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Chapter 8

Entering the United States Federal Procurement Market: Success Factors and Barriers for Foreign Firms

Tim Vehof, Huub Ruël and Jan Telgen

Abstract

The US federal procurement market is the largest procurement market in the world. Therefore, it is an attractive market for foreign companies to enter. Existing literature indicates the success factors and barriers for public procurement market entry in general, however not for the US procurement market. To get an in-depth understanding of the US federal procurement market entry process for foreign companies, an expert study was conducted, involving successful foreign companies, procurement market entry consultants, and US government officials. The findings indicate that company-specific factors and product-specific factors can be labeled as “qualifiers,” while relational factors can be labeled “winners.”

Keywords: Market entry; federal procurement

Introduction

On the road to economic recovery in the United States after “The Great Recession,” the deepest recession since “The Great Depression” in the 1930s, government expenditure in the United States is playing a major role. Examples are the economic stimulus packages of the Obama administration, totaling nearly \$1.2 trillion since the nation descended into recession in late 2007. The economic recovery of the United States so far has relied for a great deal on these stimulus packages of the government and is expected to stay reliant on them for years to come.

Where American government expenditure will be the main source for economic recovery, it appears that there could be opportunities for foreign companies. Federal procurement in the United States is very extensive, and growing. Since 2005, the amount of federal procurement has increased by almost \$150 billion, to over \$540 billion in fiscal year (FY) 2008. Additionally, the \$787 billion American Recovery and Reinvestment Act (ARRA) of 2009 includes a big package of public investment regarding infrastructure, sustainable energy, and water management. Although the overall procurement under the regular budget decreased slightly in 2009 (\$535 billion), the procured goods from the stimulus packages have to be added in the 2009 procurement overview. When including those figures, the total amount of federal procurement increased significantly in 2009, totaling \$636 billion (Federal Procurement Database). This makes the federal public procurement market in the United States the biggest in the world and potentially very relevant for exporting countries.

This chapter aims to gain insight into the critical success factors and barriers for foreign companies to acquire federal procurement contracts. Although public procurement and its procedures and the factors playing a role in getting contracts as such is not an underresearched topic, it is not clear though how foreign companies can become successful on the US public procurement market. The US federal procurement market is the largest in the world and specific in nature. We conducted an expert study involving foreign companies that have been successful in the US federal procurement market, consultants offering services to support foreign companies, and US federal government officials. All the experts were US based and the study was carried out in the United States.

Managerial Relevance

With the new shift in government spending regarding the economic recovery, there are opportunities for foreign companies to expand their business toward the US federal procurement market. However, winning public procurement contracts is not an easy matter. Supposed to be transparent though, the procedures are complex and time-consuming. The US federal procurement market is still the largest in the world. Especially an expert study based research provides an in-depth understanding of what factors play a crucial role for successfully entering the federal procurement market and on how they play a role.

Theoretical Framework

Public Procurement: Definitions and Aims

Public procurement is big business; in most countries, it accounts for a sizeable share of economic activity, depending on the scope of the government's responsibilities and involvement in the economy (Berrios, 2006; Maskin & Tirole, 2007; Reich, 2009;

Walker & Brammer, 2007; Weiss & Thurbon, 2006). Government is often the single biggest customer within a country, and governments can potentially use this purchasing power to influence the behavior of private sector organizations.

Public procurement is an arrangement between a public entity and a private entity in which the private entity promises, in exchange for money, to deliver certain products or services to the public entity for public consumption, which is guided by principles of transparency, accountability, and achieving *value for money* for citizens and taxpayers (Kelman, 2002; Walker & Brammer, 2007; Weiss, 1993). It is through public procurement that the State, or its territorial or functional subdivisions, undertakes public works, builds roads, and cares for health, education, and public order (Erridge & McIlroy, 2002).

Even though there are many similarities, it is commonly accepted that public procurement is quite different from procurement in the private sector (Erridge, 1996; Telgen, 2006; Thai, 2001; Thai et al., 2004). It is widely acknowledged that the decision by a private entity to outsource a transaction often involves efficiency issues. Nevertheless, when it comes to public services activities organized by governments, contracting out is often viewed through the lens of ideology, leading to clear-cut positions (positive or negative) that contrast with the more balanced way that contracting strategies between private firms are analyzed (Saussier, Staropoli, & Yvrande-Billon, 2009). When comparing public and private sector procurement, the demands on public procurement seem to be more extensive than those on private procurement; in public procurement, there are additional demands that must be satisfied (Telgen, 2006), and it seems justified to the state that public sector procurement is more complex than private sector procurement. In his study, Spiller (2008) found that a fundamental difference between public and private contracting is the potential scrutiny of public contracts by “third party opportunism,” which he explains as third parties¹ providing information only when it is in their interest; this limits the potential for relational public contracting. Thus, public contracting will not only be more complex, involving multiple rules and procedures, but will also be more subject to litigation.

Contract and Contractor Selection

According to the procurement regulations in the United States, government contracts are supposed to be awarded to the bidder providing “best value” to the government. The “best value” determination is based on cost and noncost factors such as excellence, management capabilities, and professional experience. Not much empirical research exists on practices of this process of awarding contracts.

