

Behavioural Procurement (the disruptor to logical and rational thinking)



**Behavioural Procurement - the evolution
of the principles established in
Behavioural Economics**

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When people talk about developing soft skills, what do they mean, and what are some of the practical applications for contract management practitioners?

We often hear people talking about the need to improve soft skills, but if pushed too hard to describe what they truly mean, the chances of receiving a clear answer back is low.

Therefore, defining what we mean by this may be a good starting point, especially as the links to CIPS revised Global Standards (due Q2 2017) will be evident, at every level, where there is an interaction between individuals, groups of people and at leadership level. I will return to some of the more specific linkages at a later stage in this knowledge paper.

Setting out a clear definition of the soft skills is paramount to gaining an understanding of what it is we expect at all levels of the procurement and contracting community to acquire a core competency, especially if we want to be effective and deliver a competitive advantage, irrespective of the sector we work or serve in.

The current commonly recognised areas of competency or soft skill(s) broadly splits into four areas:

- Effective communication
- Active listening
- Stakeholder engagement
- Emotional Intelligence (EI)

However, this completely misses all other aspects related to behaviours (self and those of other parties) and collaboration (self and those of other parties). In order to bring this to life I have set out below what I consider being the most common **positive indicators** of collaborative behaviour. Clearly the opposite of these would promulgate a negative outcome when displayed.

- Fairness
- Trust
- Transparency
- Integrity
- Promotion of reciprocity
- Motivation
- Passion
- Empathy
- Cooperation
- Consistency
- Balanced
- Realistic
- Constructive
- Collaborative
- Professional

Many of these will be readily recognisable from the new Global Standards (revised version - 2017). When these terms are used to describe an approach, especially in the areas of leadership and stakeholder management, etc. they become more relevant in many everyday situations.

How we behave and the behaviour of others either makes a contract a “stand out” example of success or conversely on the negative side a catalogue of disasters. This will be true even where both projects have used broadly the same method of procurement and/or contracting, evaluation and legal framework, but they end entirely differently.

The only thing that is different is the people involved and the circumstances/environment in which the procurement and/or contracting was carried out. Hence connecting the parallels established in an area called Behavioural Economics (BE), which led me to define and establish a new branch of behavioural science called Behavioural Procurement (BP), for which I have set out a definition below.

Definition

BP and the related field of BE study the effects of psychological, social, cognitive, and emotional factors on the commercial decisions of individuals and institutions and the consequences for competitive advantage, innovation and resource allocation. BP is primarily concerned with bounds of rationality of commercial agents and factors. BP models typically integrate insights from BE, psychology, decision sciences, social sciences, market theory, as well as implicitly nudging; in so doing these behavioural models cover a range of concepts methods and fields.

Sounds complicated, so let's keep it simple. I have often used the tag line **“I’m good or bad depending on the circumstances, the situation and the people involved.”**

Setting out the principal contributors to BP can be visually expressed as shown in figure 2 below.

