

FEDERAL PROCUREMENT IN THE UNITED STATES

**SUCCESS FACTORS AND BARRIERS FOR
FOREIGN COMPANIES**

UNIVERSITY OF TWENTE.

T.E. Vehof

UNIVERSITY OF TWENTE.

INSTITUTE: University of Twente
FACULTY: School of Management & Governance
PROGRAMME: MSc in Business Administration
TRACK: International Management

AUTHOR: T.E. (Tim) Vehof

DATE: November 2010

1st SUPERVISOR: Dr. H.J.M. (Huub) Ruël
2nd SUPERVISOR: Prof. Dr. J. (Jan) Telgen

Preface

This thesis is the result of a study on federal procurement in the United States and its implications for foreign companies. It serves as the final assignment of the 'Master of Science in Business Administration' programme, followed at the University of Twente in Enschede, the Netherlands. The study was conducted in collaboration with the Economic Division of the Royal Netherlands Embassy in Washington, D.C., who had an interest in mapping the success of the Dutch private sector in the US federal procurement market. This market has become more interesting since the beginning of The Great Recession in late 2007. Therefore, we decided to study the success factors and barriers for foreign companies wanting to compete in this market, and present recommendations for them and for the Royal Netherlands Embassy in supporting the Dutch private sector.

To map the relative Dutch success in the US federal procurement market, I analyzed several databases in close collaboration with colleagues Remco de Boer and Stephan Raes. Special thanks to them for the success of this project and the great time we had working together.

I would also like to thank all colleagues of the Royal Netherlands Embassy for providing a great working environment and a great time while living in Washington, D.C. Special thanks to the colleagues of the Economic Division for the close collaboration and the opportunity to learn about the working methods of an embassy and political and economic issues in the US.

Many thanks to all interviewees for participating in this research and providing insights in all aspects of federal procurement in the United States and the implications for foreign companies. I would also like to thank all other parties that provided information on the US federal procurement market.

Finally, I would like to thank both of my supervisors, Dr. Huub Ruël and Prof. Dr. Jan Telgen for their input in this study and thesis. Their instructions have been very helpful in conducting the research. Special thanks to Huub Ruël for his enthusiasm for this study and its results.

Tim Vehof
November 2010

Management summary

Since the United States descended into 'The Great Recession' in late 2007, the road to economic recovery has relied for a great deal on stimulus packages from the government (so far \$1.2 trillion) and is expected to stay reliant on them for years to come. While government expenditure will be the main source for economic recovery, it makes the public procurement market in the US potentially very attractive for foreign companies.

So far, there has been limited attention paid to the US public procurement market by the Dutch government. This is striking since the economic characteristics of the Netherlands and the strong economic ties between the Netherlands and the United States imply that the Dutch private sector should be more successful in the US federal procurement market than it is currently. This makes the Dutch private sector and its attempts to compete in the US federal public procurement market an interesting case for further investigation.

The goal of this study is to gain insight into the success factors for acquiring federal procurement contracts for foreign companies and their main barriers to be successful in the US federal procurement market. Therefore, the leading research question is:

What are the critical success factors for acquiring United States federal government procurement contracts for foreign companies, and how can foreign companies apply those factors to address their main barriers in United States federal government procurement processes?

The empirical data collection was conducted in collaboration with the Royal Netherlands Embassy in Washington, D.C. Representatives of Dutch companies competing in the US federal procurement market, consultants supporting foreign companies in doing business with the US federal government, and officials of the US federal government were interviewed.

We identified three categories of success factors (endogenous variables): 'company-specific factors', 'product-specific factors' and 'relational factors'. The findings suggest that:

- Company-specific factors and product-specific factors are of major importance in the early stages of procurement processes and contribute directly to being 'shortlisted' as a qualified vendor, while relational factors play a complementary role.
- Relational factors are of critical importance for actually winning the contract, after a company is shortlisted to compete for a government contract. In addition, relational factors contribute to getting valuable information on procurement opportunities.

Thus, company-specific factors and product-specific factors can be labeled 'qualifiers', while relational factors can be labeled 'winners'.

Several barriers (exogenous variables) for foreign companies trying to compete in the US federal procurement market make this market very difficult to compete in. We identified the following categories: 'regulatory factors', 'non-regulatory factors', 'industry-specific factors' and 'political factors'. We found that:

- Regulatory factors have a direct influence on the early stages of procurement processes and are an important barrier to address.
- Regulatory factors have an overlap with political factors, but their influence on procurement processes is not exactly clear.
- Industry-specific factors have a direct influence on the process of shortlisting qualified vendors.

- Non-regulatory factors and political factors have an influence on the process of contractor selection after the shortlisting of qualified vendors. It is not exactly clear when, how and to what extent this influence is present.

When put in layman's terms the main findings are that:

- The US federal procurement market is a difficult market to compete in;
- It takes new foreign entrants three to five years before they start winning profitable contracts: patience, determination, and the ability to survive the long administrative processes are critical;
- Protectionist regulations, such as the Buy-American provision, can negatively influence the success rate of foreign companies; they may create a non-level playing field;
- Targeting a niche market could increase the chances for foreign companies;
- Perceived corruption can come into play when companies that are asked to write a Request for Proposal (RFP) are also competing for contracts.
- A smart strategy for foreign companies could be to become a subcontractor of a prime contractor;
- Building up a track record of successful contracts and having references are important;
- Price and quality are not sufficient for winning contracts; foreign companies need good relationships as well;
- US government officials observe that most foreign companies do not make an appropriate market analysis and lack a good centralized planning;
- US government officials acknowledge that regulations make it hard to enter the US federal procurement market;
- US government officials find that the perceived corruption by foreign companies is overestimated.

A revised research model was developed, based on the findings of this study. A number of recommendations for future research are presented.

Some recommendations for foreign companies trying to compete in the US federal procurement market are presented, as well as recommendations for the Royal Netherlands Embassy in Washington, D.C., on supporting the Dutch private sector in competing in this market. Foreign companies should be aware of the difficulties of the market, build extensive networks of relationships and set up a thorough strategy for entering and competing in the market.

The Royal Netherlands Embassy should mainly focus on supporting the Dutch private sector in the initial stages of federal procurement processes, by distributing information on characteristics of the market and do's and don'ts, building an extensive network of relevant relations with private and public sectors, and denouncing violations of non-level playing fields to the appropriate government entities.

Management samenvatting

Sinds de Verenigde Staten terechtkwamen in 'De Grote Recessie' in het najaar van 2007, heeft het op weg naar economisch herstel voornamelijk vertrouwd op stimuluspakketten van de overheid (\$1,2 biljoen tot nu toe). Ook de komende jaren worden overheidsbestedingen verwacht de belangrijkste motor van economisch herstel te blijven, hetgeen de Amerikaanse overheidsaanbestedingenmarkt een potentieel zeer aantrekkelijke markt maakt voor buitenlandse bedrijven.

Tot nu toe is er beperkte aandacht geweest voor de Amerikaanse overheidsaanbestedingenmarkt vanuit de Nederlandse overheid. Dit is opvallend, gezien de economische karakteristieken en de sterke economische banden tussen Nederland en de Verenigde Staten zouden impliceren dat de Nederlandse private sector succesvoller zou kunnen zijn in deze markt dan het tot nu toe is geweest. Dit maakt de Nederlandse private sector en haar pogingen te concurreren in de Amerikaanse federale overheidsaanbestedingenmarkt een zeer interessante case voor nader onderzoek.

Het doel van dit onderzoek is inzicht te verkrijgen in de succesfactoren en belangrijkste barrières voor het winnen van Amerikaanse federale overheidscontracten door buitenlandse bedrijven. Daarom vormt de volgende onderzoeksvraag de rode draad van het onderzoek:

Wat zijn de kritieke succesfactoren voor het verkrijgen van Amerikaanse federale aanbestedingscontracten voor buitenlandse bedrijven en hoe kunnen buitenlandse bedrijven deze factoren toepassen om met hun belangrijkste barrières in Amerikaanse federale aanbestedingsprocessen om te gaan?

De empirische dataverzameling is uitgevoerd in samenwerking met de Nederlandse Ambassade in Washington, D.C. Vertegenwoordigers van Nederlandse bedrijven die actief zijn in de Amerikaanse overheidsaanbestedingenmarkt, consultants die buitenlandse bedrijven helpen met zaken doen met de Amerikaanse federale overheid, en ambtenaren van de Amerikaanse federale overheid zijn geïnterviewd.

Er zijn drie categorieën van succesfactoren (endogene variabelen) geïdentificeerd: 'bedrijfspecifieke factoren', 'productspecifieke factoren' en 'relationele factoren'. De resultaten impliceren dat:

- Bedrijfspecifieke factoren en productspecifieke factoren zijn van groot belang in de vroege fasen van aanbestedingsprocessen en dragen direct bij aan het verkrijgen van een plek op de 'shortlist' van geschikte leveranciers voor een contract. Relationele factoren spelen in deze fasen een complementaire rol.
- Relationele factoren zijn van doorslaggevend belang voor het daadwerkelijk winnen van overheidscontracten, nadat een bedrijf op de shortlist is geplaatst als geschikte leverancier. Bovendien kunnen relationele factoren bijdragen aan het verkrijgen van waardevolle informatie over kansen in de federale aanbestedingenmarkt.

Dit betekent dat bedrijfspecifieke en productspecifieke factoren gezien kunnen worden als 'qualifiers', waar relationele factoren gezien kunnen worden als 'winners'.

Verschillende barrières maken de Amerikaanse overheidsaanbestedingenmarkt zeer moeilijk om in te concurreren voor buitenlandse bedrijven. De volgende categorieën zijn geïdentificeerd: 'regulerende factoren', 'niet-regulerende factoren', 'industriespecifieke factoren' en 'politieke factoren'. Uit het onderzoek blijkt dat:

- Regulerende factoren hebben een directe invloed op de vroege fasen van aanbestedingsprocessen en zijn een belangrijke barrière om rekening mee te houden.

- Regulerende factoren hebben een overlap met politieke factoren, waarvan de invloed op aanbestedingsprocessen niet precies duidelijk is.
- Industriespecifieke factoren hebben een directe invloed op het proces van shortlisten van geschikte leveranciers.
- Niet-regulerende factoren en politieke factoren hebben invloed op het proces van selecteren van een contractant na het shortlisten van geschikte leveranciers. Het is niet duidelijk wanneer, hoe en in welke mate deze invloed aanwezig is.

In lekentermen zijn de belangrijkste resultaten van het onderzoek:

- De Amerikaanse federale overheidsaanbestedingenmarkt is een moeilijke markt om in te concurreren;
- Voor buitenlandse nieuwkomers in deze markt kan het drie tot vijf jaar duren voordat zij winstgevendende contracten winnen; geduld, vastberadenheid en het vermogen om de lange administratieve processen te overleven zijn van groot belang;
- Protectionistische maatregelen zoals de Buy American regelgeving kunnen een negatieve invloed hebben op het succes van buitenlandse bedrijven; zij kunnen non-level playing fields creëren;
- Het aanboren van nichemarkten kan de kansen op succes voor buitenlandse bedrijven vergroten;
- Gepercipieerde corruptie kan voorkomen wanneer bedrijven die gevraagd worden een Request For Proposal (RFP) te schrijven tevens meedingen naar het betreffende contract.
- Voor buitenlandse bedrijven zou het worden van een 'subcontractor to a prime contractor' een slimme strategie kunnen zijn;
- Het opbouwen van een trackrecord van succesvolle contracten is belangrijk, evenals het hebben van referenties;
- Prijs en kwaliteit zijn niet voldoende voor het winnen van een contract; buitenlandse bedrijven hebben tevens goede relaties nodig;
- Ambtenaren van de Amerikaanse federale overheid merken op dat de meeste buitenlandse bedrijven geen goede marktanalyse maken en een goede centrale planning ontberen;
- Ambtenaren van de Amerikaanse federale overheid onderschrijven dat de complexe regelgeving het moeilijk maakt de Amerikaanse federale aanbestedingenmarkt te bereden;
- Ambtenaren van de Amerikaanse federale overheid zijn van mening dat de door buitenlandse bedrijven gepercipieerde corruptie overschat wordt.

Een herzien onderzoeksmodel is ontwikkeld, gebaseerd op de resultaten van dit onderzoek. Een aantal aanbevelingen voor toekomstig onderzoek worden gepresenteerd.

Enkele aanbevelingen voor buitenlandse bedrijven die willen concurreren in de Amerikaanse overheidsaanbestedingenmarkt worden gepresenteerd, evenals aanbevelingen voor de Nederlandse Ambassade in Washington, D.C. voor het ondersteunen van de Nederlandse private sector bij het concurreren in deze markt. Buitenlandse bedrijven wordt aanbevolen om zich bewust te zijn van de moeilijkheden van de markt, een uitgebreid netwerk van relaties op te bouwen en een gegronde strategie op te zetten voor het betreden en concurreren in deze markt.

De Nederlandse Ambassade wordt aanbevolen om vooral te focussen op het ondersteunen van de Nederlandse private sector in de vroege fasen van aanbestedingsprocessen, door het verschaffen van informatie over de karakteristieken van de markt en do's en don'ts, het opbouwen van een uitgebreid netwerk van relaties met de private- en publieke sector, en het aan de kaak stellen van overtredingen op level playing fields bij de daarvoor bestemde overheidsinstanties.