According to Maskin and Tirole (2007), the standard presumption in academic and policy work on public procurement is that the government acts to maximize social

¹Interested third parties who may benefit politically from exposing a hint of corruption in a public agent’s actions.

welfare. They state that this assumption oversimplifies reality because, amongst other reasons, “government officials may have preferences that differ from those of a social welfare maximizer” (Maskin & Tirole, 2007). In addition, Levin and Tadelis (2010) show that politicians’ project choices are influenced significantly by the desire to please constituencies and by budgetary constraints.

A study that underlines these statements is that of Berrios (2006). In his paper, he explores which contractors are most likely to win government contracts. He states that many of the for-profit government contractors rely on selling to the government for nearly all of their business. “Most are well-established firms with a staff of proposal writers, accountants, auditors, engineers and lawyers. Some of these firms can afford to spend large sums putting together a proposal. Quite often the selection weighs heavily on the technical content of the proposal and less so on the actual cost. The procedure tends to favor the larger and more established contractors. They have a distinct advantage over small firms even if those groups have the technical expertise in the field” (Berrios, 2006).

Where most literature on public procurement focuses on the government perspective, this study focused on the foreign business perspective of public procurement. In the field of international business, it is well accepted that foreign firms face disadvantages while doing business abroad (Eden & Miller, 2001; Elango, 2009; Hymer, 1976; Kindleberger, 1969). This concept has been referred to as Liability of Foreignness (LOF) and has been defined as “all additional costs a firm operating in a market overseas incurs that a local firm would not incur” (Zaheer, 1995). We found that LOF holds for the US federal procurement market as well, and we try to find what factors contribute to LOF: the barriers for foreign companies for doing business with the US federal government. Also, we try to find what success factors exist for coping with LOF and thus contribute to the successful acquisition of government contracts in the United States. We decided to use categories of factors because “in the case of complex procurement, the mechanism design approach is indeed often irrelevant in practice: the suitability of each awarding procedure depends on many economic and institutional factors that can hardly be taken into account in most formal models” (Milgrom, 2004). This study focused on the process after the decision of the US federal government to contract out and after making a decision on contracting practices: the process of contractor selection. We found three categories of endogenous variables and four categories of exogenous variables.

Endogenous Variables

Three categories of endogenous variables (success factors) are identified: company-specific factors, product-specific factors, and relational factors. These are categories of factors that should contribute to the acquisition of government procurement contracts by foreign vendors.

Company-specific factors. We define company-specific factors as the factors that apply to a company and distinguish it from other companies. Several scholars have

mentioned the importance of company-specific factors in public procurement processes. Saussier et al. (2009) state that “the reliability of private partners should be assessed on the basis of their past performances, their reputation, or their attitude to team-working and innovation” (Saussier et al., 2009). Berrios (2006) already noted that procurement procedures tend to favor the more established contractors because of these reasons: “The procedure tends to favor the larger and more established contractors. They have a distinct advantage over small firms even if those groups have the technical expertise in the field” (Berrios, 2006).

Nielsen and Nielsen (2010) found that international experience of a top management team of a company influences a company’s choice for a foreign entry mode, which could influence their success in a foreign environment. In addition, Burpitt and Rondinelli (2004) state that entry mode choices are also determined by the firm’s experience with particular types of marketing channels in their home countries. Zhou (2007) found that for early internationalizing firms, entrepreneurial proclivity impacts on the pace of born global development through foreign market knowledge. Also, he found that firm size and international experience were significantly related to foreign market knowledge. Consistent with most of the evidence in the literature, relatively larger firms seem to have more resources and capabilities to learn about foreign market knowledge, and such knowledge tends to be richer as international experience increases (Zhou, 2007). While not directly related to public procurement, these findings underline the importance of company-specific factors for companies competing in foreign markets.

Product-specific factors. According to Saussier et al. (2009), a “public–private project can be awarded according to either the ‘lowest price only’ or the ‘most economically advantageous tender.’ The choice of a particular criterion essentially depends on the project’s complexity and on the level of uncertainty.” The importance of economic advantages is underlined by several scholars. Ya Ni and Bretschneider (2007) state that “the core argument for the economic rationale is that public sector organizations can deliver services at a lower cost by contracting with private or nonprofit sector organizations than it can through the direct production of services.” Private contractors operating in competitive markets are under constant pressure to keep costs low and quality high often through innovative service delivery (Donahue, 1989; Kettl, 1993; Pack, 1987; Savas, 1987). We define product-specific factors, such as price, quality, or uniqueness of a product, as the factors that create added value to the product/service being sold compared to similar, competitive products.

Elango (2009) stresses the importance of product variety for companies trying to sell abroad: “First, by having a greater number of product choices, the foreign firm increases its odds of offering the customer a product which is desirable compared to a local firm. Second, increased product variety will allow the foreign firm to gain exposure in underserved segments of the local markets, allowing for growth with relatively less competition.” Levin and Tadelis (2010) found that contracting difficulties such as problems in monitoring performance, the need for flexibility, or sensitivity to service quality might lead to less private contracting by local

governments in the United States. These findings indicate an influence of product-specific factors on public procurement processes.