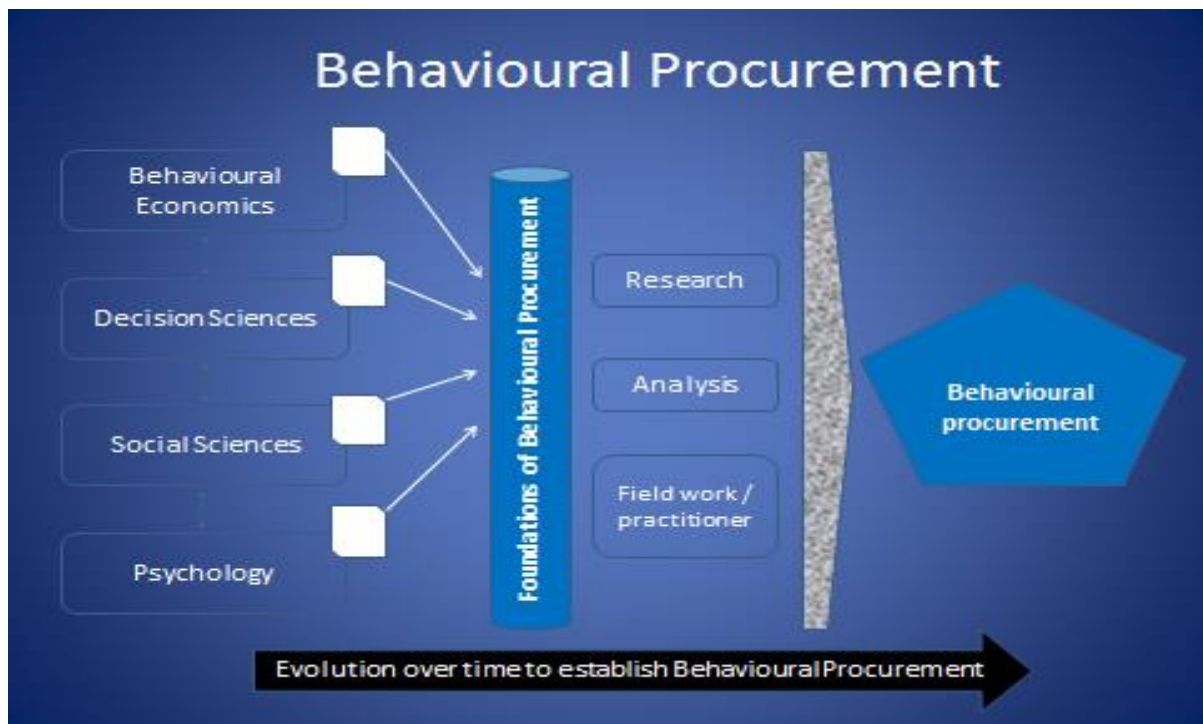


Figure 2 – Principal contributors

Interpretation

In essence, the way we respond outwardly and the way we sometimes interpret what people are saying or communicating can be the trigger to either a positive or a negative outcome. Given that we want to explore practical applications and that a positive response will set individuals and/or groups off on the right track. Let's look at an instance where a simple statement gets misread at the outset and moves things quickly into a downward spiral.

“Well of course you will have to comply fully with all the legislation both Government and International if you want to do business here.” The inference could be two fold;

Negatively - This is what I heard: You have never complied as an organisation so you are unlikely to do so now, or we don't think you have the capability and skills within the organisation to discharge your responsibilities under the contract.

Positively – This is what I meant: The laws have recently changed and so I want you to ensure you are aware and prepared so that you can bid with this in mind and avoid a potential issue in the bid process, which could have future impacts on your organisation. Therefore, do you need our help in interpreting what is needed, as we know it can be a hard to fully take account of new legislation?

A legitimate response to avoid a negative interpretation would be to test this statement in a balanced and objective way to establish what exactly was meant. Thereby, giving either party the opportunity to clarify or correct a belief or understanding based on incorrect information, historical circumstances, etc. This should enable a more collaborative relationship to be established from the beginning and hence change the behaviours positively from the start.

Clearly this is just one simple example, but in essence these competencies, once mastered, become the enablers to deal with everyday situations.

Soft skills and effective performance

You will have no doubt realised that these skills are neither soft nor easy and I would prefer they were more appropriately referred to as **behavioural competencies** and are a measure of professional maturity and capability at all levels.

Behaviours which underpin effective performance can broadly be set out as follows:

1. You create a sense of common purpose.
2. You take personal responsibility for making things happen.
3. You encourage and support others to take decisions autonomously.
4. You act within the limits of your authority.
5. You make time available to support others.
6. You show integrity, fairness and consistency in decision-making.
7. You seek to understand people's needs and motivations.
8. You model behaviour that shows respect, helpfulness and co-operation.

CIPS Global Standard makes references across all the current 11 segments or levels as it recognises that the activities we engage in as procurement professionals involve people not just "four box" matrices. The main areas where this applies are:

- Position and influence
- Spend management
- Contracting
- Sourcing
- Delivering outcomes
- Metrics and measurement
- Developing individuals and teams
- Developing self and personal skills
- Ethics

The impact is comprehensive and occurs at all levels of the procurement spectrum and in terms of the various stages of a procurement/contracting/SRM activity as well as the level of seniority from buyer to CPO. It could be argued that the impact at CPO level has the potential to be more impactful, both in modelling and enabling the right behaviours.

Applicability

As procurement professionals, Contract Managers or Supplier Relationship Managers, we all have expectations and are driven by outcomes (usually tangible ones). Often we have varying degrees of flexibility as to how this is achieved within the wider team from the end client through to the very tip of the supply chain. This in turn leads us to believe that there is a series

of decisions that fall along a very narrow decision line that is closely correlated to our own version of what we reference as rational and logical, by our own benchmarks and experiences. The reality is we all have different sets of benchmarks and experiences and our “alignment” can either be close or far apart as a result. Recent political events, such as Brexit in the UK/Europe, had many people vocally stating publicly “It’s just not rational or logical, how did it happen”, with similar expressions and language experienced in the USA in the 2016 presidential election between Trump and Clinton. This has been translated by some to mean people were willing to apply the laws of prospect theory (i.e. a gamble vote, based on what they have now is not what they want to such an extent they are willing to prospect (gamble) on something unknown). I have no intention to stray into a political debate, but hopefully seek to illustrate the point of how critical behaviours are and the self-defined axis of logic and rational to produce this linear line of decision or outcome (expectation). In figure 3 below I have attempted to illustrate this.