Content

Preface	3
Management summary.....	4
Management samenvatting	6
Content	8
List of Abbreviations.....	9
1 Introduction.....	10
1.1 Introduction	10
1.2 Background	10
1.3 Research problem.....	11
1.4 Research aims and research question	11
1.5 Relevance of the research.....	11
1.5.1 Scientific relevance.....	11
1.5.2 Practical relevance	12
1.6 Outline of the thesis	12
2. Literature review.....	13
2.1 Introduction	13
2.2 Public procurement: Definitions and aims.....	13
2.3 Comparing public and private sector procurement	14
2.4 Contracting decisions.....	15
2.5 Contracting practices	16
2.6 Public-Private Partnerships	17
2.7 Contract and contractor selection.....	19
2.8 Towards a research model	19
3. Methodology	23
3.1 Research design.....	23
3.2 Data collection and sampling	24
3.2.1 Secondary data	24
3.2.2 Key informants	25
3.2.3 Observations in meetings, events and conversations.....	25
3.2.4 Interviews	25
3.2.5 Sampling	26
3.3 Data analysis	27
4. Results	28
4.1 Exogenous variables	28
4.1.1 Regulatory factors	29
4.1.2 Industry-specific factors	31
4.1.3 Non-regulatory factors	32
4.2 Endogenous variables	33
4.2.1 Product-specific factors	34
4.2.2 Company-specific factors	36
4.2.3 Relational factors	38
4.3 Revised research model.....	41
5. Conclusion & discussion	43
5.1 Conclusion.....	43
5.2 Discussion.....	44
5.2.1 Discussion	44
5.2.2 Limitations	46
5.2.3 Recommendations for further research	47
6. Recommendations	49

6.1 Foreign companies	49
6.2 Royal Netherlands Embassy	50
References.....	52
Appendix 1: Federal procurement in the United States	55
Appendix 2: Interview protocol	58

List of Abbreviations

ARRA	American Recovery and Reinvestment Act
FAR	Federal Acquisition Regulation
FPDS	Federal Procurement Data System
FY	Fiscal Year
GDP	Gross Domestic Product
PPP	Public Private Partnership
PPRIS	Past Performance Retrieval Information System
RFP	Request for Proposal
US(A)	United States (of America)

1 Introduction

1.1 Introduction

This thesis is the result of a study on federal procurement in the United States of America. Especially in foreign countries, very little is known about the characteristics of this market, one of the biggest in the world. As government expenditure is becoming more and more important in the recovery of the economy in the US, this market is becoming more and more relevant for foreign companies. In the academic literature, little is written about the characteristics of the federal procurement market and the implications for private organizations trying to compete in it. As Brousseau & Saussier (2009) point out: “there are still relatively few studies analyzing [public-private agreements], especially from the perspective of the private operator. There is therefore an important need (and plenty of room) for developing applied approaches to current contractual practices and institutional framing of [public-private agreements]”.

This study contributes to the academic literature by providing insight into the characteristics of the federal procurement market in the United States from a business perspective. We present a model for future research, based on new empirical data. Also, implications for foreign companies trying to compete in this market are provided: a study commissioned by the University of Twente and the Economic Department of the Royal Netherlands Embassy in Washington, D.C., was conducted among the Dutch private sector, using a qualitative approach. The Dutch private sector is a highly relevant case for this research, since the Netherlands has very strong economic ties with the United States, but the share of the Dutch private sector in US federal procurement does not reflect those strong economic ties. Recommendations for foreign companies and the Royal Netherlands Embassy are provided, emphasizing the practical relevance of this research.

1.2 Background

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 US is playing a major role. Examples are the economic stimulus packages of the Obama government like the American Recovery and Reinvestment Act (ARRA) and the recent Jobs Bill. The latter brings the total direct federal spending on the economy to nearly \$1.2 trillion since the nation descended into recession in late 2007. The economic recovery of the US 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 the Dutch private sector. Not only is this the case for the annual budgeted procurement of the US government (\$535 billion in 2009), the above-mentioned economic stimulus packages can provide opportunities as well. Along with direct income support, the \$787 billion ARRA includes a big package of public investment regarding infrastructure, sustainable energy and water management. This makes the public procurement market in the US potentially very relevant for Dutch export.

So far, the Dutch government has paid little attention to the US public procurement market (an exception was the discussion around American protectionism (‘Buy American’) as part of the ARRA). This limited attention is striking since the public procurement market was an enormous market even before The Great Recession (see Appendix 1).

A reason for this might be the lack of information the Dutch government has on the success of the Dutch private sector regarding US public procurement, or the amount of money Dutch companies earn from US government contracts. There are some examples of major Dutch players in the US public procurement market. The most important Dutch player is Shell, the only Dutch company in the top 100 list of suppliers to the US government based on total value of government contracts (listed 34th). Deltares and Arcadis are well-known examples of Dutch companies which,

especially after hurricane Katrina in 2005, won state and federal government contracts. Thales and Ten Cate are well-known Dutch suppliers for US defense purposes.

To determine what potential opportunities exist for Dutch companies in the US public procurement market, it is important to obtain a clear view of the market itself and the current success of Dutch companies compared to the success of companies from other countries. This study focuses solely on US federal procurement; procurement by state and local governments has not been studied.

1.3 Research problem

Estimates of Dutch success in the United States federal procurement market and a benchmark with comparable countries (see Appendix 1) imply that, when looking at economic characteristics of the Netherlands and the successful economic ties between the Netherlands and the US, the Dutch private sector could earn more money in the US federal procurement market than it has so far, making the Dutch private sector a highly relevant case for this research. The above-mentioned increase in federal government intervention in the US on which the economic recovery is relying, underlines this assumption.

Since so little is known about the characteristics of the federal procurement market and the barriers and opportunities for foreign companies wanting to be successful in it, it is difficult to determine what strategies should be used by incumbents to stay successful and by new entrants to become successful in this huge market.

1.4 Research aims and research question

The aim of this research is to gain insight into the critical success factors for foreign companies to acquire federal procurement contracts and the main barriers to success. This is accomplished by reviewing the scientific literature, collecting secondary data and qualitative empirical research. The literature will provide insight into the scientific knowledge available on public procurement and the concepts that play a role in the processes involved. The literature will therefore form the basis of the research model. Secondary data will provide information on the characteristics and processes of the US federal procurement market and the relative success of Dutch companies in this market. Empirical qualitative data will reveal the insights of experts on the characteristics and the practical roles of concepts regarding the US federal procurement market, and the main barriers for Dutch companies trying to compete in it. It will also provide insights on how to cope with these characteristics and barriers to become or remain successful in this market. The following research question will form the guideline throughout the entire research and support the achievement of the aims in a structured way:

What are the critical success factors for acquiring United States federal government procurement contracts for foreign companies, and how can foreign companies apply those factors to address their main barriers in United States federal government procurement processes?

1.5 Relevance of the research

1.5.1 Scientific relevance

In several ways, this research is relevant from a scientific point of view. First, not much literature on public procurement has focused solely on the US federal procurement market. This study provides clear insights into the characteristics of this complex market. Second, it focuses on public procurement from a business perspective (private sector), while most studies in the literature so far have focused on the implications of public procurement for governments (public sector); this study

provides empirical qualitative data from experts from the private sector working in the federal procurement market. Finally, no literature exists on barriers preventing foreign companies from doing business with the US federal government. This study not only provides insight into these barriers, it also presents empirical qualitative data from experts on how to cope with them and become or remain successful in the US federal procurement market.

1.5.2 Practical relevance

After the Dutch success in US federal procurement was mapped (Vehof & de Boer, 2010), the Economic Department of the Royal Netherlands Embassy in Washington, D.C., assumed that, especially with the new shift in government spending regarding the economic recovery, there are opportunities for the Dutch private sector to have more success in this market. As a service for Dutch companies, the Economic Department wanted to know how to support them best in doing business with the US federal government.

This study provides recommendations for foreign companies on what the main barriers and success factors are for doing business with the US federal government, based on empirical research. Not only can this be very helpful for the foreign companies, it also helps the economic department of the Royal Netherlands Embassy in Washington, D.C. to determine how to best support the Dutch private sector.

1.6 Outline of the thesis

To get a clear outline of the research, this thesis is structured as follows:

Section 1 provides some background information and insight into the research problem, aims and the research question. Also, the relevance of the research is explained.

Section 2 presents a theoretical framework, which will be the basis of the empirical part of the study. The existing literature on public procurement is discussed, and insight into the US federal procurement market and the Dutch share in this market (Appendix 1) is provided. Based on the literature, a conceptual research model is developed and presented. An extensive description of the research model and definitions can be found at the end of the section.

In section 3, the methodology used is presented. The research design is discussed, as well as the methods of collecting data, including sampling. A table of interviewees is presented.

The collected empirical data are analyzed in terms of the research model. The results of the analysis are described in section 4, where a revised model will be presented.

Section 5 will elaborate on these findings, drawing conclusions from the analyzed data. Also, the findings will be discussed in terms of their implications for the academic field. Limitations of this study and recommendations for further research are presented.

Based on the empirical data, section 6 will present recommendations for foreign companies trying to compete in the US federal procurement market, as well as for the Royal Netherlands Embassy in Washington, D.C., in supporting those companies.

2. Literature review

2.1 Introduction

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 (Weiss & Thurbon, 2006; Maskin & Tirole, 2007; Reich, 2009; Walker & Brammer, 2009). 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. This section provides a theoretical framework for this research by analyzing the existing literature on several topics regarding public procurement and their implications for private sector organizations.

2.2 Public procurement: Definitions and aims

In the literature, several definitions of public procurement are given. A simple definition would be "acquisition for public consumption" (Weiss, 1993). Weiss & Thurbon (2006) describe government procurement as "the public purchase of goods and services from the private sector". Ya Ni & Bretschneider (2007) use Kelman's definition of public procurement: "a Business arrangement between a government agency and a private entity in which the private entity promises, in exchange for money, to deliver certain products or services to the government agency or to others on the government's behalf" (Kelman, 2002). According to Walker & Brammer (2009), public procurement "is concerned with how public sector organizations spend taxpayers' money on goods and services". 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). Additionally, Spiller (2008) states that public procurement involves the use of public money, directly or indirectly, and thus it affects the lives of all citizens, although indirectly. Therefore, "the essence of public contracting is its publicity". This is also pointed out by Walker & Brammer (2009), who state that public procurement is guided by principles of transparency, accountability and achieving *value for money* for citizens and taxpayers. However, as pointed out by Erridge & McIlroy (2002), in the public sector the definition of 'value' is far from straightforward as the relationship between user requirements and how taxpayers' money is to be spent will vary depending on the nature of the contract and the political ideology of policymakers.

Berrios (2006) states that "the goal [of public procurement] is to create a more effective and efficient delivery of services through a system that fosters and creates competition, provides better management, and helps reduce the size of government". For most nations, procurement policy entails optimizing the public means of purchasing in the service of national aims and the public interest. Additionally, the task of purchasers in the public sector is to balance the dynamic tension between competing objectives and at the same time to provide an exemplary role in the market (Linthorst & Telgen, 2006). This is confirmed by McCrudden (2004), who refers to 'linkage' as the attempt of governments to combine participating in the market as a purchaser while at the same time regulating it through the use of its purchasing power to advance conceptions of social justice. He states that the diversity of ways in which public procurement and social policy have been brought together "goes beyond simply awarding contracts on certain conditions, and extends to include for example the definition of the contract, the qualifications of contractors, and the criteria for the award of the contract". For instance, in the United States, according to Ya Ni & Bretschneider (2007), the longstanding American hostility to government explains much of the contracting rhetoric. The ideological reasoning for contracting is that government is too large, and large government presents a threat to individual freedom.

2.3 Comparing public and private sector procurement

Even though there are many similarities, it is commonly accepted that public procurement is quite different from procurement in the private sector (Erridge, 1996; Thai, 2001; Thai et al., 2004; Telgen, 2006). 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 et al., 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 state that public sector procurement is more complex than private sector procurement¹:

Table 1: Additional demands of public procurement (Telgen, 2006)

External demands	Transparency
	Integrity
	Accountability
	Exemplary behavior
Internal demands	Serve many goals at the same time
	Political goals have to be taken into account
	Many stakeholders that have different objectives
Demands originating from the context	Budget driven
	Budgets are open (known to the general public)
	Mutually dependent budget situations
	Cultural setting
Demands in the process	Strict limits imposed by legal rules and organizational procedures at various levels
	Different long-term relationships
Multiple roles for the public organization itself	Public entities are large buyers: large share of national economy
	Reciprocity in purchasing: buying from a supplier that is buying from you
	Public sector itself at least to some extent determines the rules and regulations according to which it has to operate

Telgen (2006) also presents four kinds of interests² which should be balanced in public procurement. First, acquiring the materials for necessary services is in the interest of the public organization. At the same time, the suppliers are interested in the continuity of their organization. These are *primary interests*. *Secondary interests* for the public body as the purchasing organization may involve issues like innovation and job creation. For the supplier these interests may involve issues like building a reference list and increasing market share. In private sector procurement these secondary interests of the purchasing organization are quite different and not related to any public interest. *Process interest* refers to the interest of both buyer and supplier to keep the transaction costs of the process to a minimum. This is the same in private and public sector procurement. Finally, Telgen mentions *competition interest*: it is in the interest of the public organization and, at least to some extent, the supplier for there to be competition and to make sure the competition is fair. This interest is not the same in the public and private sector, because apart from being a participant in this competition, the public sector is also one of the key determinants of how this competition is organized and executed.

¹ All of the demands mentioned by Telgen (2006) are put forward for public procurement in addition to those imposed for private sector procurement.

² Based upon Jansen (2006)

The differences in interests mentioned by Telgen underline the statement that public sector procurement is more complex than private sector procurement.

Additionally, according to Spiller (2008), 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. When faced with unforeseen or unexpected circumstances, private parties adjust their required performance without the need for costly renegotiation or formal re-contracting. Public contracting, on the other hand, seems to be characterized by formalized, standardized, bureaucratic, rigid procedures. Faced with unexpected circumstances, parties in a public contract may face, even when the relation remains worthwhile, the stark choice of litigation or performance. In fact, common wisdom sees public contracts as generally more inflexible, requiring more frequent formal renegotiation, having a higher tendency to litigate, and providing weaker incentives. In sum, public contracts are perceived to be less efficient”. 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 parties³ providing information only when it is in their interest; this limits the potential for relational public contracting. Public agencies will have difficulty entering into a close relationship with a supplier, in which contract adaptation takes place without formal renegotiations and/or litigation. Therefore, public contracting will not only be more complex, involving multiple rules and procedures, but will also be more subject to litigation. The added complexity required to limit the potential for third-party opportunism will make public contracting look inefficient.

2.4 Contracting decisions

It is clear that public agencies, unlike their private counterparts, are heavily influenced by politics. Politics is an inherent part of the contracting decisions of public entities. Public administration does not operate in a vacuum; public decision making is subject to the influence of a large array of conflicting, overlapping, and competing interests embedded in its unique organizational environment.