Relational factors. According to [Guttman and Willner \(1976\)](#), the public contracting processes “are dominated by the network of relationships that exist between contractor and agency, and these relationships are crucial in the awarding and administration of contracts.” Therefore, “from a business standpoint, former contracting officers and other key officials with [procurement] expertise are essential to have on board. They are attracted to the private sector because their expertise and inside knowledge, they retain inside contacts, and are specially adept at securing contracts because they know their way in and out of government” ([Berrios, 2006](#)). The nexus between former government officials and their new role as clients to the government has been criticized as representing a conflict of interest, but former government officials are seen as prized commodities for their intimate knowledge of government policies affecting their business. In this study, relational factors are defined as the factors that contribute to maintaining good relationships between parties involved in procurement processes.

[Erridge and McIlroy \(2002\)](#) outline different (roles of) relationships in procurement processes and their influence on eventual partnerships between governments and private parties. They state that if an organization’s strategy involves a closer relationship, then partnership models are likely to be explored. The general principle underlying these relationships involves trust, mutual commitment, and sharing ([Ellram, 1991](#)). [Macbeth and Ferguson \(1994\)](#) argue that a cooperative approach such as partnerships reduces transaction costs through a clearer understanding of requirements and reduces monitoring requirements such as quality control which will have a positive benefit on cost reduction. Furthermore, this approach tries to share risks and rewards although this will tend to be to varying degrees ([Ellram, 1991a](#); [Macbeth & Ferguson, 1994](#)). However, [Spiller \(2008\)](#) argues that “third party opportunism” limits the potential for relational public contracting: “Public agencies will have difficulty entering into a close relation with a supplier, in which contract adaptation takes place without formal renegotiations, and/or litigation.” These regulatory factors are indeed identified as one of the categories of exogenous variables, on which we will elaborate in the following section.

Exogenous Variables

Four categories of exogenous variables (barriers) are identified: regulatory factors, nonregulatory factors, industry-specific factors, and political factors. These are categories of assumed barriers to acquiring government procurement contracts by foreign vendors.

Regulatory factors. Public procurement is bound to be executed within strict limits imposed by legal rules and organizational procedures at various levels ([Murray,](#)

1999). Sometimes the rules and regulations are cumulative (international, national, local) or mutually contradictory or elusive. In the case of the US federal government, the rules and regulations are quite extensive; the Federal Acquisition Regulation² contains about 2000 pages.

For foreign companies, this could mean a disadvantage vis-à-vis domestic companies. *Zaheer (1995)* states that one of the factors that create the before-mentioned LOF is costs, due to lack of familiarity in the local environment. This lack of familiarity requires foreign firms to collect information that is already known to local firms (*Hennart, Roehl, & Zeng, 2002*). On the other side of the coin, there is a lack of awareness by customers and regulators leading to discrimination hazards (*Zaheer, 1995*) and time compression diseconomies during market entry (*Elango, 2009; Markides & Williamson, 1994*).

In the case of federal procurement in the United States, protectionist regulations appear to play an additional disadvantage for foreign companies. More specifically, the “Buy American” provision as part of the ARRA (2009) has enhanced the protectionist precautions of the Buy American Act of 1933, which requires the United States government to prefer US-made products in its purchases. Other federal legislation extends similar requirements to federal purchases. *Miyagiwa (1991)* explains this disadvantage in terms of political goals: “governments typically wield their purchases as a policy tool, favoring domestic over foreign suppliers. By doing so, they aim to return tax money to domestic residents, create more jobs at home, and reduce imports.” Thus, an overlap appears to exist between regulatory factors and political factors, on which we will elaborate further below.

Nonregulatory factors. Transparency is an important issue in public procurement for obvious reasons. It refers to the ability of all interested participants to know and understand the actual means and processes by which contracts are awarded and managed. It implies the existence of a “level playing field” (equal opportunities for all participants). In addition, integrity of all participants of public procurement processes is expected, to do what they promise to do, and to avoid improper, wasteful or corrupt and fraud practices (*Telgen, 2006*). We refer to these practices as nonregulatory factors: factors that limit fair competition apart from regulations.

In public procurement, the evaluation of proposals mostly requires special expertise that the buying agency may not possess. Often, the procured goods and services involve new technologies and/or nonstandard designs, which are difficult to objectively measure or evaluate. According to *Burguet and Che (2004)*, this need for relying on a third-party assessment of contract proposals creates a potential for bribery and corruption. In their article, they show how bribery affects the nature of procurement competition and the welfare of the involved parties and how the scoring rule should be designed to mitigate the harmful effect of corruption. *Burguet and Che (2004)* found that bribery competition and contract bidding play

²<https://www.acquisition.gov/Far/>

fundamentally different roles, and that when bribery and contract bidding occur together, the former undermines the effectiveness of the latter in selecting the most efficient contractor.

Industry-specific factors. We define industry-specific factors as the factors that characterize an industry (other than the differences in product groups). In this case: the industry/market the US federal government wants to buy from is not based on products but other factors. Examples of these factors would be the competitive forces such as economics of industries, new entrants, the bargaining power of customers (US government agencies) and suppliers, and the threat of substitute services or products (Porter, 1979).

Both theoretical and empirical works highlight that public–private agreements’ failures are connected to the environment in which they are embedded (Saussier et al., 2009). Levin and Tadelis (2010) argue that a lack of a competitive market could lead to less use of private sector services by public entities in the United States. Another example of the influence of industry-specific factors on public procurement processes is given by Telgen (2006), who discusses the similarities of the well-known concept of reciprocity: buying from a supplier that is buying from you. He states that in public purchasing, it is well realized this complicated relationship structure poses additional demands on the buyer–supplier interaction at both the policy level and the operational level. Indeed, these demands may differ per industry.