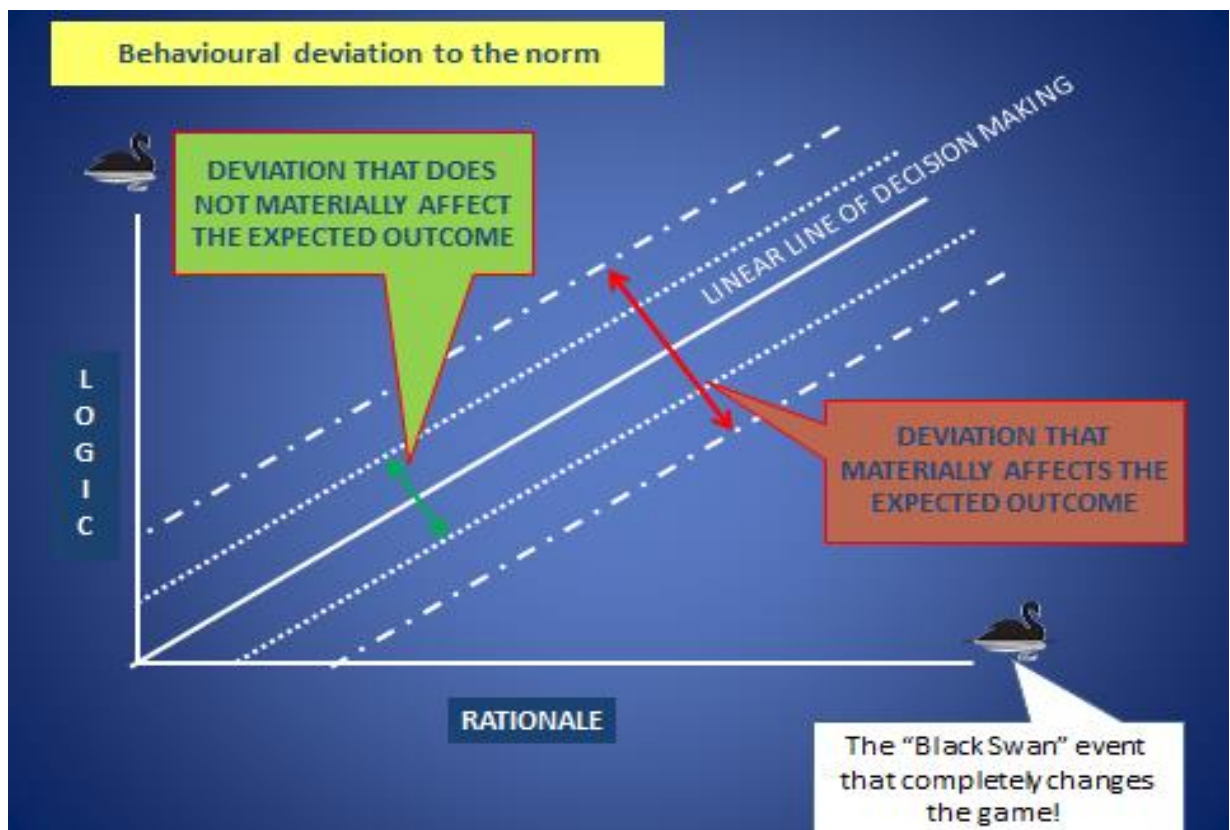


Figure 3 – Behavioural deviation to the norm

Looking closely at the factors that create this difference in us, I refer to what is known as “heuristics and biases”, defined below. This links with earlier observations as to why two people or groups may not necessarily evaluate or view a situation the same.

- Heuristics can generally be taken, in psychology terms, as simple, efficient rules by which people often use to form judgments and make decisions. They are mental shortcuts that usually involve focusing on one aspect of a complex problem and inherently ignore others.

- Biases can be said to be the influencing factors or prejudices based on known limits of knowledge, experience, etc. This also extends in economic terms to hindsight, status quo (keeping), bold and conservative forecasts, etc.