Furthermore, governments have multiple aims, as they serve a variety of constituent groups. This means public decision makers have to balance efficiency with political considerations. The so-called “politics–administration dichotomy” rarely exists in public decision-making processes (Ya Ni & Bretschneider, 2007). Rather, policy or management practices that are adopted are typically based on a mixture of both political and economic rationales. For instance, as pointed out by Miyagiwa (1991), “Governments typically wield their purchases as a policy tool, favouring domestic over foreign suppliers. By doing so, they aim to return tax money to domestic residents, create more jobs at home, and reduce imports”. Advocates justify contracting out as a solution to alleged government sector inefficiency. However, it is no surprise that governments are inefficient when public policy makers de-emphasize efficiency as an aim of the public sector. According to Ya Ni & Bretschneider (2007), public organizations can deliver services at a lower cost by contracting with private sector organizations than they can through the direct provision of services, because private contractors operating in competitive markets are under constant pressure to keep costs down through innovative service delivery. Moreover, when a service is provided by a single contractor that contracts with many governments, efficiency gains can be realized through the use of bulk purchases of the service. In addition, Saussier et al. (2009) state that contracting out public services might allow public authorities to take advantage of scale and scope economies and to benefit from their private partners’ capabilities. It might also help to increase the incentives for developing higher levels of quality and reducing costs and delays. This is especially true because such agreements are often

³ Interested third parties who may benefit politically from exposing a hint of corruption in a public agent’s actions.

awarded through competitive auctions, generating competition *for* the field where competition in the field is not possible.

Government officials also need to understand the nature of services. Different services imply different considerations for contracting out. Public administrators should realize that not all services are equal. Some scholars have developed criteria for a variety of service characteristics to facilitate the decision to contract out, including stability of demand (Kelman, 2002), technology requirements (Brown and Brudney, 1998), and legal constraints (Reed and Meyer, 2004). Moreover, the use of external producers depends on whether the service is offered by the market. Overall, different services must be evaluated differently in contracting decisions. Therefore, any attempt to explain contracting decisions must control for the type of service. Ya Ni & Bretschneider (2007) conclude that the diversity of services, the uncertainty of technology, the concerns for privacy, secrecy and security, and the emerging issue of intellectual property rights all demand that governments develop better contract management capacity.

Guttman (2004) finds that contracting out public services is also a logical and politically popular strategy for legislators with liberal values to employ in winning public support. Both conservative and liberal governments frequently adopt contracting to grow government programs while creating the appearance of cutting the bureaucracy, to build constituencies for programs, and to advance the traditional aims of political patronage. Therefore, the quality of contracting decisions should not be judged solely on efficiency gains but more appropriately on opportunity cost, according to Ya Ni & Bretschneider (2007). Based on political logic, the benefits of contracting out, such as cost savings and quality improvements, may be transferred to domestic economic development or directed to specific constituency groups. How to balance this trade-off and gain the maximum benefit is a critical issue in the contracting decision. They further state that governments' capacity to facilitate competitive bidding processes and evaluate and monitor contractor performance should be strengthened to avoid potential threats to contract performance and prevent large-scale contracting failures because, according to them, "competition is the logical foundation for contracting".

2.5 Contracting practices

Once the decision to contract out is taken, the public authority has to decide how to choose the private partner, i.e. what type of awarding procedure to use. Two options are traditionally advocated to find the best private supplier: *auctions* (sealed bid acquisition) and procurement by *negotiation* (Holz, 1979; Nash & Cibinic, 1993; Drabkin & Thai, 2003; Berrios, 2006; Saussier et al., 2009). The former is a method of contracting that employs competitive sealed bids that are awarded to the lowest responsible bidder. The latter, contract by negotiation, is a method that makes use of discussions and negotiations to reach a contractual agreement (Nash and Cibinic, 1993).

There is a common view according to which, for standard procurement, social welfare is better fostered by competitive forces. Hence, auctions are often the preferred mechanism. The contract type in a sealed-bid acquisition is the firm fixed-price type. Under this fixed-price type of contract, maximum risk and responsibility are borne by the contractor, who assumes full responsibility for profit or losses. By bidding on the solicitation, the contractor agrees to the fixed type contract at inception. Theoretically, these auctions are assumed to allow procurement of supply sources at the lowest price and at acceptable quality. It is also felt that auctions are characterized by the full objectivity of the awarding criterion (the price). As Berrios (2006) states, "sealed bidding [as in auctions] is generally perceived as impartial in the way of obtaining competitive bids. It anticipates adequate price competition because without it there is no assurance that the price of the lowest bidder will be fair and reasonable".

Procurement by negotiation is a more flexible method of contracting. Negotiation leads to a discussion on estimated costs, deficiencies that can be corrected, and consideration of delivery requirements. Government contracting officers decide which firms are within a 'competitive range'

and are technically qualified. Those who are in the competitive range are invited to make a 'best and final offer,' on which the final selection is made. Then final offers are made based on the negotiated points. In contrast to sealed bidding, negotiation is associated with large discretionary power in deciding which firm to select and according to which criteria. It is therefore assumed to be more vulnerable to corruption and favoritism (Burguet & Che, 2004; Berrios, 2006; Saussier et al., 2009). Additionally, administration of these contracts tends to be more costly because it involves more documentation and takes more time.

However, in the case of public procurement especially, the conditions under which auctions can efficiently be used are questioned as well: "Indeed, other criteria than the price have to be considered (quality, lead time, time to completion, etc.), while the reliability of private partners should also be assessed on the basis of their past performances, their reputation, or their attitude to team-working and innovation. All these considerations have a subjective dimension, which may be better dealt with through negotiation. In addition, auctions may have some undesirable self-selection consequences and may fail to respond optimally to *ex post* adaptation, while negotiation introduces more flexibility, in particular during the project design phase. Negotiation especially allows public authorities and private contractors to spend more time discussing the design of the contract and the characteristics of the service/project to deliver, thereby reducing the risk of *ex post* opportunistic haggling" (Saussier et al., 2009).

In the literature, two broad categories of contracts are distinguished: fixed price and cost reimbursement. Within these basic types, there are a number of other specific types. For instance, under fixed price there is also the fixed-price incentive contract. Fixed-price contracts are based on an agreed unit cost for the goods or service and are suitable for use in acquisitions with definite specifications or standard items for which adequate information on cost is available. From the point of view of the government, fixed price is preferable because it imposes the greatest risk on the contractor. The contractor has an incentive to control cost and perform efficiently, whereas under cost-reimbursement type contracts, the cost risk is assumed mainly by the government: it is obligated to pay when the contractor spends more than anticipated (Berrios, 2006).

What has happened as the US government has turned toward more and more contracting is that it has created a system in which the bidding process and type of contract are increasingly those that are least favorable to the government. Though the push to contract has always been based on an argument that it will increase efficiency and reduce cost, in fact the government increasingly eschews the proven benefits of competitive bidding for negotiated deals that tend to cost more. Similarly, though there is no question that fixed-cost contracts are most beneficial to the government, a huge percentage of business is done on a "cost-plus" basis in which inefficiency and cost overruns are rewarded. In a fixed-price or incentive contract, the opposite would be true, according to Berrios (2006).

2.6 Public-Private Partnerships

In the contemporary literature, a distinction is made between 'traditional public procurement' and more 'relational procurement'. The more relational procurement agreements between public and private sector organizations are mostly referred to as Public-Private Partnerships (PPPs) (Hart, 2003; Lawther & Martin, 2005; Grimsey & Lewis, 2007; Engel et al., 2008; Martimort, 2008; Saussier et al., 2009). Martimort (2008) defines PPPs as "public-private agreements in which a public authority delegates to private partners the design, finance and management tasks of a project over the whole life of the contract". A broader definition of a Public-Private Partnership, given by Saussier et al. (2009), is that it is "an agreement between a public authority (whether at the State or local level) and a private or semi-private entity to deliver a public service and in which part of the risks and investments are transferred outside of the public entity's hands, leading generally to long-term

agreements”⁴. An extensive description of the difference between traditional public procurement and PPPs is given by Engel et al. (2008):

“The main characteristic of a PPP, compared with the traditional approach [...], is that it *bundles* investment and service provision in a single long term contract. For the duration of the contract, which can be as long as twenty or thirty years, the concessionaire will manage and control the assets, usually in exchange for user fees, which are its compensation for the investment and other costs. At the end of the franchise, the project reverts to government ownership”. (Engel et al., 2008, p.1)

Hart (2003) has presented a good example regarding the difference between traditional public procurement and PPPs:

“A key property of a PPP [is] that facility construction and service provision are *bundled*, i.e., in the case of a prison the government contracts with a private party - henceforth known as the 'builder' - to build *and* run the prison (the builder may then subcontract with someone else to run the prison). In contrast, under [traditional] provision, the government contracts with the builder to build the prison and then later on with another (private) party to run it”. (Hart, 2003, p.C71-C72)

Hart (2003) refers to traditional procurement as ‘unbundling’ (separate contracts to build and operate), where in PPPs, ‘bundling’ is used. Still using the example of the prison, he states that the trade-off between unbundling and bundling is simple. Under unbundling, the builder internalizes neither the social benefit nor the operating cost. In contrast, under bundling or PPP, the builder again does not internalize social benefit but does internalize operating cost. Additionally, Hart states that unbundling is good if the quality of the building can be clearly specified, whereas the quality of the service cannot be. In contrast, PPP is good if the quality of the service can be clearly specified in the initial contract (or, more generally, there are good performance measures which can be used to reward or penalize the service provider), whereas the quality of the building cannot be.

Grimsey and Lewis (2007) note that rather than an aberration, PPPs need to be viewed as one form of public procurement, supported by many hybrid approaches that blur the line between them and traditional procurement methods. In addition to Hart (2003), they present three features of a PPP that may cause its productive efficiency to differ from traditional procurement: (1) ownership rights – under a PPP, the public sector transfers land, property or facilities controlled by it to the private sector which is given ownership or control rights for the term of the concession or lease; (2) bundling (see Hart (2003), described above); and (3) transferring the risk of cost and time overruns to the private partner.

Saussier et al. (2009) note that evidence on the performances of PPPs remains unclear, and negative assessments are common, suggesting that such agreements are characterized by their own failures. On the one hand, PPP projects seem to be delivering cost and time savings compared to traditional procurement structures. On the other hand, PPPs sometimes result in higher prices, contractual renegotiations and unbalanced surplus redistribution, leading to disenchantment with PPPs in many developing countries (Chong et al., 2006; Guash, 2004; Engel et al., 2006). PPPs’ efficiency thus remains an open question. “Moreover, it is the relative efficiency of PPPs compared to [traditional procurement] that has to be assessed, as these two forms of public procurement are often alternative organizational arrangements for the provision of infrastructures and public services” (Saussier et al., 2009).

Analyzing the relative efficiency of PPPs compared to traditional procurement is not an easy task. A serious comparative analysis must take into account that observed efficiency is conditional on

⁴ At least longer-term agreements than the contracts that are observed in traditional procurement arrangements.

the preceding organizational choice. For example, it is likely that PPPs are preferred to traditional procurement contracts in situations that are characterized by a high level of difficulty and a need for expertise (Chong et al., 2009). Thus, comparing the efficiency of PPPs and traditional public procurement without taking into account the fact that agreements are not randomly chosen might lead to erroneous conclusions. In addition, there is the problem of what type of efficiency one wants to measure (e.g. costs, prices, social surplus, quality levels). Ideally, all of those efficiency dimensions are relevant, so that focusing on only one of them often leads to inconclusive results (Saussier et al., 2009).

2.7 Contract and contractor selection

According to the procurement regulations in the US, 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 non-cost 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 & Tirole (2007), the standard presumption in academic and policy work on public procurement is that the government acts to maximize social welfare. They state that this assumption over-simplifies 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 & Tadelis (2006) show that politicians' project choices are influenced significantly by the desire to please constituencies and by budgetary constraints.

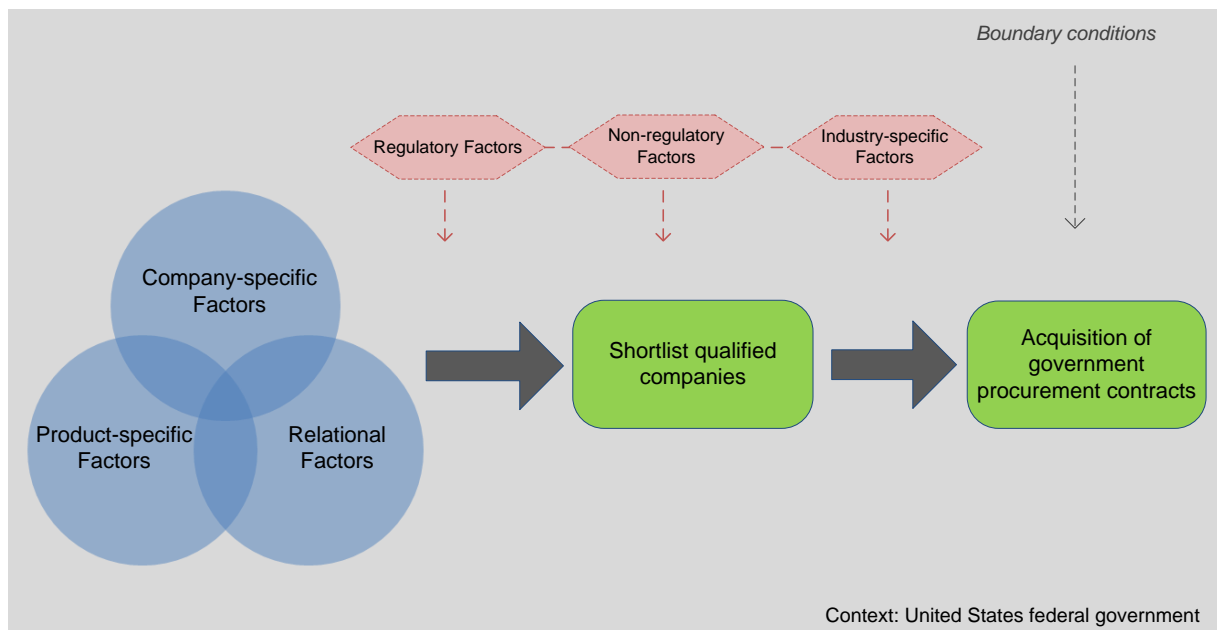
A study that underlines these statements is that of Berrios (2006). In his paper, he explores which contractors are most likely to win government contracts. He states that many of the for-profit government contractors rely on selling to the government for nearly all of their business. "Most are well-established 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). Berrios presents eight 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: (1) the specialized nature of many of the goods and services required by the government; (2) the increasing expertise and specialization of a small group of contractors; (3) 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; (4) the low standard the government demands of its contracts and contractors; (5) the continual use of cost-plus type contracts that result in cost overruns and tend to be more costly than incentive-type contracts; (6) the lack of good accounting procedures; (7) the lack of adequate oversight; and (8) in the case of war-related contracts, the time urgency that means normal controls end up being circumvented.