Political factors. As Spiller (2008) points out, “a fundamental difference between private and public contracts is that public contracts are in the public sphere, and thus, although politics is normally not necessary to understand private contracting, it becomes fundamental to understanding public contracting.” Additionally, framing contracting decisions strictly in economic terms would make sense if government organizations were insulated from politics. “Public agencies, however, unlike their private counterparts, are heavily influenced by politics. Public decision makers have to balance efficiency with political considerations” (Ya Ni & Bretschneider, 2007). Empirical evidence on the influence of political factors on public contracting practices is given by Levin and Tadelis (2010), who found that large cities in the United States do more private contracting. Similar results for recently incorporated cities were found, and they observed more private contracting by cities governed by an appointed city manager rather than an elected mayor. We assume that political factors have an influence on the US federal procurement processes as well.

Evidence that supports this assumption is provided by Ya Ni and Bretschneider (2007), who conclude that “arguments associated with market and economic rationality are clearly politically motivated, at least in part. The benefits from contracting out must, by their nature, have political benefits and cannot be completely understood as a managerial activity aimed solely at enhancing the efficient provision of public goods.”

Methods

This study aims to gain insight into the critical success factors and barriers for foreign companies to acquire federal procurement contracts. Existing research in the field of business and management does not provide insights in how foreign companies can become successful in the US public procurement market. The foreign business perspective regarding this topic has been fully disregarded so far. For that reason we decided to opt for a qualitative study, more specifically an expert study design. This design is especially appropriate for gaining insights in unexplored and theoretically undeveloped topics. The results of our study will be an initial model identifying the factors that facilitate and inhibit foreign companies to be successful in the US federal procurement market. This model then can be taken as a point of departure for a confirmative quantitative study.

Setting up the expert study was done based on a protocol, to increase the reliability (Yin, 2009), consisting of five stages. *Stage 1* concerned gaining insight into the federal procurement market and its characteristics. The *Federal Procurement Data System* was used to provide information on all federal contracts. In collaboration with the International Trade Administration, part of the Department of Commerce, we mapped the size of the federal procurement market and the share of non-US companies in it. This provided us with additional initial insights in possible factors that could play a role in being successful in the US procurement market, which was needed for preparing for the interviews. *Other Internet-based sources*, including many US government websites concerning federal procurement, were also used in this first stage. These were rich sources for information for vendors on procurement procedures. It helped us to get a better understanding of the federal procurement market from a vendor's perspective, which was very useful in developing the interview protocols and for conducting the interviews. *Key informants* were used to get more insights in foreign private sector business and in the US business climate. Seven officials of the Economic Department of The Royal Netherlands Embassy in Washington, DC, served as key informants. *Observations in meetings, events, and conversations* played an important role in providing contextual information. Examples of meeting and events were some particularly focusing on public procurement in the United States, round-table meetings with business at the World Bank, and meeting in Washington, DC, on the US economic situation, the business environment, and political issues.

Stage 2 concerned the selection of the experts. We considered three groups of people to be experts: (1) business owners or business representatives that had been successful in winning US federal procurement contracts, (2) consultants who support foreign companies in doing business with the US federal government, and (3) officials from the US federal government who are involved in procurement. The first group and the second group were considered as the main groups of experts; the expertise of the third group was considered to be meaningful in order to place the outcome from the interviews with business and consultancy in perspective. We used purposive sampling and selected 12 non-US company representatives that had been successful in the US federal procurement market, based on the *Federal Procurement Data System* and with the help of the International Trade Administration. The companies selected

were all from the Netherlands. The Netherlands is the third largest investor in the United States (after Japan and the United Kingdom), and the Netherlands ranks first when it comes to US direct investment abroad.³ This made Dutch companies a very interesting and relevant subject for a study on federal procurement in the United States.

We selected seven consultants who offer support services to foreign companies, based on information provided by the Economic Department of the Royal Netherlands Embassy, and six US government officials. In total 25 experts were invited and were willing to participate.

Stage 3 focused on developing the interview questions. The questions needed to reflect the essence of our study and serve as the major tools to collect data to answer our research question. However, as the predominant technique we used semi-structured interviews and we aimed for guided conversations with the interviewees rather than structured, closed questions-based queries. Or in line with Yin (2009), interviews pursued a consistent line of inquiry, but the actual stream of questions is likely to be fluid rather than rigid. Four major questions were chosen to lead the interviews, though each question consisted of subquestions, topics, and issues that had to be covered in the interviews. The four main questions were: (1) Could you describe the process from inducement to signing a contract? (2) What are the main barriers for foreign companies wanting to do business with the US federal government, and why? (3) What factors are determinative for foreign companies for acquiring US federal government procurement contracts, and why? (4) What boundary conditions exist for foreign companies acquiring US federal contracts, and why? These sets of main questions were used for all the three groups of experts. *Stage 4* consisted of conducting the actual interviews with the experts. The interviews were held face-to-face and individually at the experts' offices. The interviews were not recorded, as we believed that it could have a negative effect on the answers given. As an alternative, detailed notes were taken and interviewees were asked to confirm those afterward. The interviewees preferred to stay anonymous. The final stage, *stage 5*, of the expert study protocol, dealt with the analysis of the interviews, though triangulated with the data collected during stage 1. The data collected from the interviewees, as well as secondary data and the notes made during meetings, events, and conversations were analyzed in a structured way. First, we analyzed the results for the exogenous variables (barriers), then the results for the endogenous variables (success factors) that are perceived to address those barriers. Ultimately, this way of analyzing the data contributed to development of the model, allowing clear conclusions to be drawn.

