender process expertise tend to be weaker in competitive biddings. Because Kallio oversees patient records with its partners, Kallio must also presume that the partners have made privacy arrangements, which requires the existence of the relevant documents. Micro-companies often do not have a reference background and may not previously have needed business planning management, tender process management or a quality management system. Also, resource shortcomings are well recognised in larger procurement. To respond to the challenges of small business, Kallio’s aim is to keep procurement packages to a rational size.

“The aim is to keep the procurement packages at a reasonable size and to design procurement so that it does not automatically lead to the fact that we have only the big players involved.”

The partnership risk with SMEs may occur with regard to profitability issues. After the awarding of a contract, a situation may arise where there is a question about how regulatory-based services can be secured when the awarded company faces financial difficulties. From Kallio’s perspective, the production volumes of SMEs may be so extensive that these services cannot merge with anyone else or create some other arrangement without problems. In partnerships with large enterprises, special attention is
The service voucher system is that it allows a wide range of businesses to respond to a wide range of different and suitable customer needs; it involves freedom of choice. Service can be arranged in different styles, and content can be emphasised differently. In addition, from Kallio’s perspective, the positive impacts of the service voucher system are flexibility and a boost in quality, as Kallio itself is forced to improve the quality of its own services, since its private partners are required to maintain at least the same quality. Compared to its own production, Kallio is free to respond, for example, to the costs of buildings at the end of their life cycle. The one pronounced advantage to the service voucher system is also that it enables private service providers to market and sell other services and products to customers. Kallio has set annual targets for the use of service vouchers on a sectoral basis. Private service producers can apply to be service voucher providers electronically through the system website. After acceptance by Kallio and the regional state administrative agency, companies will become service voucher providers.

According to the representative interviews, the service voucher system works relatively well, but effective competition and freedom of choice is problematic for the population base of the operation area due to the number of different service sectors and a lack of service providers. The potential positive impacts of the service voucher system are realised differently in different service sectors. Even if the cash flows in intensified housing services are relatively large, there are only a few suppliers, as the services require large facilities and at least 30 patient slots; the customer’s choice is not fully realised at the moment.

Furthermore, home care, which would be a good place to start (since it is possible to start a business in this sector at a reasonably low cost), is not very well worked though. On the other hand, families’ home services are a good example where the voucher system works well, and early childhood education, where the cash flows are significant and the advantages of the service voucher system are realised in the most successful way, gives the customers a genuine chance to choose a service provider.
Table 1  Opportunities and challenges for small business cooperation in the social and health sector

Opportunities:

- The freedom to determine the production method of implementation (strategy level)
  a. Partnerships with private sector providers bring flexibility, innovativeness and operation developments to service provision
  b. Services are also provided through private partners via both procurement and service voucher system (multi-provider model)
  c. Amount of outsourced services is defined and highlighted for private sector
- Framework agreement with many suppliers
  a. Reduce small business threshold to access public contracts
- Small businesses tend to be agile and flexible
  a. Services cannot be stored and often must be locally produced
  b. To implement projects and carry out rapid openings in cooperation

Challenges:

- Basic premise of public procurement
  a. To optimise the best price-quality ratio (economies of scale)
- Vulnerability of small businesses
  a. JMA is statutorily obliged to produce social and health services
  b. JMA has to be able to verify and ensure the availability of services and backup of services
  c. Potential financial difficulties of awarded SME
- Public procurement legislation
  a. Public buying process must comply with the principle of non-discrimination (favouring small business is prohibited)
  b. Small businesses face barriers to being awarded public contracts (size of procurement, tender process management, lack of references, etc.)
- Business competence of micro-companies
  a. The lack of a reference background, business planning and quality systems, privacy issues, documentation requirements

4 Discussion

This study has brought new evidence of the role of SMEs in the statutory public service provision of primary social and healthcare. The study has also revealed additional information on the public sector service provider’s ability to facilitate SME access to public procurement and thereby to enhance the efficiency of the local market.
The first research question, RQ1, was answered in the Results chapter. The results show that according to the numbers, private service procurement partners constitute the largest group of partners. However, at the same time, the public sector and third sector both have an important role in service provision. The results are consistent with Verhoest and Mattei (2010), who see that in welfare services, the division of production tasks in Europe has shifted from public sector monopoly production to a mixed economy of well-being, which arises in particular with a horizontal division featuring cooperation between the public, private and third sectors.