2.8 Towards a research model

Where most literature on public procurement focuses on the government perspective, this study focuses on the business perspective of public procurement. Indeed, it concentrates on the Dutch private sector perspective. Furthermore, where most scholars referred to in this section focus on contracting decisions, this study focuses (and presents empirical data) on the process after the decision to contract out and after making a decision on contracting practices: the process of contractor selection. We try to find the factors that can contribute to the successful acquisition of federal government procurement contracts by foreign companies.

Based on the above-described literature and secondary data, the following research model was developed (Fig. 1).

Figure 1: Research model



The blue circles represent the endogenous variables: the categories of factors that can be influenced by a company and should contribute to the acquisition of government procurement contracts. The big dark arrows in the research model represent the assumed relationship between the endogenous variables and the dependent variable “Acquisition of government procurement contracts”. Based on the Federal Acquisition Regulation⁵, the process of “shortlisting qualified companies” is present in the model, where the government agency selects qualified companies to compete for a certain contract. The red areas represent the exogenous variables; the categories of assumed barriers to acquiring government procurement contracts.

In addition to the existing literature on public procurement, two other theories have contributed to the development of this research model. First, the ‘Resource based view on the firm’ (Wernerfelt, 1984), which provides a perspective of analyzing firms according to their resources, “whereas most of our formal economic tools operate on the product-market side” (Wernerfelt, 1984). The existing literature on public procurement indicates that product-specific factors should be present in the research model as well. Second, the ‘institutional theory’ (Scott, 1987), which views organizational structure as an adaptive vehicle shaped in reaction to the characteristics and commitments of participants as well as to influences and constraints from the external environment.

We decided to use categories 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). There is an overlap in these categories because the boundaries between the three, as well as the “weight” (degree of influence) of each category, are not exactly clear. The categories are based on the literature described in this section and are defined as follows:

⁵ <https://www.acquisition.gov/Far/>

Company-specific factors: Factors that apply to a company and distinguish it from other companies. (Miyagiwa, 1991; McCrudden, 2004; Berrios, 2006; Spiller, 2008; Chong et al., 2009; Saussier et al., 2009)

- e.g.
- Geographical location
 - Specific knowledge
 - References/track record/past performance
 - Reputation
 - Innovativeness

Product-specific factors: Factors that create added value to the product/service being sold compared to similar, competitive products.

(Brown and Brudney, 1998; Kelman, 2002; McCrudden, 2004; Berrios, 2006; Levin & Tadelis, 2006; Telgen, 2006; Ya Ni & Bretschneider, 2007; Saussier et al., 2009)

- e.g.
- Price
 - Quality
 - Lead time
 - Uniqueness
 - Sustainability
 - Production flexibility (customization possibilities)

Relational factors: Factors that contribute to maintaining good relationships between parties involved in procurement processes.

(Erridge & McIlroy, 2002; Hart, 2003; Lawther & Martin, 2005; Berrios, 2006; Grimsey & Lewis, 2007; Engel et al., 2008; Martimort, 2008; Spiller, 2008; Saussier et al., 2009)

- e.g.
- Networking
 - Personal acquaintances in procuring party
 - Knowledge of government operations
 - Lobbying (budget)
 - Hiring experts/advisors

The red areas in the model represent the exogenous variables; the categories of assumed barriers to acquiring government procurement contracts, defined as follows:

Industry-specific factors: 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.

(Miyagiwa, 1991; Telgen, 2006)

- e.g.
- Non-level playing fields
 - Industry structure (monopoly/few big competitors (prime contractors)/many small competitors)
 - Competitive rivalry in the industry
 - Bargaining power of the buyer
 - Bargaining power of the supplier

Regulatory factors: Regulations and laws that the US federal government upholds regarding government procurement.

(Miyagiwa, 1991; Reed and Meyer, 2004; Berrios, 2006; Telgen, 2006; Ya Ni & Bretschneider, 2007; Spiller, 2008)

- e.g.
- 'Buy American'.
 - Bureaucratic precautions
 - Federal Acquisition Regulation (FAR)

Non-regulatory factors: Factors that limit fair competition apart from regulations.
(Burguet & Che, 2004; Berrios, 2006; Spiller, 2008; Saussier et al., 2009)

e.g. - Corruption
 - Errors in procedures

The model further accounts for possible ‘boundary conditions’ that can influence the acquisition process, e.g. political circumstances and economic circumstances (Guttman, 2004; Walker & Brammer, 2009).

The presented model forms the basis for the empirical data collection. The main aim of the empirical data collection is to verify and, eventually, specify the research model. That is, to find out what the influence of the endogenous variables is on the independent variable, and when and to what extent the exogenous variables have an influence on this relationship between the endogenous variables and the independent variable. Ultimately, the aim is to provide an answer to the research question. The methodology used to accomplish that aim is described in the next section.

3. Methodology

This study follows the deductive approach: the existing literature is used to identify theories and ideas which form the basis for the research model. This section describes the methods employed to find an answer to the research question: *What are the critical success factors for acquiring United States federal government procurement contracts for foreign companies, and how can foreign companies apply those factors to address their main barriers in United States federal government procurement processes?*

3.1 Research design

Based on statistics on economic ties between the Netherlands and the US in comparison to the economic ties between five benchmark countries and the US (see Appendix 1), one would expect the same ranking for the share of the Dutch private sector in federal procurement, which would be the number one position of (at least) the benchmark countries⁶. The Netherlands is the 3rd largest investor in the US (after Japan and the United Kingdom), and the Netherlands ranks 1st when it comes to US direct investment abroad⁷. In addition, of all benchmark countries, the Netherlands has the largest economy (based on Gross Domestic Product 2009⁸). This makes the Netherlands a very interesting and relevant case for a study on federal procurement in the United States.

The research question and the research model imply that this study will be predominantly explanatory in nature as it aims to clarify which factors (endogenous variables) determine the successful acquisition of procurement contracts (dependent variable). However, another study aim is to portray an accurate profile of US federal procurement, which is an object of descriptive research (Robson, 2002). Because of the descriptive character in one specific context, this study is likely to be a precursor to explanation of the relationship between the independent and dependent variables mentioned above. Therefore, it can be described as a *descripto-explanatory study* (Saunders et al., 2009).

In this research, a 'case study approach' is used, since we want to understand a complex social phenomenon: "In brief, the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events" (Yin, 2009). A twofold, technical definition of a case study is:

- "1. A case study is an empirical inquiry that
 - investigates a contemporary phenomenon in depth and within its real-life context, especially when
 - the boundaries between phenomenon and context are not clearly evident.
2. The case study inquiry
 - copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result
 - relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result
 - benefits from the prior development of theoretical propositions to guide data collection and analysis." (Yin, 2009)

This research follows an 'Embedded, Single-Case Design' (Yin, 2009), where

⁶ <http://www.census.gov/foreign-trade/balance/index.html>

⁷ <http://www.bea.gov/international/>

⁸ IMF, World Economic Outlook Database

- the case⁹ is 'the Dutch private sector'
- the units of analysis are 'Dutch companies who have done business with the United States federal government'.

3.2 Data collection and sampling

The empirical part of the study focuses on collecting data that will contribute to the verification and, eventually, the specification of the research model. Therefore, the empirical data should provide information on the independent, intervening and dependent variables, as well as on the boundary conditions, which can be found in the research model.

The empirical data collection in the study involves multiple techniques, referred to as triangulation. According to Yin (2009), "Any case study finding or conclusion is likely to be more convincing and accurate if it is based on several different sources of information, following a corroboratory mode". The methods used are: semi-structured interviews, secondary data, key informants, and observations in meetings and conversations. Secondary data is used to gain insight into the federal procurement market. Information from key informants and observations in meetings, events and conversations contribute to the contextual knowledge and background information. Semi-structured interviews were conducted to gain insight into the perceptions of experts on different aspects of federal procurement in the US and, especially, on the research model. These interviews were the dominant technique for data collection, while secondary data, key informants and observations in meetings, events and conversations contributed to the sampling of interviewees.

3.2.1 Secondary data

Secondary data is data that have already been collected for some other purpose and include both raw data and published summaries (Saunders et al., 2009). In this study, several types of "documentary secondary data" (Saunders et al. 2009) were used for gaining insight into the characteristics of the federal procurement market as well as the Dutch success in this market.

- Federal Procurement Data System.

This internet-based database provides information on all federal contracts. In collaboration with the International Trade Administration, part of the Department of Commerce, we managed to map the size of the federal procurement market as well as the share of the Dutch private sector in this market (Vehof & de Boer, 2010). Also, we managed to put the Dutch share in perspective by comparing it to the shares of comparable countries (see Appendix 1). In addition, FPDS has helped identifying Dutch vendors, which contributed to the sampling of interviewees.

- Other internet-based resources.

To gain insight into the characteristics of the federal procurement market and especially procurement procedures, many US government websites concerned with federal procurement were thoroughly studied. They provided a lot of information for vendors on the procedures for competing in the federal procurement market. This led to a better understanding of the federal procurement market from a vendor's perspective, which proved to be very useful in the interviews.

⁹ "Every type of [case study] design will include the desire to analyze contextual conditions in relation to the 'case', [while] the boundaries between the case and the context are not likely to be sharp" (Yin, 2009)

- Documents from the Royal Netherlands Embassy.
The Economic Department of the Royal Netherlands Embassy supports the Dutch private sector in doing business in the US and consequently has a lot of information on Dutch companies and their activities in the US. The documents and contacts from this Economic Department contributed to the sampling and contacting of interviewees.

3.2.2 Key informants

According to Yin (2009), “key informants are often critical to the success of a case study. Such persons provide the case study investigator with insights into a matter and also can initiate access to corroboratory or contrary sources of evidence”. In this research, seven officials of the Economic Department of the Royal Netherlands Embassy in Washington, D.C. served as key informants. These officials are considered experts in supporting the Dutch private sector in doing business in the United States and have some experience with federal procurement procedures. Their knowledge of the Dutch private sector and the US business climate contributed to this research in several ways.

3.2.3 Observations in meetings, events and conversations

We attended several meetings within the Economic Department of the Royal Netherlands Embassy. During the weekly department meetings, all key informants were present and gave updates on their work. All relevant actual situations were discussed during these meetings, which provided a lot of background and contextual information. Additionally, we attended other in-depth meetings on public procurement in the US, which provided information on procurement procedures from different perspectives. Examples are a round-table meeting with Dutch companies regarding sustainable energy and a meeting initiated by Dutch health-care companies regarding procurement at the World Bank.

In Washington, D.C., we attended several events about the economic situation, business environment and political issues of the United States. All these events provided a lot of contextual information. Further in-depth information was gained during events regarding federal procurement itself. However, most of these meetings focused on federal procurement from a political perspective.

3.2.4 Interviews

Semi-structured interviews were chosen as the predominant technique for data collection. This means that the interviews were guided conversations rather than structured queries. In other words, the interview pursues a consistent line of inquiry, but the actual stream of questions is likely to be fluid rather than rigid (Yin, 2009). This qualitative approach was chosen because it gives us insight into the perceptions of experts in federal procurement on different aspects of the research model.

We chose not to record the interviews, because recording the perceived sensitive information could have had a detrimental effect on the answers given (Saunders et al., 2009). In some cases, respondents were only willing to participate in the study when the interview was not recorded. Instead, permission was asked to take notes, which was granted in all interviews. Furthermore, the interviewees wished to be treated anonymously.

For the interviews, we developed three similar interview protocols for three groups of respondents (see Appendix 2). The protocols were used to pursue a consistent line of inquiry, but given the fluid stream of questions, every conversation was expected to be different. Therefore, actual, conversational questions were asked in every interview, which served the needs of the line of inquiry (Yin, 2009) and at the same time improved the conversational nature of the interview.

3.2.5 Sampling

To ensure the academic and practical relevance of the research, we chose to look at federal procurement from a business perspective. Therefore, we decided to focus on Dutch companies which have already done business with the federal government as the main group to be interviewed. The second group of interviewees consisted of consultants who support foreign companies in doing business with the US federal government. To place the results from these interviews in perspective, the third group of interviewees were officials from the US federal government who are involved in procurement.

To select samples for each group, we used a non-probability sampling method: *purposive sampling*. Non-probability sampling provides the possibility to select samples based on subjective judgement (Saunders et al., 2009). Purposive sampling enables researchers to use their judgement to select cases that will best enable them to answer their research question(s) (Saunders et al., 2009). Several resources have helped with selecting samples for each group, the main ones being the FPDS and documents from the Royal Netherlands Embassy. With the help of the International Trade Administration, Dutch companies who have done business with the US federal government were identified with FPDS. They were then contacted through the Royal Netherlands Embassy. Since the procurement market is not an easy one to penetrate, we assumed that the companies found in FPDS (and thus had won federal contracts) had enough experience to provide useful information. This assumption proved to be correct in all interviews. The consultants who support foreign companies in doing business with the US federal government as well as the US federal government officials involved were identified through the Economic Department of the Royal Netherlands Embassy¹⁰. All interviewees ($N=25$) were involved in federal procurement processes (a list of them can be found in table 2). Each person has been given an indicator for use with quotations in the next section.

Table 2: Interviewees ($N=25$)

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

¹⁰ To some extent, this is convenience sampling (Saunders et al., 2009). However, a purposive selection has been made amongst the identified companies, consultants and government officials. This selection was based on secondary data (see Appendix 1, *Federal procurement in the United States*), key informants, and the observations in meetings, events and conversations.