Findings

We found that for foreign companies, company-specific factors and product-specific factors play an important role in the early stages of procurement processes. Factors

³<http://www.bea.gov/international/>

like quality and uniqueness of a product are important because they should meet the technical requirements of RFPs, which determine what products will compete for a contract, or “qualify for the shortlist.” In other words, when a company’s product cannot meet the requirements of the RFP of a contract they decided to compete for, they are not “qualified” and can thus never win the contract. Price does not always seem to be as important in these initial stages, depending on the contract. The larger the contract is in monetary terms, the less important the role of price seems to be. For commodity products, price is obviously very important. With larger contracts, company-specific factors like an extensive track record and a good reputation seem to be more important than price in the process of being selected to compete for a government contract. However, as indicated by two international trade specialists of a federal department:

G3a+G3b. *“Price should be determining in all cases, but everybody knows this is not always the case.”*

The importance of company-specific factors in the early stages of a procurement process can be attributed to the concept of trust to a great extent. Government agencies prefer to make “safe choices” for obvious reasons: the agencies do not want to waste any money, and government contractors want to keep their job. Where trust is important, an overlap between company-specific factors and relational factors seems to exist. A metaphor was sketched by the executive vice president of a company involved in aero structures:

P11. *“It’s like buying a second-hand car, which everybody prefers to buy from a good friend instead of a stranger.”*

Regulatory factors have a direct, obvious influence on the relationships company-specific factors and product-specific factors have with the possibility to compete for a certain contract, since companies should comply with procurement regulations, and products should meet the RFPs’ specifications. In addition, industry-specific factors have a direct influence on the process of “shortlisting” qualified companies for a certain contract.

P9. *“There are many ways for an agency to purchase products and services, but they are regulated, so an understanding of what is allowed and what isn’t is important for being successful in this market. However, it’s a regulation and not necessarily a law. Some agencies abide by the regulations and some don’t, so having a clear understanding of the procurement process and what guidelines that particular office uses is key to saving time and maximizing effort.”*

Another category of exogenous variables that seems to have an influence in the initial stages of government procurement is political factors. For foreign companies, it seems wise to take these political factors into account when trying to do business with the US federal government. An overlap between regulatory factors and political factors exists, e.g., protectionist regulations (“Buy American”).

P11. *“The US procurement market is a global, imperfect world and most definitely not an open market. Protectionist regulations of the US are the main barrier for foreign companies in doing business with the federal government. Americans are very, very risk-averse.”*

C5. *“Foreign companies have to work much harder and should cope with the discrimination of foreign suppliers.”*

We found that in the stage of vendor selection after “shortlisting” qualified candidates for a contract, relational factors are of critical importance for actually winning government contracts. The results of this study show that in different ways, social relations can play a major role in procurement processes. Also, our empirical findings reveal that relational factors are critical for obtaining information on opportunities to do business with the US federal government, e.g., information on upcoming RFPs.

C5. *“Building and maintaining relationships is determining for winning contracts. That is, in addition to price and quality, but every company can compete on price and quality, you have to do more. When you have real good relationships, you can make sure RFPs are written in a way that the choice for your company is justified.”*

In the processes after selecting qualified candidates for a contract, product-specific factors and company-specific factors play a complementary role when it comes to winning that contract. By selecting a company as a qualified vendor, the procuring government agency has already considered those factors. However, the results indicate that a “mix of factors” is important, and therefore none of the endogenous variables is redundant for winning government contracts.

P2. *“Content (a good product), form (a good reputation) and timing (talk to the right people at the right time) are all important for winning federal contracts; it is the mix that makes the determinative big picture.”*

The results of this study further indicate that in this stage of the model, nonregulatory factors and political factors can influence the relationship between the endogenous variables and the dependent variable. Companies should take these possible barriers into account when competing for a government contract.

C5. *“Success factors for winning contracts are always about advantages for the contractor. Therefore, when doing business with the federal government, companies should focus on advantages for congressmen. American politicians only think about two things: reelection and money. Therefore, the bigger the advantage for the contractor, the bigger the chances for winning the contract. Thus, a presence in the US is very important: creating jobs, taxes in the US and other sorts of economical advantages make a contractor look good.”*

Referring to Hill (1993), the concepts of “qualifiers” and “winners” seem to apply to the US federal procurement market. The results of this study indicate that for foreign companies trying to do business with the US federal government, product-specific factors and company-specific factors are the “qualifiers,” the factors that are necessary for competing for government contracts. Relational factors can be considered the “winners,” the factors that will be determinative for actually winning contracts (Tables 1 and 2).