Heuristics and biases

Within this area of psychology, decision sciences, social sciences and cognition there are many biases that have direct impact on outcomes and decisions, some of which will be viewed as material and others less so to the stated outcomes of a project, team, contract, etc. See figure 3 above. In attempting to explore some of the more common ones I have set out both a definition and a way in which in contracting life we might expect to see how these play out. To set this in context there are currently around 176 different biases that have been researched mapped and documented. Hence my re-assertion that these skills and competencies are neither soft nor easy and in fact becomes the key competencies for successful outcomes in the procurement/contracting spectrum.

In no particular order I will address the following:

- Bounded rationality
- Self-Serving bias
- Confirmation bias
- Framing
- Anchoring
- Judgements – system 1 & 2
- “Nudging”

Bounded rationality is the idea that when individuals make decisions, their rationality is limited by the tractability of the decision problem, the cognitive limitations of their minds, and the time available to make the decision. Decision-makers in this view act as “satisficers”, seeking a satisfactory solution rather than an optimal one. When considering this in the contracting process and particularly where you may be looking for innovation from the supply chain, our ability to assimilate new concepts, new products, new ways of delivering the same functionality becomes bounded (or constrained) by the limits of our current knowledge/experience and as such applying these evaluators may not be optimal in allowing us to see the opportunities or adequately evaluate them or adjust our approach for doing so.

The **self-serving bias** is people's tendency to attribute positive events to their own character but attribute negative events to external factors. It's a common type of cognitive bias that has been extensively studied in social psychology. An example of this is a positive event - you get an A for an essay and you attribute it to your own awesomeness (internal attribution) and a negative event - you get a C on an essay and you attribute it to your professor not having explained what they wanted well enough (external attribution).

In psychology and cognitive science, **confirmation bias** (or confirmatory bias) is a tendency to search for or interpret information in a way that confirms one's preconceptions, leading to statistical errors. In real life this may mean someone who is a key decision maker already has a preconceived outcome or decision for an award of contract, approach, way of delivering a

project, etc. and therefore, will look to extract from the presenter of a contract award recommendation only those facts that support their own views and ignore or diminish the importance of other equal or more critical factors.

Framing is the way you describe the same factual statement, either positively or negatively, influences the decision made by the recipient e.g. cup half full or half empty. This may be applied where we want someone to see the positive benefits of investing in a project by describing the pilot as having a 90% success rate versus a negative frame that would describe it as having a 10% failure rate.

Anchoring uses references that we know or understand to draw comparisons and make judgements about things we do not know about. These can then be adjusted to refine an answer or a response. This could be an occasion where we are presenting a technical or specific topic that requires specialist knowledge in a way that anchors the principles in everyday language or concepts to allow ease of understanding or decision making. We must put ourselves in the shoes of others who do not have specific subject matter knowledge or use the same vocabulary as we do in the commercial/technical disciplines.

Judgements are made either intuitively (system 1) or through greater computations and consideration and by inference greater effort (system 2).

System 1 attributes:

- Feelings
- Inclinations
- Automatic
- Voluntary
- Cognitive ease > illusion of truth
- Focuses on existing evidence
- Narrow frame of reference

System 2 attributes:

- Skilled responses based on adequate training
- Fact based
- Requires research
- Rational and considered
- Reasoned
- Calculated

Nudges is choosing particular layouts or arrangements, the order in which information is presented, setting a policy or way of working in such a way so as to lead people in a certain way or direction, without misleading them, as a choice or an option to pursue another course of action still needs to remain. This could be as simple as auto enrolling people into an internal training course, which they can cancel, reschedule or defer. Providing a sample template or formats that set out how you want information to be presented, allowing easy and simple population to drive consistency and ease of reporting, etc. This in itself is a “frictionless” way of getting what you want.

Negotiation

My main focus of attention is how behaviours have a role to play in negotiation. In this context there is one significant piece of research work that was published in March 1979 entitled “*Prospect Theory – An analysis of decision under risk*” by Tversky and Kahneman and further developed by Kahneman in 1992. In essence it concerns itself less with the outcome of a decision (or negotiation) but more with the gains and losses as part of decision making in real life situations and recognises we all have different experiences, prejudices, multiple levels of the many variable/diverse biases as human beings.