		<i>investment in the US</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>
US federal government	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 US</i>
	G3a*	<i>International trade specialist at a federal department</i>
	G3b*	<i>International trade specialist at a federal department</i>
	G4 a*	<i>Director, Acquisition Operations at a federal agency</i>
	G4b*	<i>Acquisition Management Official at a federal agency</i>

*The "a" or "b" behind the same number indicate that these interviewees work at the same company and were present together at one interview.

** Two officials of the Defense Department of the Royal Netherlands Embassy are added to the "consultants" group, since they support Dutch (Defense) companies in doing business with the US government.

*** This interviewee technically does not work for the federal government, but is added to this group because he represents US businesses and associations, and has a lot of experience in working with the US federal government

3.3 Data analysis

The analysis was based on extensive notes made during the interviews or immediately afterwards. This ensured that valuable information was retained (Saunders, 2009).

The data collected from the interviewees, as well as secondary data and the notes made during meetings, events and conversations (including conversations with key informants) were analyzed according to the concepts of the research model, in order to present the results in a structured way (see section 4) and to identify possible flaws in the research model. 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 should contribute to verifying and specifying the research model, allowing clear conclusions to be drawn, resulting in a revised research model.

4. Results

In this section the results of the analysis of the empirical data are presented. The empirical data consisted mainly of the information gathered from semi-structured interviews with representatives of Dutch companies, consultants and officials of the US federal government. These findings are complemented by secondary data and observations in meetings, events and conversations. To support and/or clarify the interpretations, quotations are used. The indicators mentioned in table 2 identify where a quotation stems from.

Data are presented per concept of the research model (Fig. 1), to identify possible flaws. We started by analyzing the results on the exogenous variables (barriers), then the results on the endogenous variables (success factors) that are perceived to address those barriers. At the end of this section, a revised research model is presented based on the results of the data analysis.

4.1 Exogenous variables

All interviewees ($N=25$) agree that the US federal procurement market is a difficult market to compete in, especially for foreign companies. New entrants must be patient and able to survive the long (administrative) acquisition processes of the federal departments and agencies; it can take three to five years before new entrants start winning contracts that are profitable. One example comes from a Dutch company in infrastructure, who needed five years before they started winning large, profitable contracts. The company used these five years to prove their capabilities with smaller contracts and to build relationships with contracting officers, which *“has proven to be worth all the efforts”* (P5). It took another Dutch company three years to win profitable contracts, which is, according to interviewee P6, *“fairly short compared to other foreign companies in our industry”*.

P2: *“Unless you offer a super unique product, the American procurement market is not a quick fix: it is very complicated, and it takes a long time before you get some money out of it. When saying A, you should say B and C, too.”*

Another interviewee stresses that for a foreign company, the US federal procurement market is too difficult to enter alone.

C3: *“I would always advise foreign companies to find a US partner, because [the federal government is] more comfortable with locals. Also, locals might have more experience. Another possibility is to send someone to learn the process. Because it is such a detailed process, for a foreign company it is only useful to try it alone on the third or fourth attempt.”*

Two interviewees from the consultant group (C2 and C5) have made it their core business to help foreign companies compete in the federal procurement market, because they have experienced that *“due to several reasons, the federal government market is not an easy market, especially not for foreign companies”* (C2).

C4b: *“The procurement processes of the federal government are money- and time-consuming. It can take up to three years, and most companies don’t know this.”*

Interviewee C4b supports his statement with an example of a Dutch company in intelligence products. The consultancy business helped the Dutch company in selling to the Department of Defense. Ultimately, the Dutch company gave up and cancelled the contract with the consultancy business. According to interviewees C4a and C4b, this was because the Dutch company was not well prepared before entering this market. *“Foreign new entrants should have more patience”* (C4b).

A good example from a governmental point of view on the difficulties of the federal procurement market comes from interviewees G4a and G4b, officials of a federal agency. Their agency receives

offers from approximately 5000 companies. Only 50% of those will do business with their agency at first. Of those, only 6% win a contract. These two officials think this is a very low percentage, and they think this is due to the fact that companies do not prepare well enough; *“most companies don’t make a market analysis and do not have a good, centralized planning”* (G4a).

The interviewees give several suggestions for causes of the difficulties in this market. Those suggestions are analyzed per category of exogenous variables as mentioned in the research model.

4.1.1 Regulatory factors

The difficulties in competing in the federal procurement market can be explained in several ways. Nine of 12 interviewees from the Dutch private group think that ‘regulatory factors’ are the main barrier that make this market as difficult as it is: *“As a company, you just have to meet these regulations in order to have a chance at winning a contract”* (P3).

An example of a regulatory barrier for doing business with the US federal government comes from interviewee P7, senior area vice president at a human resources company:

P7: “The government has the right to get insight in our financial numbers. This means they can know our margins and that they will try to reduce our margins, making the earnings in this market less interesting for us. Actually, the government is dictating, and that’s a way of working that we don’t really want to.”

A different explanation comes from an American representative for a Dutch company, who thinks that regulations regarding government procurement are a barrier to foreign companies mainly because of a lack of willingness to adapt to those regulations:

P5: “They think the rules are stupid, and because they are not willing to adapt, they keep making mistakes.”

Some of the regulatory factors that are considered a barrier for foreign companies are the so-called ‘buy-American’ regulations; named after the ‘Buy American Act’ of 1933, they require the US government to prefer US-made products in its purchases. With the ‘buy-American provision’ in the American Recovery and Reinvestment Act of 2009, this subject became current again. The interviews showed that this is indeed perceived as a barrier for foreign companies: 19 of 25 interviewees argued that these protectionist regulations can have a negative influence for foreign companies wanting to do business with the US federal government. However, all of these interviewees agreed that the regulations are relatively easy to circumvent (see section 4.2). One interviewee argued that *“because there are heavy fines to the sharing of knowledge with foreign companies, government agencies are less inclined to talk to foreign companies”* (P6). In addition, interviewee P5 stated that *“the fear and distrust of Americans for foreign business in their country is an important barrier when trying to do business in America”*. An explanation for the use of buy-American regulations from a defense perspective comes from interviewee P10, Commercial Director Industrial Services at a company involved in defense and security:

P10: “Foreign companies are not supposed to deliver large materials to the US federal government, because it makes the US government dependent on other countries. Obviously, the US government doesn’t want to be dependent when it comes to defense materials. Thus, American companies have a huge advantage, creating a non-level playing field.”

Additionally, another interviewee from the defense industry argues:

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.”*

The consultant group agreed that political factors such as protectionist regulations can play a role in procurement processes. A good example is given by interviewee C4b, associate at a consulting firm specialized in defense and security industries. He had a foreign client specialized in document-shredding machines, whom he wanted to introduce to the National Security Agency. *“For obvious reasons, they were very nervous that it concerned a foreign company.”* This perceived problem of dependency on foreign companies was confirmed by two officials of the Defense Department of the Royal Netherlands Embassy in Washington, D.C., who stressed that *“the Department of Defense wishes to minimize dependency”* (C1a). They gave an example regarding fuel caps for defense vehicles. *“When the US government buys those caps from, let’s say Korea, and suddenly a conflict breaks out between the US and (strategic partners of) Korea, the US has a problem.”*

Another explanation comes from a representative of a company in water management, who argued that there should be less emphasis on protectionism and more on a different reason for the existence of the regulations regarding federal procurement:

P5: *“The US is very lawyer-oriented, and they choose not to do business with foreign companies because this is too risky because of liabilities.”*

Interviewee G2 confirmed these statements: *“These days, more attention is given to anti-corruption policies and transparency. ‘Cover your ass’ is getting more and more important, which makes procurement policies slow.”*

A consultant specialized in helping foreign companies do business with the federal government perceives regulatory factors as an important barrier to address. He explains: *“Regulatory factors are the main barrier. Not only is it money- and time-consuming, there are also some American companies that have a huge advantage where foreign companies can’t compete. These are the Minority-owned, Women-owned, Veteran-owned companies. Regulations demand that the government must procure a certain percentage from these companies”* (C5).

C5: *“An American company that is owned by a disabled veteran is almost sure to win procurement contracts.”*

However, interviewee C5 stated that America can have advantages for European companies as well. According to him, Europe has more advanced, cleaner industries. He states that when a European company looks for a specific market, they probably don’t even have to compete with American companies. This is confirmed by an official of acquisition management at a federal agency: *“Dutch companies should know they have some advantages in a certain way, for instance because of their participation in NATO”* (G4b).

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. Interviewee G2, Senior Director Procurement Policy at a lobbying group representing businesses and associations across the US, stated that *“All regulations make it almost impossible to enter this market”*. This is confirmed by four government officials:

G3a + G3b: *“Because of regulations, procurement processes are very time consuming; it can take up to 5 years. This is a huge barrier for foreign companies, because they have to patient and be able to see whether the process will become profitable.”*

G4a + G4b: *“It takes at least two years to crack that nut. This market is totally different from B2B markets. This is mainly due to a regulation overload and an information overload. Transparency is such a challenge for us right now.”*

The interviewed government officials do not think that American companies have a big advantage over foreign companies. However, most officials agree that it is more convenient to work with American companies, for several reasons:

G2: *“It doesn’t make any difference whether a product is produced in the US or outside the US. If American companies would have an advantage, it would only be for the sake of customer service.”*

G1: *“It’s just a lot easier to do business with American companies, especially in a practical way. No language barriers exist, facts like financial results are easier to check verify, and if we want we can take a look at a company’s office or factory.”*

The advantages for American companies as explained in different ways by the interviewees indicate the existence of non-level playing fields in different industries. Also, an overlap with regulatory factors appears to exist, as already suggested in the research model.

4.1.2 Industry-specific factors

Industry-specific factors like non-level 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 non-level playing fields (see above), which could indicate an overlap with regulatory factors.

Two officials of the Royal Netherlands Embassy emphasize that protectionism yields non-level playing fields, according to them a well-known phenomenon in defense industries. However, they state that protectionism is not the only cause of non-level playing fields. *“Most US defense companies have an enormous history, in which they have built relationships and a good reputation with the DoD. For foreign companies, this is very hard to compete with”* (C1b). Or, as interviewee C5 puts it: *“Foreign companies have to work much harder.”* These statements already suggest the importance of company-specific factors and relational factors for the bargaining power of companies.

Another explanation for the existence of non-level playing fields comes from a senior vice president at a human resources company:

P7: *“In this branch, American small businesses have a great advantage, probably because this branch is easy for the government to support small businesses. In the defense industry, for instance, this is less likely to be possible, because the government is more dependent on large companies like Lockheed Martin”.*

This statement indicates that political factors other than protectionism can play a role in procurement processes. Other results from the interviews showed that political factors are perceived to play different roles in procurement processes and are important to address when trying to sell to the federal government. Also, an overlap appears to exist between political factors and the exogenous variables presented in the research model.

The interviewed government officials do not agree that non-level playing fields are present as much as is perceived by the other interviewees. Only one interviewee from the government official group sees industry-specific factors as a barrier for foreign companies. According to most interviewed

government officials, there is too much emphasis on non-level playing fields in the media and thus in the perceptions of companies.

G3b: *“Non-level playing fields are less present than the media claims. For them, it is just interesting to write about. Lobbyists might have power, but this has nothing to do with protectionism.”*

The power of lobbyists as mentioned by interviewee G3b is often associated with non-regulatory factors like corruption or ‘the creative use of regulations’. Lots of examples can be found in the media, of which the recent \$35 billion tanker contract with candidates Boeing and Airbus is the most famous one: “The [first] two attempts to bid out this contract resulted in failure, but the Air Force is hoping the third time will be the charm. The first one, in 2003, was tainted when it turned out that Boeing's then CFO offered Darleen Druyun, then the Air Force's number two acquisitions official, a job at Boeing even while she was involved in awarding the tanker contract. The second failure took place in July [2009] when presidential politics and a June 2008 Government Accountability Office report detailing "significant errors" in awarding the contract combined to scuttle the deal.”¹¹ Interviewees were asked about the role of non-regulatory factors. Their perceptions are discussed in the following section.

4.1.3 Non-regulatory factors

Six of the 25 interviewees think that non-regulatory factors like corruption and errors in procedures play an important, negative role in the process of selling to the federal government. It is striking that none of the interviewed government officials thought that non-regulatory factors play a role in procurement processes. Similar to non-level playing fields, most government officials thought that the perceived influence of non-regulatory factors are mostly created by the media. Interviewee G1 claimed that in 99% of procurement practices, regulations and laws are followed. According to her, non-regulatory factors like corruption are *“mostly made up by companies who didn't win a contract. It is easier for them to blame the government of illegal practices than to look in the mirror”*. When asked about wired RFPs, interviewee G2 stated:

G2: *“It does happen, but it is an anomaly. If it happens, it is mostly because of technical specifications. Government agencies do not always have the knowledge to write realistic RFPs, so they are forced to ask the help of a company.”*

A good example of perceived corruption is the writing of Requests For Proposals (RFPs) by companies instead of government agencies, also known as ‘wired RFPs’:

P2: *“RFPs are regularly written by companies who are at the same time a candidate to win the contract the RFP is written for. The RFPs are made on ‘white papers’, without corporate logo. This provides the opportunity to steer the contract in their advantage, by adjusting the technical specifications. In an ideal world, RFPs should of course be written by government agencies.”*

Interviewee P6 thinks that wired RFPs exist, but not predominantly in his industry:

P6: *“When more money is involved, like in product development industries, more wired RFPs might exist. Companies can address this by pro-actively building relationships before an RFP is published. Once an RFP is published, a contracting officer can't make any adjustments to it.”*

¹¹ <http://www.dailyfinance.com/story/boeing-vs-airbus-northrop-35-billion-tanker-deal-up-for-grabs/19173843/>

Contracting officers are the government officials who “*determine the destiny of bidding companies*” (P2) and are therefore the actors most likely to be exposed to corruption. Interviewees of the Dutch private sector group did not think this happens a lot, but as interviewee P8a put it: “There might always be a contracting officer who is sensitive for fraudulent practices”. An example comes from interviewee P1, a managing director of a company involved in sustainable building management. His company almost won a contract for a sustainability strategy regarding a well-known US government building. In the end, they lost the contract because “*they let a friend of theirs win it*”.