Due to financial pressure, which has led municipalities to seek efficiency, the outsourcing of service provision is growing. As a result, the meaning of public procurement is increasing significantly, especially in social and healthcare services. Public procurement and vouchers can also be seen as instruments by which the public sector can provide support to SMEs. Because small businesses tend to be local, the local market efficiency aspect can be seen in the same context as the challenges of SMEs in public procurement.

The results also show that the participation of small companies in public contracts is well realised in the public procurement of the case organisation. Small-sized companies (10–49 employees) comprise the major distribution (67%) of service providers. The findings are in line both with the objective of the EU Directive (Directive 2014/24/EU) and with the aim of Kallio’s service strategy. However, it is notable that the proportion of small companies is high compared to that of micro-companies. Under-representativeness of micro-companies relative to all other firm size types in public procurement was earlier observed by Flynn et al. (2015) and, at the EU level, by Thomassen et al. (2014).

The cash flows from service procurement remain in the local area to a significant extent. This is also in line with broader statistics; SME success is more likely due to local- and regional-level tenders than to national competitive bidding (Karjalainen and Kemppainen, 2008; Thomassen et al., 2014). Also, locality is highly realised in the public procurement of Kallio, when examining the operation area of its partners. These findings are also consistent with Cabras (2011), where suppliers operating in construction or social care services tended to be local. The challenge may be that local small businesses cannot provide all the necessary services. Cabras (2011) claims that local authorities in rural or peripheral areas may face significant challenges in finding what they need within spatial proximity.

Based on the data, the participation of micro-companies is realised via the service voucher system (16%) to a slightly greater degree than in the procurement of services (12%). This gives support to the aim of the voucher system which lowers the threshold of smaller firms, particularly micro-companies, in accessing public service provision. The results show a use of service vouchers as a part of service provision at a high level in Kallio compared to similar regions and especially to the large cities in Finland. The service vouchers proportion of total expenditures in social and healthcare services produced by municipalities is still small in Finland, only about 0.6%, as service voucher expenditures of municipalities were about €133 million in 2014 (Statistics Finland, 2015).

It is notable that 90% of Kallio’s procurement from private sector relate to social care and only 10% to healthcare services, while in the service voucher system, 100% relate to social care (including early childhood education). In addition, the voucher system has been implemented particularly well in some social service sectors of the case organisation. This is understandable, since compared to the requirements for social care
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services, special expertise and technical devices are often needed in healthcare service production. From the small business perspective, the threshold for starting a business is often lower in social services compared to health services. This reinforces the view of Cave (2001) that an explicit voucher system might be particularly suitable for certain types of social care where the care service is provided by a number of possible sources, public and private. The orientation of business opportunities in the healthcare sector is also a key challenge for Kallio.

The second research question, RQ2, was also answered in the results chapter. According to the interviews, the possibility of taking the small businesses into account in the competitive bidding process is very limited, because the law sets a strict framework for the procedures. In addition, the basic premise of procurement is to optimise the price-quality ratio. This is consistent with Loader’s (2007) findings that even when some actors would like to do business with small firms, in practice, their primary aim is to achieve value for money.

Ensuring the availability of services is emphasised as a typical requirement in service provision in the social and healthcare sector. This creates a particular challenge for micro-companies, whose activities are particularly vulnerable to situations which could interfere with their provision of services. In addition, the lack of a reference background, tender process management, business planning and quality systems-related challenges, privacy issues, and documentation requirements are some side factors for small businesses which reduce the development of cooperation with micro-companies. Therefore, according to the interviews, the best way of taking small businesses into account has been the service voucher system, its operating model, implementation and its continuous expansion.

In the future, the customer’s freedom of choice will increase, and the customer base is also expected to be more demanding and aware of the various options (Ministry of Employment and the Economy, 2015). Based on the results, the service voucher system works relatively well in the case organisation, but the population base of the operation area is problematic with respect to effective competition and freedom of choice, due to the small size of the market and the lack of service providers. The potential positive impacts of the service voucher system are realised differently in different service sectors.

According to interviews, the greatest potential growth area for the service voucher system will be in home care for the elderly, as the number of older people is growing, and home-based care is needed. Spending on long-term care for an ageing population currently accounts for less than 2% of GDP, but this share is expected to more than double by 2050 (OECD, 2014). Service vouchers can respond to the implementation of services related to support services allowing the elderly and senior citizens to live at home as long as possible. More specifically, these are not actual social and healthcare services but support services for the elderly, where snow is cleaned from yards, food is delivered and other basic issues related to living at home are included.