P3. *“Product-specific factors, company-specific factors and relational factors are all important. However, the first two will get you to the door; the last one will get you through it.”*

Table 1: Endogenous variables.

| Endogenous variables | Summary of perceptions |
|---------------------------------|---|
| Product-specific factors | <i>Overall, 17 of the 25 interviewees thought that product-specific factors play a role in federal procurement processes. Of those, only 4 (3 of them US government officials) agreed that product-specific factors are determinative for winning contracts. The 13 other interviewees believed that product-specific factors are complementary to company-specific factors and relational factors.</i> |
| Company-specific factors | <i>Company-specific factors are considered important by 20 of 25 interviewees. However, only 6 interviewees (2 of 12 interviewees of the Dutch private sector group and 4 of 6 interviewees of the government officials group) see them as determinative.</i> |
| Relational factors | <i>All interviewees from the Dutch private sector group (12) and the consultant group (7) thought that relational factors are important for success in the federal procurement market. Of the government officials, 4 of the 6 interviewees felt relational factors play a positive role. That makes 23 of 25 interviewees who believed relational factors can contribute to winning government contracts in several ways. Of those 23, 13 interviewees (9 from the Dutch private sector group, 4 from the consultants group) thought relational factors are determinative.</i> |

Table 2: Exogenous variables.

| Exogenous variables | Summary of perceptions |
|----------------------------------|---|
| Regulatory factors | <i>Nine of 12 interviewees from the Dutch private sector group perceive “regulatory factors” as the main reason this market is as difficult as it is. The consultant group agreed that political factors such as protectionist regulations can play a role in procurement processes. All interviewees from the government officials group perceive regulatory factors as the most important barrier for companies trying to do business with the federal government.</i> |
| Nonregulatory factors | <i>Six of the 25 interviewees think that nonregulatory factors like corruption and errors in procedures play an important, negative role in the process of selling to the federal government. None of the interviewed government officials thought that nonregulatory factors play a role in procurement processes; they are of the opinion that the perceived influence of nonregulatory factors is mostly created by the media and companies who did not win contracts they competed for.</i> |
| Industry-specific factors | <i>Industry-specific factors like nonlevel playing fields are considered an important barrier by 11 of 25 interviewees. Most of these interviewees refer to protectionist precautions taken by the US government as a cause for nonlevel playing fields (see above), which could indicate an overlap with regulatory factors.</i> |
| Political factors | <i>All interviewees agree that political factors are important to address when trying to sell to the federal government. Political factors are perceived to play different roles in procurement processes. An overlap appears to exist between political factors and the other exogenous variables presented in the research model.</i> |

Toward a Model

In stage 5, during the analysis of the interviews, we referred to the four phases of public procurement processes that companies pass, which we identified in stage 1. First, we analyzed the perceptions on the negative influence of the exogenous variables (barriers) toward each phase. Second, we analyzed the perceptions on

Table 3: Influence of exogenous variables.

| Exogenous variables | Phase in procurement process | | | |
|----------------------------------|-----------------------------------|---|---|--------------------------------|
| | Toward awareness of opportunities | Toward “long list” of qualified companies | Toward “shortlist” of qualified companies | Toward acquisition of contract |
| Regulatory factors | - | *** | - | - |
| Nonregulatory factors | - | - | - | ** |
| Industry-specific factors | - | - | *** | - |
| Political factors | - | ** | ** | ** |

(-) No influence; (**) indirect, negative influence; (***) direct, negative influence.

Table 4: Influence of endogenous variables.

| Endogenous variables | Phase in procurement process | | | |
|--------------------------|-----------------------------------|---|---|--------------------------------|
| | Toward awareness of opportunities | Toward “long list” of qualified companies | Toward “shortlist” of qualified companies | Toward acquisition of contract |
| Company-specific factors | - | *** | ** | - |
| Product-specific factors | - | - | ** | - |
| Relational factors | *** | - | - | *** |

(-) No influence; (**) complementary, positive influence; (***) determinative, positive influence.

the positive influence of the endogenous variables (success factors) on each phase. This way of analyzing contributed to the development of our model, presented in this section. The model is based on the results of our analysis, of which we made a summarizing table for both the exogenous and the endogenous variables.

For the exogenous variables, we made the distinction between direct and indirect negative influence. For instance, regulatory factors — for obvious reasons — have a direct, negative influence on the phase of qualifying for the “long list,” where political factors have an indirect, negative influence. The results of our analysis are depicted in Table 3.

A similar table for depicting the results of our analysis is developed for the endogenous variables (Table 4). The endogenous variables should exert a positive influence on winning federal procurement contracts. We made the distinction between complementary and determinative positive influence. The influence of a category of endogenous variables is determinative when this category can be fully accountable for passing a phase. A complementary influence requires another category of endogenous variables for successfully passing a phase.

Combining the summarizing tables, the following model is developed, visualizing the findings of our qualitative expert study (Figure 1). The vertical areas represent the ending of each phase of the procurement process as identified in stage 1 of the study. When successfully passing each phase (following the big grey arrow), a company acquires the contract they compete for. The vertical grey arrows represent the negative influence exerted on the process by the exogenous variables. The horizontal arrows represent the positive influence exerted by the endogenous variables. The validity of our results and model are discussed in the next section.