Another salient statement comes from interviewee C2, who talked about the website FedBizOpps¹², a website for the federal government and vendors to search for procurement notices worth more than \$25,000. She states that according to the FAR, the government is obliged to make these procurement notices publicly available. However:

C2: “In fact, these RFPs are wired; they are written for –and sometimes by – certain companies. When writing RFPs, they use the rules in a creative way. It is written in such a way that the choice for a certain company is justified. They do everything to make it not look corrupt.”

Another example of non-regulatory factors was given by interviewee C5, who stated that if a senator was his best friend, and another friend of his had a company that wanted to sell to the US government, he would have an “*automatic in*”. According to him, this stresses the importance of relational factors (see section 4.2).

4.2 Endogenous variables

In section 4.1.1, we saw that all interviewees agreed that the US federal procurement market is a complex and challenging one to compete in, due to different barriers. Patience and the ability to survive the long administrative processes seem critical, since it can take up to five years before a new entrant starts winning profitable contracts. Additionally, it is vital to understand the market and the procurement regulations and processes.

Dutch companies should start with “*knowing that they don’t know anything about the market and its regulations, and that they have a lot to learn*” (P5).

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.”

In the period during which new entrants are working towards profitable contracts, it seems important for companies to try to find out about the complex acquisition processes of federal agencies. That is, getting to know the ‘unwritten rules’, the processes *besides* the regulations and laws. “*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*” (P9). A great deal of this can be achieved by actively participating in the federal procurement market.

Experience is perceived to be an important factor for success in this market. It can address all three categories of barriers (exogenous variables) mentioned in the research model in several ways. First, it obviously helps to understand the regulatory factors since companies have to comply with the regulations. Second, companies can adjust their sales strategy when they have a clear view of the industry they are competing in, which can be gained with experience. For instance, when trying to

¹² <http://www.fbo.gov>

enter an oligopolistic market, a company might choose to be a subcontractor to a prime contractor (see below). Third, companies can address any non-regulatory factors by mapping where the corruption and/or possible flaws in the procurement processes occur and adjusting their sales strategy accordingly.

The existence of consultants that help foreign companies do business with the government already indicates that foreign companies should be aware that the market is difficult to enter. As interviewee C4b states, *"companies have to know how to do business in America, how it works"*. Another consultant adds:

C2: *"The sale-cycle in procurement processes is very long. Therefore, a company should be able to survive the coming years, should not be dependent on an eventual procurement contract, and should be able to invest time and money in the acquisition of a contract."*

Also, according to interviewee C5, *"companies should cope with the discrimination of foreign suppliers"*.

The interviewed government officials agreed that new entrants should know what they are getting themselves into: *"It takes a lot of time, a lot of money and a great deal of willingness"* (G2). This was confirmed by two other interviewees from the government officials group:

G3b: *"Foreign companies should know what they are doing, get used to the process."*

G4a: *"Companies should make a proper market analysis; they have to know the market is totally different from the B2B market. A good, centralized planning is needed; all noses have to point to the same direction."*

Several suggestions for foreign companies to address the difficulties and barriers in the federal procurement market were made by the interviewees, which we will elaborate on per endogenous variable of the research model.

4.2.1 Product-specific factors

An important aspect to take into account when putting a strategy in place for doing business with the federal government is whether you have a niche product or not. As stated before, the US government does not want to be dependent on other countries, especially not when it comes to supplying large amounts of materials for the US government. For instance, foreign companies are not likely to win large contracts for supplying defense materials. According to two officials of the Royal Netherlands Embassy, *"Dutch companies can be successful in this market when they focus on selling niche products. Examples are wire harnesses for defense vehicles, landing gear for airplanes, special fabrics"* (C1a). This is confirmed by interviewee C5, who states that *"European companies should focus on very specific markets"*.

For companies with products in niche markets, it seems wise to use an intermediary.

P2: *"A smart strategy to follow as a Dutch company is to become a 'subcontractor to a prime contractor'. This means you supply to a prime contractor, and the prime contractor does business with the government on behalf of you."*

Prime contractors are large companies that have the full responsibility for the completion of a contract. A prime contractor may employ (and manage) one or more subcontractors to carry out specific parts of the contract. For foreign companies it seems unrealistic to pursue a strategy to

become a prime contractor. Rather, they should focus on becoming a subcontractor to a prime contractor to cope with, for instance, non-level playing fields.

P10: "Since most Dutch defense companies are in niche markets, they can only become successful in the US federal procurement market through an alliance with American defense companies, thus becoming a subcontractor. Therefore, foreign defense companies should develop and maintain good relationships with prime contractors."

Becoming a subcontractor is concerned with several categories of success factors (endogenous variables) presented in the research model. To some extent this has to do with product-specific factors, since the characteristics of the product can determine whether or not a company should think about becoming a subcontractor. Company-specific factors may determine the choice of a prime contractor when selecting a subcontractor. This also applies to relational factors, whose importance was already stressed by interviewee P10.

Another strategy for selling to the US federal government that might be considered beneficial for foreign companies trying to sell small products is becoming a 'GSA Schedule contractor'. "GSA Schedules are also referred to as Multiple Award Schedules (MAS) and Federal Supply Schedules. Under the GSA Schedules Program, GSA establishes long-term government wide contracts with commercial firms. GSA Schedules provide access to over 11 million commercial supplies (products) and services at volume discount pricing"¹³. Schedule supplies and services can be ordered directly by government agencies from GSA Schedule contractors.

P2: "It takes about one and a half years to become a GSA schedule contractor. The GSA needs five examples of prices for your customers. Then they seek the lowest price, and demand an even lower price. This price is put down for the duration of the contract, mostly around five years. In this period, you may not offer lower prices to other customers. The big advantage is that every government agency can directly buy your products, because the GSA makes sure you meet all the requirements."

According to interviewee P2, GSA Schedules are mainly beneficial for companies selling commodity products like office supplies, coffee mugs, etc. Only two other interviewees from the Dutch private sector group mentioned the GSA Schedule as a strategy for foreign companies to sell to the federal government. All three agreed that with GSA Schedules, prices are the most important factor for success. One interviewee of the consultant group agreed that this can be a successful way of selling to the government: "Since it saves a lot of red tape and time, this is a direct advantage for companies trying to sell to the government" (C2).

The results from the interviews indicated that companies should take the characteristics of their products into account when trying to do business with the US federal government. Product-specific factors are seen as an important contributor to success by all interviewees of the government officials group. Three of them thought product-specific factors are determining factors. 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".

It is striking that only one interviewee of the Dutch private sector group felt that product-specific factors are determinative for winning government contracts. He stated:

¹³ <http://www.gsa.gov/portal/content/104447>

P4: *"In the end, everything comes down to price, no matter how good my relationships are or how much they like me."*

One interviewee stated that the importance of price fluctuates throughout the fiscal year:

C2: *"In the fourth quarter of every fiscal year, most government agencies 'find' money they did not spend on other stuff. In those periods, product-specific factors like price are not so important, and relational factors are absolutely key."*

Overall, 17 of the 25 interviewees thought that product-specific factors play a role in federal procurement processes. Of those, only four (three of them US government officials) agreed that product-specific factors are determinative for winning contracts. The other 13 believed that product-specific factors are complementary to company-specific factors and relational factors.

4.2.2 Company-specific factors

New entrants in the federal procurement market invest a lot in getting their first contract. As we depicted in section 4.1.1, those first contracts may not be profitable. However, once these contracts have been successfully completed, they form a very good reference for the company's track record and reputation.

P2: *"The first government contract is of major importance, because it is a good reference. American contracting officers like to play it safe, because they want to keep their job."*

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."*

Thus, an overlap appears to exist between relational factors and company-specific factors. The latter are considered important by 20 of 25 interviewees. However, only six interviewees (two of 12 interviewees of the Dutch private sector group and four of six interviewees of the government officials group) see them as determinative.

An example of the importance of company-specific factors was depicted by interviewee P10, Commercial Director Industrial Services at a company in defense and security. He explained that his company was talking to big prime contractors in the United States, to invest in relations and build a good reputation. *"Eventually, this should lead to more revenues. Trust is key in these processes, our partners should know what they can expect and that we do what we stand for"*. This was confirmed by interviewee P11, who stated that the success of his company in the federal procurement market *"comes mainly from their good reputation and track-record, established by relations."*

Another example that depicts the importance of company-specific factors was given by interviewee C3, whose company worked with a big chemical company to win government contracts.

C3: *"We worked with them because our company is too small to win contracts by itself. We worked with this company because they are experienced and have an impressive track-record and reputation with the government. It is very important to be a trusted company. On the other hand we were important to them, because they could show the government they were hiring experts to do parts of the assignment that was out of their expertise area."*

Four interviewed government officials thought company-specific factors can be determining. *"Once an RFP is published, it is key that your company has a good reputation and good references"* (G2).

Interviewee G2 referred to the Past Performance Information Retrieval System¹⁴. The FAR requires agencies to post all contractor performance evaluations in this database. Interviewees G4a and G4b thought this indicates the importance of trust. *"It is key to win confidence"* (G4a).

All interviewees of the government officials group agreed that the combination of company-specific factors (like past performance and reputation) and product-specific factors (like price and quality) is determining. They stress the importance of the 'best value' for the government.

When determining a strategy for selling products to the US federal government, one important factor to take into account is a local presence. Data found in the Federal Procurement Data System stress the importance of a local presence in the US for the success of winning federal contracts: of the Dutch companies who won federal contracts in FY 2009, 96.7% had a presence in the United States (Vehof & de Boer, 2010). Sixteen interviewees agreed that a presence in the US is an important factor for success, which can contribute to winning contracts in several ways.

One way can be illustrated by the example of interviewee P6, salesman to the federal government of a company involved in security and safety. His company sent him to the US, where they bought a house for him close to Washington, D.C. His job is to make contacts and maintain relationships, which ultimately should lead to partnerships and contracts. He estimated the investment of his presence in the US at \$100,000 per year, but he said, *"it pays off"*. The importance of making contacts and building relationships was underlined by interviewee C4a: *"For a foreign company it is important to be present in the US, to build relationships and to show what you have to offer."* Why this cannot be done through, for instance, digital resources is obvious, according to interviewee C2: *"They like a heartbeat"*. And: *"Face to face helps"* (C3).

With a presence in the US, foreign companies can also circumvent 'Buy American' regulations. Some contracts require the vendor to be American, or the labor to be done in America. For obvious reasons, this is intertwined with political factors, on which we will elaborate later in this section. Since the American Recovery and Reinvestment Act of 2009 has a 'Buy American' provision, a local presence can contribute to winning federal contracts.

P9: *"Some agencies require 'Buy American', so being incorporated in the US can be a key aspect to being able to compete and win business. If it requires a security clearance, it has to be a company managed by US citizens only, which is easy to circumvent, too."*

P10: *"I think a local presence is not a guarantee for success. It is however an unwritten condition in the market. Sometimes it is obligatory, because of the value it creates for America."*

Another point of view is that the psychological aspects of a local presence are very important:

P3: *"Contracting officers think that companies with a local presence are easier to contact and are more flexible to operate when any problems occur. They like the idea that they can fall back on someone. Also, it helps maintaining relationships. It's all about relationships."*

The importance of a local presence for maintaining relationships was underlined by interviewee P2, who stated that *"a company has to create economic value for the area they do business in. Therefore, you can never lobby successfully unless you are in the US. Your company has to Americanize."* Obviously, prices play a role, too. One interviewee states that *"it is impossible to supply from another country for a lower price"* (P4).

Two interviewed government officials thought that a local presence can be beneficial to companies who want to do business with the federal government. They felt that this was not because of political factors: *"A presence in the US is convenient for the government in a practical*

¹⁴ <http://www.ppirs.gov>

sense. Also, companies can circumvent certain regulations and hide financial difficulties of the parent company when present in the US" (G1). Interviewee G2 thought a presence in the US can be beneficial for two reasons. "First, companies with a presence might hear about coming RFPs faster. Second, for the sake of customer service."

4.2.3 Relational factors

The data gathered in the interviews indicate that relational factors can be important for success in the federal procurement market in several ways and in different aspects of the procurement processes. 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, four of the six 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 (nine from the Dutch private sector group, four from the consultants group) thought relational factors are determinative.

An example of the importance of relational factors comes from a Dutch company in water management. They have already won three big contracts. The interviewed salesman of this company acknowledged that the company had good products (product-specific factor) and a good reputation (company-specific factor), "but it all started with personal acquaintances" (P5). Additionally, one interviewee stated:

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. As a company you may be very good at what you do, but contracting officers are more inclined to go for someone they know and trust. They control the money, and it is their signature that signs the contract."*

Interviewee C5 underlined the importance of relationships:

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."*

Two interviewees from a company in natural resource management (P8a & P8b) also stressed the importance of maintaining relationships with the end users of their products, for two reasons: to get a better understanding of the demands of end users and to present themselves as a company. Another interviewee emphasized the value of maintaining relationships with investors: *"Building relationships is key, because investors have to trust you"* (P6).

In the United States, lobbying is a well-known phenomenon and targets the US Senate, the US House of Representatives and state legislatures with the primary aim of exerting influence. In 2009, the total spending on lobbying in the US was \$3.49 billion¹⁵. According to the interviewees of the Dutch private sector group, lobbying is an important aspect of procurement processes, for several reasons. It is a very important aspect of these processes to make sure money is saved in the budgets of government agencies. *"After that, it is essential that you follow the money by talking to the right persons at the right time and convincing them that the money should go to your company"* (P2). An interviewee of a company in natural resource management confirmed this statement by explaining their lobbying practices: *"We do up-front lobbying, to make sure certain issues come to the attention of government officials and to make sure money is saved in the budgets for our potential*

¹⁵ Calculations by the Center for Responsive Politics based on data from the Senate Office of Public Records.

assignments. Also, we always stress the importance for America" (P8b). According to interviewee P10, the investment in lobbying pays off:

P10: *"We have an alliance with a big American prime contractor, who invests millions of dollars in lobbying and relationships. They probably have a good reason for that."*

These examples already indicate an overlap between relational factors and political factors. This was confirmed by several other quotes from interviewees who stressed that the most important factor for successful lobbying is understanding your client, in this case the US federal government:

P8a: *"What are their hot buttons, what keeps them up at night? You want government officials to look good, make sure people think he is spending his money well. We keep this in mind with our up-front lobbying, where we aim at making plans that are good for America and the reelection of the congressman."*

P9: *"Understanding the agency you want to do business with is key. What do they want? What do they think is important? What are their aims? How can your product help them achieve those aims?"*

P2: *"It's all about the reelection of congressmen. Thus, it is important for a company to show that they can create economic value for the area in America you want to do business in."*

Thus, making government officials "look good" (C5) seems to be very important to make political factors beneficial for a company's business.