Hence the outcomes from an identical set of objective and factual elements under consideration, e.g. a contract term, deliverable, indexing formula, etc. in a contract can, depending on the parties involved, have very different outcomes. Hence the term *prospect* was used in the context that the decision (or outcome) can quite literally be a lottery (prospecting). This is equally true when you then extend that into the unfortunate situation that you are negotiating the settlement of a claim on a contract, which is often referenced as an “emotional decision at the end of the day.” Therefore, outcomes are determined by factors such as those attributed to risk averse or risk seeking individuals or parties. Further research and publication has looked at cooperation theories, e.g. “Tit for Tat” as one of the stronger game theory (part of prospect theory) strategies (Axelrod, 1984, *The Evolution of Cooperation*). This translates simplistically to:

- If you move first, cooperate.
- If you move second, reciprocate (if the other party cooperates, respond cooperatively; if the other party competes, respond competitively).
- Communicate your reciprocal move clearly and do not get too smart with how you do it.

In summary game theory assumptions are said to be based upon:

1. Individuals or parties are fully rational.
2. Individuals attempt to maximize their utility/outcome.
3. Individuals will accept the highest payoffs.
4. Individuals will only accept solutions that are at or greater than their security levels (resistance points).
5. Individuals know the “rules of the game.”
6. Individuals assume other parties to be fully rational.
7. The number of individuals is fixed and known to all parties.
8. Each party recognises a set of available options and develops tangible preferences among those options. Preferences remain constant throughout the conflict/negotiation interaction.
9. Each party knows or can estimate well the options and preferences of the other parties.
10. Communication is limited, highly controlled, or not relevant to the conflict/negotiation interaction.

11. A decision must be possible that is maximally efficient, i.e. intersects with the solution set at a point that maximises each party's own interests (Pareto optimal).

In short the process of negotiation can be a complex one that requires careful planning and understanding of exactly who you are negotiating with and what their appetite for risk, or not, will be, etc.

Case Study

The challenge was to help an organisation leverage its global scale across five continents and put in place an energy management programme to allow it to apply effective demand management and provide competitive advantage.

The retail and distribution of premium brand vehicles is a low margin business and has its challenges when spread globally. The major challenge was to engage a whole business whose imperative is to deliver year on year results, remove workload from front line staff of non-core activities and take a common approach, in contrast to its past approach of being managed in "silos".

Situation

I was asked to respect the current transformation programme of enabling a more cohesive business as well as taking an aligned approach to the business strategy dominated by sales, customer first and brand empathy. The business had few cross group functions (and connectivity), but the aspiration from a new executive team to leverage its global scale and synergies. The data quality was poor to non-existent and group wide initiatives were few and largely embryonic. In tandem with this the major vehicle brand in the portfolio have a declared strategy in terms of environmental sustainability and widely known and communicated to the public.

Target and approach

Reduce the energy consumption (demand) and deliver £1 m savings and a 9 million tonnes reduction in CO2 annually (target). In addition share best practice and engage every country in all five continents.

The approach required a behavioural intervention and architecture that did not rely upon a mandate from executive sponsor in the business (and nor should it). Essential aspects of the architecture required are:

1. Sponsorship at executive level.
2. Empowerment and support for "doing the right thing" across all levels and functions.
3. Alignment (and language) congruent with pre-existing objectives, programmes and initiatives.
4. Frictionless (easy to do).
5. Provide a choice architecture (menu of options) at site level and not a mandate so that it becomes self-enabling

6. Include tangible and practical examples of the “How”
7. Don’t create a (reporting) industry out of the project!

Impact and advantage

The benefits are being realised on the programme as measured against the baseline. Further, it is being used by many as an example of how the organisation can collaborate and leverage its global scale and share good practice. As is often quoted; “when it is measured it gets done”. A unanimous “pull” has come from the executive to communicate its success across the organisation, a clear measure of its success. Finally it has opened the door to more opportunities to work across the group and do even more through procurement.

Summary

In summary I will leave you with these final thoughts as considerations about competencies outside of the technical tool box contract management practitioners need to understand:

- Behaviours play a big part in decision making.
- Irrational decisions have an explanation.
- Behaviours are the enabler to better outcomes.

The recent publication in Supply Management (December 2016 issue) regarding the award criteria for London Heathrow’s Third runway, a £16 Billion project, recognised the significance of behaviours as critical to success. Heathrow’s Executive Procurement Director was quoted as stating; *“following the creation of a client organisation to deliver the project it included four strategic suppliers to deliver the £16bn project. They had identified four key areas where they needed expert help to deliver the runway; design, cost and planning, programme management and construction. The team conducted a tender process to appoint suppliers in these areas, splitting the tender into four corresponding lots and receiving six or seven bids in each. The evaluation criteria was weighted 20% on cost, 40% on technical and 40% on behavioural. Behaviour was rated so highly because of how closely they (each of the four strategic suppliers) needed to work together to deliver the scheme.”*

In short behavioural procurement is critical and it needs to be part of the competencies required to be a true procurement professional.

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