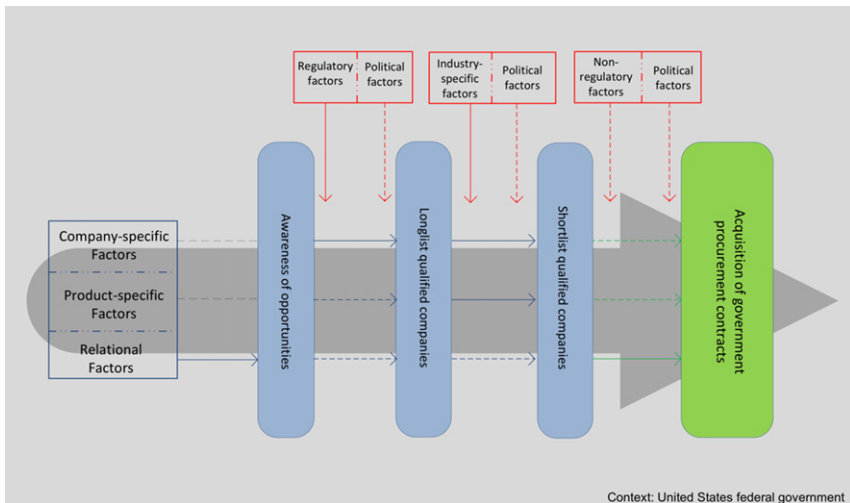


Figure 1: The model developed based on the findings of the qualitative expert study.

Discussion

We found that in the initial stages of government procurement processes, company-specific factors and product-specific factors play a major role. That is, in the stage where government agencies are writing RFPs for a contract and where they choose qualified companies based on their proposals for that contract, company-specific factors and product-specific factors are important selection criteria.

For new entrants as well as incumbents, proactive participation is very important to gain experience and a good understanding of the complexities in public procurement markets, as has already been emphasized by several scholars (Erridge, 1996; Telgen, 2006; Thai, 2001; Thai et al., 2004). Our results show that this is applicable to the US federal procurement market as well. An active participation in the market also helps with developing a good reputation and good references, which are key to winning trust and thus to being perceived as a qualified candidate for a contract.

In addition to this emphasis on company-specific factors, product-specific factors are found to be of major importance in the initial stages of procurement processes as well. Our results indicate that the statement of Saussier et al. (2009) that contracting out public services “might allow public authorities to take advantages of scale and scope economies and to benefit from their private partners” applies to the US federal procurement market. Especially in the phase of selecting qualified vendors, this reasoning seems critical.

Our model depicts a complementary role for relational factors in the initial stages of procurement processes. That is, relational factors can play a role in the selection of qualified vendors in addition to company-specific factors and product-specific factors. Our results show that relational factors can contribute to gaining information on whom to talk to about characteristics of the market and its procedures, and on opportunities to do business with the US federal government, e.g., the publication of RFPs. Also, personal acquaintances can provide introductions to “the right people.” Thus, relational factors can contribute to the awareness of opportunities, as already depicted by Berrios (2006).

Regulatory factors are the main barriers for foreign companies in the initial stages of procurement processes and have a direct influence on the relationship between company-specific and product-specific factors and the possibility to compete for a government contract. This confirms the statement of Spiller (2008) that “public contracting seems to be characterized by formalized, standardized, bureaucratic and rigid procedures.” Our results show that this applies to the US federal procurement market as well. Also, an overlap with political factors exists. Several scholars have already emphasized that governments typically wield their purchases as a policy tool to win public support (Guttman, 2004; Levin & Tadelis, 2010; Miyagiwa, 1991). Political factors appear to be taken into account by US government agencies and its officials in the initial stages of procurement processes as well, although the exact influence of political factors on the relationship between the endogenous variables and being selected as a qualified vendor is not clear. The results confirm that foreign companies should take into account the additional demands of public procurement

vis-à-vis private procurement as mentioned by Telgen (2006) and that “politics are fundamental to understanding public contracting” (Spiller, 2008).

Other barriers that play a role in the early stages of procurement processes are industry-specific factors. They may yield the existence of nonlevel playing fields, thereby directly influencing the companies’ chances of winning government contracts. Berrios (2006) already stated that “the procedure tends to favor the larger and more established contractors. They have a distinct advantage over small firms even if those groups have the technical expertise in the field” (Berrios, 2006). Our empirical results imply that this statement holds for the US federal procurement market.

We found that in the process of vendor selection after the shortlisting of qualified candidates for a contract, relational factors are of critical importance. Therefore, our results indicate that relational factors can be considered “winners,” the factors that will determine who actually wins a contract. Our results confirm the statement of Berrios (2006) that “one of the broad categories of reasons for behavior that contradicts the very tenets that the government claims to be embracing in turning to contractors to do government work is the close relationship between many contractors and government officials who deal with them, including the revolving door that often sends contractors into government positions and former government officials into contracting firms.” We found that relational factors become more important in situations that are characterized by a high level of difficulty and a need for expertise, which was already depicted by Chong, Huet, Saussier, & Steiner (2006).

The effect of social relations on the development of exchanges was already recognized by Granovetter (1985), who states that networks of social relationships strongly influence the development of exchanges, and he argues that where relationships are embedded, behaviors “are so constrained by on-going social relations that to construe them as independent is a grievous misunderstanding.” In addition, Burt (2000) defines social capital as “the player’s relationship with other players *of a competitive arena+”, and he views social capital as “the final arbiter of competitive success.” The results of this study show that these views apply to the US federal procurement market.