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."*

This last point was confirmed by interviewee C4b: *"Creating jobs in America is always key. The smart way is to make sure the credits for creating jobs go to a governor, senator or mayor, taking into account their reelection. Because of this the long-term focus of foreign companies should be to start a factory in the US."*

The business of the company interviewees C4a and C4b work for already shows the importance of relational factors. They offer their expertise (on how to do business with the federal government) and their network (which offices and persons to talk to). They focus on the Department of Defense, and most employees of their consulting company are retired DoD officials. They offer "introductions to the right people" (C4a).

Interviewee C2 agreed that relationships and personal acquaintances are the most important factor for winning federal contracts. She came up with two examples to support her opinion. The first example concerned a client of her company that stood to make a lot of money if the government passed a certain law without any delay. The client hired her to talk to the government official who was responsible for that law, because her company has a good relationship with this government official.

The second example interviewee C2 gave is about an Italian client of hers that makes security doors. She has a good relationship with the army base the Italian company wanted to sell their doors to. After she had lobbied for two years, about \$1 million was saved in the budget of this army base to buy security doors.

Whereas the interviewees of the Dutch private sector group and the consultants group see relational factors as determining success in the federal procurement market, most interviewed government officials do not agree. Four officials agreed that relational factors can play a role, but none of them thought those factors are determining. As with non-regulatory factors, government officials thought that the importance of relational factors is overrated.

G1: *“There is a perception that relationships, lobbying and corruption are determining in winning government contracts. I think this is not true in 99% of the cases. Relationships are especially important after winning the contracts, for customer service.”*

One interviewee of the government officials group stated that the quality and price of products are determining factors, but that *“the perceived quality of a product may go up with good relationships”* (G2). Additionally, interviewees G3a and G3b thought that companies with good relationships have a better chance to win contracts:

G3a: *“This has mostly to do with customer service and trust. Contracting officers want to be sure they buy something good from a reliable supplier.”*

Five of six interviewed government officials felt that the personality of a contracting officer plays a role in the procurement process. They agreed that contracting officers are most likely to be exposed to corruption (see section 4.1.3).

G2: *“If he is sensitive to relationships, than relational factors can be determining. If he is not, which would be the case with most contracting officers, than company- and product-specific factors are determining.”*

G3a: *“Some officers are sensitive to relationships. Others think price and quality are more important. Patriotism can play a role too; most contracting officers take their job very seriously and are very proud to be representing the government.”*

G4b: *“Companies should know that the contracting officer is the person who decides which company will win a contract. Therefore, contacts with this person are very important. That’s where you get to do your talk. A pictorial story is critical: What makes me want to use you?”*

Additionally, interviewee G4a stated that *“the higher the price range, the more important relations with the contracting officer will be”*. Interviewee G2 also claimed that many government officials prefer small or medium enterprises (SMEs), *“because they can talk directly to someone who can actually get things done, without being overruled”*.

The depicted overlaps between variables indicate that a ‘mix of factors’ is perceived as important for success in the federal procurement market. A representative, summarizing explanation comes from a founding partner of a company in sustainable energy:

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.”*

4.3 Revised research model

In this section, a revised model is presented (Fig. 2), based on the described results. The model is described briefly; we will elaborate further on our findings in section 5.

The results show that company-specific factors and product-specific factors are very important in the early stages of procurement processes. Before a company can participate in the federal procurement market, it must fulfill certain conditions and regulations, emphasizing the importance of company-specific factors.

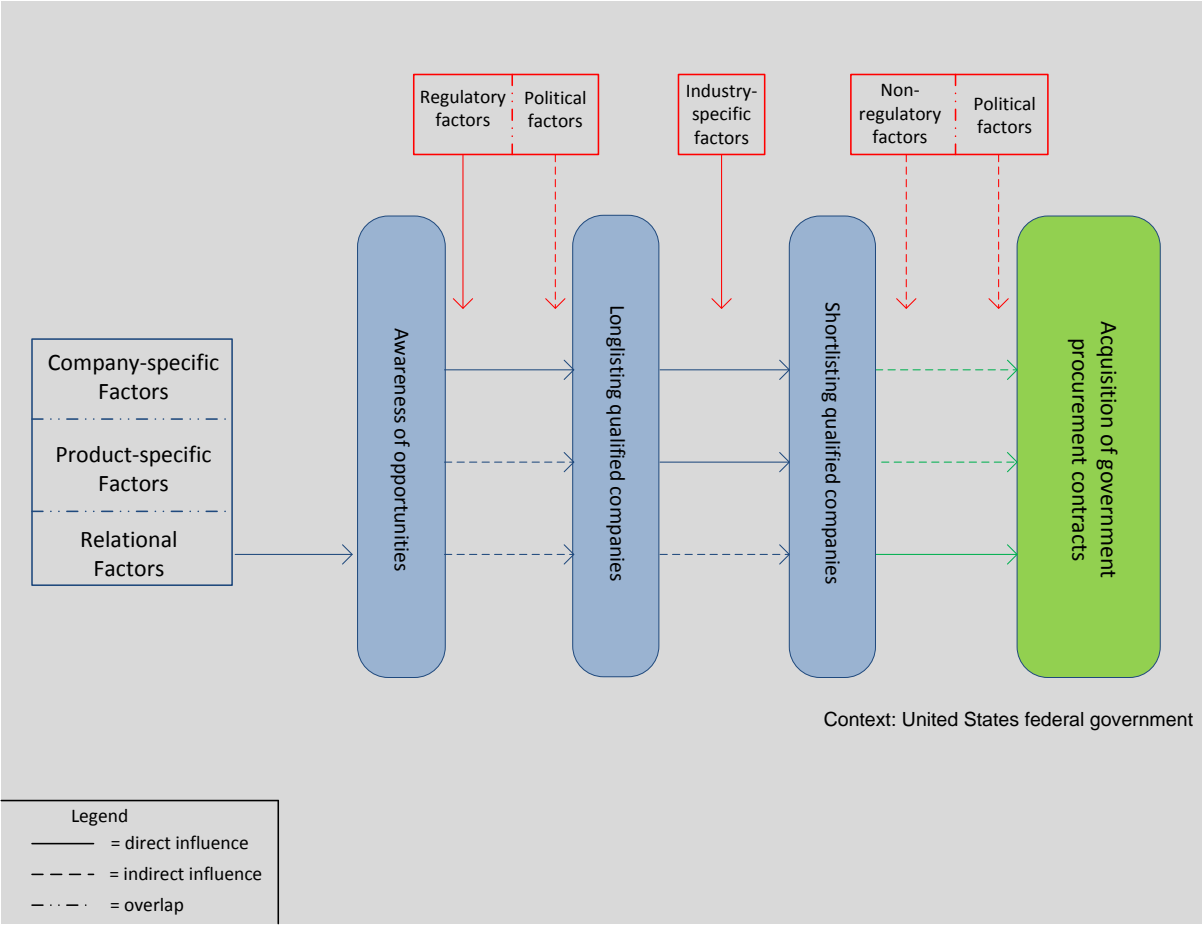
Before the company can actually compete for a certain contract (being shortlisted), the company and its products should meet technical conditions necessary for that contract. Thus, company-specific factors and product-specific factors are critical in the early stages of procurement processes. Relational factors appear to play a complementary role in these stages. However, relational factors are essential for gaining information on opportunities for doing business with the federal government.

Regulatory factors have a direct, obvious influence on the relationships company-specific factors and product-specific factors have with being selected as a qualified company. An influence of political factors on those relationships appears to exist as well, but it is not exactly clear when, how and to what extent this influence is present. An overlap between the regulatory factors and political factors exists. Further, industry-specific factors have a direct influence on the process of shortlisting qualified companies.

Once a company is shortlisted to compete for a certain contract, relational factors appear to be key for winning that contract. In this stage of procurement processes, company-specific factors and product-specific factors seem to play a complementary role. Thus, we can speak of company-specific factors and product-specific factors as 'order qualifiers'; the baselines for entering a competitive arena (Hill, 1993). Relational factors appear to be capabilities necessary to actually win the order, the 'order winners' (Hill, 1993).

A certain influence of non-regulatory factors and political factors on the relationship between the endogenous variables and the independent variable appears to exist at this stage of procurement processes. However, it is unclear when, how and to what extent this influence is present. An overlap appears to exist between the exogenous variables.

Figure 2: Revised research model



5. Conclusion & discussion

This study has sought to find the main barriers to acquiring US federal procurement contracts for foreign companies and the critical success factors for addressing those barriers. Furthermore, we aimed at providing insights into the characteristics of this market and their practical roles. The following research question was formulated, which has been leading throughout the entire research and supported the achievement of the objectives in a structured way:

What are the critical success factors for acquiring United States federal government procurement contracts for foreign companies, and how can foreign companies apply those factors to address their main barriers in United States federal government procurement processes?

An initial research model was developed, based on the existing literature on public procurement. It formed the basis for the empirical data collection. The main aim of the empirical data collection was to verify and, eventually, specify the research model. Ultimately, we sought to find an answer to the research model. A revised model was presented in section 4, based mainly on the results of the empirical data collection, and less directly on secondary data and observations in meetings, events and conversations.

5.1 Conclusion

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 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 doesn't 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.

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. However, the results indicate that relational factors only play a complementary role in this stage of procurement processes.

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. Regulatory factors and industry-specific factors are the only exogenous variables of the initial research model which we can confirm –based on our findings– to have a direct influence on the relationship between the endogenous variables and the dependent variable. Industry-specific factors have a direct influence on the process of 'shortlisting' qualified companies for a certain contract.

Another category of exogenous variables that seems to have an influence in the initial stages of government procurement is political factors. However, it is not exactly clear when, how and to what extent this influence is present. 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').

The most striking finding of this study concerns the process of vendor selection after 'shortlisting' qualified candidates for a contract. We found that in this stage of procurement processes, 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. 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. 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.

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. Indeed, the results indicate that product-specific and company-specific factors are less important in this stage of procurement processes than in the initial stage. However, as is true for all stages depicted in the revised research model, the results indicate that a 'mix of factors' is important, and therefore none of the endogenous variables is redundant for winning government contracts.

The results of this study further indicate that in this stage of the model, non-regulatory factors and political factors can influence the relationship between the endogenous variables and the dependent variable. Again, it is not exactly clear when, how and to what extent this influence is present. Nevertheless, companies should take these possible barriers into account when competing for a government contract.

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. In other words:

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."

5.2 Discussion

In this section we compare the findings of this study with the theoretical framework presented in section 2. The findings and concepts are discussed in terms of implications for the scientific literature on public procurement. Furthermore, we discuss the limitations of our study and present recommendations for further research.

5.2.1 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, pro-active 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; Thai, 2001; Thai et al., 2004; Telgen, 2006). 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. Or, as Saussier et al. (2009) state, “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”. Berrios (2006) already noted that procurement procedures tend to favor the more established contractors because of these reasons.

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 revised 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). Taking this into account, a physical presence in the United States seems critical. These findings seem to hold for foreign companies pursuing a ‘subcontractor to a prime contractor strategy’ as well, because they need to maintain relationships with prime contractors instead of government agencies.

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 (Miyagiwa, 1991; Guttman, 2004; Levin & Tadelis, 2006). 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 non-level 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”. 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 et al. (2009).

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.

It is notable that 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. When, how and to what extent this influence is present is not exactly clear. However, our results indicate that the following statement of Ya Ni & 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, non-regulatory 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) (Burguet & Che, 2004; Berrios, 2006; 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 section 5.2.3. First, we will discuss the limitations of this study.

5.2.2 Limitations

This study has followed a deductive approach to find an answer to the research question. Based on the existing literature, a research model was developed. It formed the basis for the interview protocols. A possible limitation of this method is that not all of the literature on public procurement was found and used, which could mean that not all existing concepts regarding public procurement are present in the research model. Given our extensive literature review, we regard this possibility as rather small. Also, the open-ended questions in the interview protocol (see Appendix 2) should address a great deal of this possible limitation.

The conducted interviews were not recorded because recording the perceived sensitive information could have had a detrimental effect on the answers given (Saunders et al., 2009). Instead, permission was asked to take notes, which was granted in all interviews. Taking notes might bias the results of the study, since the interpretation of the answers can differ from the actual meaning behind them. Also, not all information given in the interviews might be written down. By working systematically and transcribing the notes directly after the interview, we tried to limit this bias as much as possible.

For perceptions from the private sector, we only interviewed Dutch companies. This might mean that the results cannot be generalized to other foreign companies. However, we believe they can, for two major reasons. First, all respondents were asked their perceptions regarding foreign companies, not Dutch companies. Second, as we explained before, the Dutch private sector is a highly relevant case for this study.

We decided to focus on Dutch companies that have worked for the federal government as the main group to be interviewed. The idea was that companies who have already done business with the US government are likely to have a lot of experience in trying to compete in this market, and along with the successful acquisition of government contracts, they are likely not to have won all the contracts they competed for. Thus, they should have a good perception of success factors and barriers to competing in the US federal procurement market. Not all Dutch companies that have competed for federal government contracts have been interviewed, which could mean we did not obtain all perceptions, possibly biasing our results. The same limitation holds for the consultant group and government official group of interviewees; to select samples for each group of interviewees, a non-probability sampling method was used: purposive sampling. Non-probability sampling provides the possibility to select samples based on subjective judgement (Saunders et al., 2009).

Another limitation of our research is the general character of our conclusions and revised research model. As Ya Ni & Bretschneider (2007) stated, any attempt to explain public contracting decisions must control for the type of service. Because not many different perceptions were found between the different industries represented, we think our revised research model and conclusions, despite their general character, might provide a valuable initial framework for future research.

5.2.3 Recommendations for further research

Our research contributes to the scientific literature on public procurement by studying public procurement from a business perspective (private sector), while most of the existing literature has focused on the implications of public procurement for governments (public sector). Also, we provide insight into the characteristics of the US federal procurement market, about which not much literature exists. New empirical data are presented, offering valuable information on possible barriers for foreign companies trying to do business with the US federal government and how to cope with them to become or remain successful in the US federal procurement market. We provide the scientific literature on public procurement with a preliminary model for further research, based on our findings. In this section, we present some recommendations for future research.