On the other hand, according to the interviewees, the income level of the population in the NSPA area, especially among the elderly, is not necessarily so high that customers are able to choose from services with wide price ranges. In addition, the voucher system’s challenge is that consumers may be unable to make an optimal or even a satisfactory choice because of lack of information (Cave, 2001). In practice, are the elderly living in a remote area capable of this choice, and do they have enough knowledge to choose the best option?
According to statistics, in 2014 in Finland, the social and healthcare operating expenditures of municipalities were about €22.8 billion, and in the same year, public procurement from the private sector in social and health services were about €2.3 billion (Statistics Finland, 2015). In general, from the small businesses perspective, the social and health sector has strong growth potential in Finland. When looking at the share of services produced by the private sector, particularly small businesses in relation to the total operating expenditures of Kallio in 2014 (approximately €140,000,000), the share is still relatively small. Thus, there is still a potential to open new markets and provide opportunities to small businesses. The public sector could provide the potential to generate innovations via partnerships and individuals, which would encourage suppliers to produce better services more cost effectively.

4.1 Policy implications

Kallio has implemented several best practices in order to facilitate SME access to public procurement. Kallio has deliberately chosen a multi-provider model of producing services to take small businesses into account. The multi-provider model is a strategic choice which will create intrinsically positive circumstances for private suppliers by creating a long-term market.

Through market research and dialogue with potential small business suppliers Kallio is able to provide a clear framework of future service needs that makes business planning easier and participation more attractive to the SMEs. Keeping the procurement packages at a small business-friendly size is another important element in facilitating SME access to public procurement. The public service producer may also seek to take into account the strengths and characteristics of small businesses in its procurement policies and practices.

Increasing and extending the service voucher system could be a key part of small business-friendly service provision in the case area as well as in the broader field of social and healthcare. The end-users’ freedom of choice would be a key dimension of the market efficiency. To some extent, service vouchers also allow micro-companies to get involved in service provision better than public procurement does. Besides offering freedom of choice, the service voucher system releases municipalities from competitive tendering, while the voucher system competition is constantly implemented by the customers. Other perceived advantages of the system include the fact that the public producer can compare its services with the ones produced by the private sector and the fact that it can diversify the service offering. One more advantage of service production via a voucher system is that the public sector is only paying for the service used and not for the unused capacity.

The ongoing reform of Finland’s public social and health regulations may cause the transfer of the responsibility of service production from municipalities to upper level administrations. This may mean the centralising of procurement to larger entities. In this scenario, the role of micro-companies and SMEs in service provision becomes more challenging. In order to help them succeed in this service provision, a small business-friendly policy, a strategy level orientation in procurement management and improved procurement knowledge are all needed.

To conclude, this study sheds light on supplier selection as well as providing new evidence on the public sector service provider’s ability to facilitate SME access to public procurement and thereby to enhance the efficiency of the local supply market. The case organisation of this study operates in a traditionally public monopoly market, which is
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gradually opening. This kind of public service organiser plays a role in securing open-market dynamics. Market concentration solely in the hands of large enterprises is not necessarily in the interests of the procuring entity; vendor lock-ins, monopolistic behaviour and unbalanced negotiation power are some of the typical risks.

4.2 Limitations and future research

The research focus of this study is limited to the context studied. The case itself has a significant role in influencing the research when the case study research method is used. The construct validity of the study was based on a sound research plan, multiple sources of evidence, a synergy between quantitative and qualitative data and an established chain of evidence. In case studies, according to Yin (1989), generalisation relies on analytic generalisation instead of on statistical generalisation. In analytic generalisation, the intention is to generalise findings to a theory. The findings of the study cannot be generalised to other cases, since the study represents only one case organisation, which has decided to produce services via external suppliers. Moreover, it should be noted that the results of this study discuss the share of SMEs with respect to procurement and service vouchers only in primary social and healthcare services.

The future research suggested by this paper includes exploring other cases, which could be evaluated by taking advantage of the research strategy presented in this study. It will be interesting to compare the results of similar analyses made of other public social and healthcare service providers located in sparsely populated areas in European countries or in the USA.

References


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