In the stages after the shortlisting of qualified candidates for a contract, product-specific factors and company-specific factors play a complementary role as the procuring government agency selected the vendors based mainly on those factors. To some extent this applies to the influence of regulatory factors as well; they do not play a role in the stages after selecting qualified candidates, because those vendors already meet the required regulations. Most government officials interviewed did not agree on the critical importance of relational factors for winning government contracts and thus have a different perception than the interviewees from the other two groups. However, government officials are expected to think that procurement processes are executed “by the book,” that product-specific factors like price and quality and company-specific factors like reputation and past performance are critical for winning government contracts.

In these stages too, political factors appear to have an influence on the relationship between company-specific factors, product-specific factors, relational factors, and winning a government contract. Our results indicate that the following statement of

Ya Ni and Bretschneider (2007) holds for the US federal procurement market: “public decision makers have to balance efficiency with political considerations. Therefore, policy or management practices that are adopted are typically based on a mixture of both political and economic rationales.”

An overlap appears to exist between political factors and the other exogenous variable that appears to have an influence in this stage of procurement processes, nonregulatory factors. For instance, political rationales may be an incentive for government officials to exercise some form of corruption (e.g., assign a contract to a company in exchange for election money) (Berrios, 2006; Burguet & Che, 2004; Saussier et al., 2009). The results of this study do not clarify when, how, and to what extent the influence of the perceived barriers is present, making it an interesting subject for future research. We will present our recommendations for further research in the following sections. First, we will discuss the limitations of this study.

Managerial Implications

Our results show that for foreign companies, the US federal procurement market is a complex market to compete in that should not be entered without sound preparation. Before entering the US federal procurement market, foreign companies should do extensive research on what industry they want to compete in. Based on this industry scan and an analysis of their own products, they should choose a strategy for entering and competing in this market, while taking into account the results of this study.

One major reason for the market being so difficult is that the US federal government requires vendors to meet many regulations, with accompanying complex procedures. For foreign companies, it is wise not to try to deal with this alone. Instead, a collaboration with an intermediary could be initiated before actually competing in this market.

It can take up to five years before new entrants start winning profitable contracts. Therefore, first of all, it is important that companies are able to survive these long acquisition processes. Second, companies need patience and a willingness to invest a lot of money, time, and effort before establishing profitable returns. In their first years in the US federal procurement market, foreign companies should build networks to obtain information on the characteristics of the market, regulations, procedures, unwritten rules, and upcoming opportunities. Also, participating in the market by means of “small” contracts seems wise for building experience, reputation, and a track record, which have shown to be very important for competing for and winning bigger contracts. By building and maintaining an extensive network with relevant people from the public and private sectors, a company can increase its chances of getting information on opportunities before RFPs are made public. A presence in the United States can be of major importance for foreign companies; this study has shown that it can contribute to winning government contracts in different ways. It can address certain barriers (e.g., protectionist regulations, political considerations) and contribute to building and maintaining an extensive network of relationships.

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Appendix 1: List of Interviewees

| Group | Indicator of interviewee | Function of interviewee |
|------------------------------------|--|---|
| <i>Dutch private sector</i> | P1 | <i>Managing Director of a company involved in sustainable building management</i> |
| | P2 | <i>Founding partner of a company involved in sustainable energy</i> |
| | P3 | <i>Federal contracts manager at a company involved in infrastructure</i> |
| | P4 | <i>Account manager (federal government as main client) at a company involved in natural resources</i> |
| | P5 | <i>Salesman (to the federal government) of a company involved in water management</i> |
| | P6 | <i>Salesman (to the federal government) of a company involved in security and safety</i> |
| | P7 | <i>Senior Area Vice President at a human resources company</i> |
| | P8a | <i>Vice President Federal Programs at a company involved in natural resource management</i> |
| | P8b | <i>Vice President Marketing at a company involved in natural resource management</i> |
| | P9 | <i>Vice President Government Sales at a company involved in knowledge-driven solutions</i> |
| | P10 | <i>Commercial Director Industrial Services at a company involved in defense and security</i> |
| <i>Consultants</i> | P11 | <i>Executive Vice President at a company involved in Aero structures</i> |
| | C1a | <i>Official at the Defense Department of the Royal Netherlands Embassy</i> |
| | C1b | <i>Official at the Defense Department of the Royal Netherland Embassy</i> |
| | C2 | <i>Founding partner of a consulting firm specialized in the US federal government marketplace</i> |
| | C3 | <i>Managing director at a consulting firm specialized in foreign investment in the United States</i> |
| | C4a | <i>Senior Vice President Business Development at a consulting firm specialized in doing business with the Department of Defense</i> |
| | C4b | <i>Associate at a consulting firm specialized in doing business with the Department of Defense</i> |
| C5 | <i>Founding partner of a consulting firm specialized in government contracting</i> | |

Appendix 1: (Continued).

| Group | Indicator of interviewee | Function of interviewee |
|-------------------------------------|---------------------------------|---|
| <i>US federal government</i> | G1 | <i>Director of Research and Technical resources at an institute for public procurement practitioners</i> |
| | G2 | <i>Senior Director Procurement Policy at a lobbying group representing businesses and associations across the United States</i> |
| | G3a | <i>International trade specialist at a federal department</i> |
| | G3b | <i>International trade specialist at a federal department</i> |
| | G4a | <i>Director, Acquisition Operations at a federal agency</i> |
| | G4b | <i>Acquisition Management Official at a federal agency</i> |