- As explained above, we do not have any reason to assume that success factors and barriers other than those found in this research play a role for companies from other countries than the Netherlands and the US trying to compete in the US federal procurement market. To confirm this assumption, further research could be useful, comparing the roles of success factors and barriers for other foreign companies with the ones found in this study.
- This study found that there is an influence of political factors and non-regulatory factors on the relationship between the endogenous variables (company-specific factors, product-specific factors and relational factors) and the dependent variable (winning government contracts). As we depicted, it is not exactly clear when, how and to what extent this influence is present. Future research can provide an answer to these uncertainties and thus elucidate our revised research model. Also, the 'weight' of each of the factors may be specified better, for instance with statistical support.

- We found that relational factors are important determinants for foreign companies trying to win federal government contracts. However, we did not specify what kinds of relationships and sociological factors most influence the winning of government contracts. Since there is extensive literature about sociological factors and their influence on social and business relationships, it would be valuable to see whether and to what extent these concepts apply in this specific context.
- Our study has focused on federal procurement in the United States; a very specific context for a study on public procurement. Because of the political system in the US, among other aspects, it would be interesting to see if our revised research model holds for governments of other countries or whether other success factors and barriers to the acquisition of government contracts apply. Also, future research could focus on local and state governments in the US, to investigate whether our presented model holds for their procurement processes and to what extent any differences exist compared with federal procurement processes.
- As explained, one limitation of this study could be the general character of our conclusions and our revised research model. For future research, it would be interesting to see whether differences exist regarding federal procurement and its success factors and barriers in and between industries, and to what extent this has implications for private companies. For instance, empirical data from this study imply a difference in 'weight' of factors for contracts covering commodity products and contracts for more complex, unique products.

6. Recommendations

Aside from the scientific contribution, this study has also provided new insights for foreign companies wanting to do business with the US federal government, demonstrating the practical relevance of our findings. In this section we elaborate on the practical implications, presenting recommendations for foreign companies and for the Royal Netherlands Embassy in Washington, D.C.

6.1 Foreign companies

As stated before, we do not have any reason to assume the results of this study cannot be generalized to private sectors from other foreign countries. Therefore, this section presents some recommendations for all foreign companies trying to compete in the US federal procurement market, based on our findings. They 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.

- 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. Before a company can compete for a contract, it has to fulfill various criteria. For foreign companies, it is wise not to try to deal with this alone. Instead, a collaboration with an intermediary, e.g. a consultant that specifically deals with Federal Acquisition Regulations, could be initiated before actually competing in this market. An embassy from the home country of the company could play a supportive role (see section 6.2).
- This study showed that 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.
- 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. For instance, when selling commodity products, getting on the GSA schedule might be a wise path to follow. When selling unique niche markets for defense purposes, becoming a subcontractor to a prime contractor could be a good strategy.
- 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. Not so much for generating income, but 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 sector, a company can increase its chances of getting information on opportunities before RFPs are made public, which allows them to prepare a good proposal, or even to make sure the RFP is written especially for their company. Consultants specialized in B2G practices might have useful information and relevant contacts, to whom they can provide valuable introductions. In addition, they are likely to have extensive experience in the market and can therefore provide useful information.

- To address the above mentioned recommendations, 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.

6.2 Royal Netherlands Embassy

The Royal Netherlands Embassy in Washington, D.C., contributed to this study in several ways. The Economic Division assumed the Dutch private sector could be more successful in the US procurement market than it has been so far. This assumption was the initial motive for this study, and after investigating the success of the Dutch private sector in the US federal procurement market (Vehof & de Boer, 2010), this assumption still holds. This study has provided the Economic Division of the Royal Netherlands Embassy in Washington, D.C., with insight into the characteristics of the US federal procurement market and the success factors and barriers for foreign companies competing in it.

This section presents some recommendations for the Economic Division to help support the Dutch private sector in doing business with the US federal government, based on the findings of this study. With this support, the Royal Netherlands Embassy can distinguish itself vis-à-vis embassies from other countries in the USA, since other embassies do not have a policy for the support of companies in the US federal procurement market. Referring to our revised research model, the supportive role of the Royal Netherlands Embassy should mainly focus on the initial stages of procurement processes, providing information on characteristics of the market, supporting companies in building networks and providing introductions to relevant people from the public and private sector:

- The embassy can proactively distribute information to the Dutch private sector about the US federal procurement market and the opportunities that exist. Information about upcoming projects and RFPs is – except for the publicly available information – almost never known to the Royal Netherlands Embassy and therefore less necessary, since an eventual proposal for a contract would then mostly be too late.
- It is more important to distribute information on the complexities of this market, to create awareness that this market is not an easy one to enter. Dutch companies should be aware of all the regulations they must comply with and all the requirements they have to meet. Creating this awareness seems to be an important task of the embassy, since most Dutch companies trying to compete in foreign markets turn to their embassy in that country first.
- The results of this study have shown that personal acquaintances and social relations are important for the awareness of opportunities to do business with the US federal government. Therefore, an adequate briefing on do's and don'ts regarding federal procurement based on the findings of this study, including references to public and private parties that can provide further assistance to companies, could be very useful for supporting the Dutch private sector in doing business with the US federal government.¹⁶
- Relational factors are very important for success in the US federal procurement market in several ways. Therefore, the Royal Netherlands Embassy can consider proactively building a directed network with public organizations in relevant industries, from which the Dutch

¹⁶ As a result of this study, a brochure with the do's and don'ts for Dutch companies trying to compete in the US federal procurement market was developed and distributed to the Dutch Ministries of Foreign Affairs and Economic Affairs, and the EVD.

private sector can benefit (e.g. providing introductions for new entrants). In some industries, like defense, water management and energy, this is already the case. Given the available means and the intensity of such activities, a clear choice could be made for certain industries and a strategy for the support of companies in those industries should be made with the involved attachés.

- This study has found that in the US federal procurement market, the chances for level playing fields are lower than in most B2B markets. The Royal Netherlands Embassy therefore could keep monitoring this intensively and denounce violations to the appropriate government entities, increasing the possibility of Dutch companies competing in level playing fields.

References

- Baker, G., Gibbons, R. and Murphy, K.J. (2001) *Bringing the Market inside the Firm?* American Economic Review 91, pp. 212-218
- Berrios, R. (2006) *Government Contracts and Contractor Behavior*. Journal of Business Ethics 63: pp. 119–130
- Brousseau, E. and Saussier, S. (2009) *Contracting with governments*. Advances in Strategic Management, pp. 1-26
- Brown, M.M., and Brudney, J.L. (1998) *A “Smarter, Better, Faster, and Cheaper” Government: Contracting and Geographic Information Systems*. Public Administration Review 58, 4, pp. 335-345
- Burguet, R. and Che, Y-K. (2004) *Competitive procurement with corruption*. RAND Journal of Economics 35, 1, pp. 50-68
- Burt, R. S. (2000) *The network entrepreneur*. In R. Swedburg (Eds.), “Entrepreneurship: The social science view”: 281-307. Oxford: Oxford University Press
- Chong, E., Huet, F., Saussier, F., & Steiner, F. (2006) *Public private partnerships and prices: Evidence from water distribution in France*. Review of Industrial Organization, 29, 1–2, pp. 149–169
- Chong, E., Staropoli, C., & Yvrande-Billon, A. (2009). *Auction versus negotiation in public procurement: Looking for new empirical evidence*. Unpublished manuscript.
- Drabkin, D. and Thai, K.V. (2003) *US. Federal Government Procurement: Structure, Process and Current Issues*. International Purchasing and Supply Education and Research Association’s Comparative Public Procurement Cases Workshop, Budapest, Hungary
- Engel, E., Fischer, R. and Galetovic, A. (2008) *The Basic Public Finance of Public-Private Partnerships*. Cowles Foundation Discussion Paper No. 1618
- Engel, E., Fischer, R., & Galetovic, A. (2006). *Renegotiation without holdup: Anticipating spending and infrastructure concessions*. NBER Working Paper No. 12339
- Erridge, A. (1996) *Innovations in Public Sector and Regulated Procurement*. In: Cox, A., “Innovations in Procurement Management”, UK, Earlsgate Press
- Erridge, A. and McIlroy, J. (2002) *Public Procurement and Supply Management Strategies*. Public Policy and Administration 17, pp. 52-71
- Granovetter, M (1985) *Economic Action and Social Structure: The Problem of Embeddedness*, American Journal of Sociology, pp. 481-510
- Greenstein, Shane. (1993) *Procedural Rules and Procurement Regulations: Complexity Creates Trade-Offs.*, Journal of Law, Economics and Organization 9, pp. 159-179
- Grimsey, D. and Lewis, M. (2007) *Public Private Partnerships and Public Procurement*. Agenda, 14, 2, pp. 171-188
- Guasch, J. L. (2004). *Granting and renegotiating infrastructure contracts: Doing it rights*. The World Bank Institute, Washington, D.C.
- Guttman, D. (2004) *Governance by Contract: Constitutional Visions; Time for Reflection and Choice*, Public Contract Law Journal 33 (2): pp. 321–60

- Hart, O. D. (2003) *Incomplete contract and public ownership: Remarks and an application to public-private partnerships*. *Economic Journal*, 113, pp. 69–76
- Hill, T. (1993), *Manufacturing Strategy: Text and Cases*, 2nd ed., Macmillan, London
- Holtz, H. (1979) *Government Contracts: Proposalmanship and Winning Strategies*. Plenum Press, New York
- Jansen, C.E.C. (2006) *Sleutelpublicatie: Beter aanbesteden in de bouw*. Regieraad bouw, the Netherlands
- Kelman, S. J. (2002) *Contracting*. In: Salamon, L.M., “The Tools of Government: A Guide to the New Governance”, pp. 282-318. New York, Oxford University Press
- Lawther, W.C. and Martin, L.L. (2005) *Innovative practices in public procurement partnerships: The case of the United States*. *Journal of Purchasing & Supply Management* 11, pp. 212–220
- Levin, J., & Tadelis, S. (2008). *Contracting for government services: Theory and evidence from US cities*. NBER Working Paper
- Linthorst, M.M. and Telgen, J. (2006) *Public purchasing future: Buying From Multiple Suppliers*. *Journal of Public procurement*. In: “Thai, K., Tiga, G., “Advancing public procurement: Practices, innovation and knowledge-sharing. Boca Raton, Pr Academics Press, pp. 471-482
- Martimort, D. (2008) *Introduction to the IJIO symposium on public/private partnerships*. *International Journal of Industrial Organization*, 26, pp. iii–iv
- Maskin E. and Tirole, J. (2007) *Public-Private Partnerships and Government Spending Limits*. *International Journal of Industrial Organization* 26, pp. 412-420
- McCrudden, C. (2004) *Using Public Procurement to Achieve Social Outcomes*. *Natural Resources Forum* 28, pp. 257–267
- Milgrom, P. (2004). *Putting auction theory to work*. Cambridge, Cambridge University Press
- Miyagiwa, K. (1991) *Oligopoly and Discriminatory Government Procurement Policy*. *American Economic Review*, 81: 1320–8
- Nash, R. C. and Cibinic, J. (1993) *Competitive Negotiation: The Source Selection Process*. National Law Center, Government Contracts Program, George Washington University, Washington, D.C.
- Reed, C.M. and Meyer, K.P. (2004) *Medicaid Managed Care for Children with Special Health Care Needs: Examining Legislative and Judicial Constraints on Privatization*. *Public Administration Review* 64 (2), pp. 234-242
- Reich, A. (2009) *The New Text of the Agreement on Government Procurement: an Analysis and Assessment*. *Journal of International Economic Law* 12(4), pp. 989–1022
- Robson, C. (2002). *Real World Research*. Oxford: Blackwell
- Saunders, M., Lewis, P., and Thornhill, A. (2009). *Research Methods for Business Students*. Harlow: Prentice Hall/ Financial Times
- Scott, W.R. (1987) *The adolescence of institutional theory*. *Administrative Science Quarterly*, 32, pp. 493-511
- Spiller, P. (2008) *An Institutional Theory of Public Contracts: Regulatory Implications*. NBER Working paper No. 14152

Telgen, J. (2006) *Public Procurement in Perspective*. In: Knight, L.A., Harland, C.M., Telgen, J., Callender, G., Thai, K.V. and McKen, K.E. (Eds), "International Public Procurement; Cases and commentary", Routledge

Thai, K.V. (2001) *Public Procurement Re-examined*. Journal of Public Procurement, 1, 1, pp. 9-50

Thai, K.V., Araujo, A., Carter, R.Y., Callender, G., Drabkin, D., Grimm, R., Ejlskov Jensen, K.R., Lloyd, R.E., McCue, C.P. and Telgen, J. (2004) *Challenges in Public Procurement*. Boca Raton, Florida USA, PrAcademics Press

Vehof, T. and Boer, R. de (2010) *Nederlands succes bij federale overheidsaanbestedingen in de Verenigde Staten*. Royal Netherlands Embassy, Washington, D.C.

Walker, H. and Brammer, S. (2007) *Sustainable procurement in the United Kingdom public sector*. University of Bath, School of Management, Working Paper Series 15

Weiss, F. (1993) *Public Procurement in European Community Law*, London: The Athlone Press.

Weiss, L. and Thurbon, E. (2006) *The business of buying American: Public procurement as trade strategy in the USA*. Review of International Political Economy, 13: 5, pp. 701-724

Wernerfelt, B. (1984), *The Resource-Based View of the Firm*. Strategic Management Journal , 5, 2, pp. 171–180.

Ya Ni, A. and Bretschneider, S. (2007) *The Decision to Contract Out: A Study of Contracting for E-Government Services in State Governments*. Public Administration Review 67, pp. 531-544

Yin, R.K. (2009) *Case Study Research: Design and Methods*. Sage publications

Websites:

<http://www.bea.gov/international/>

<http://www.census.gov/foreign-trade/balance/index.html>

<http://www.dailyfinance.com/story/boeing-vs-airbus-northrop-35-billion-tanker-deal-up-for-grabs/19173843/>

<http://www.gsa.gov/portal/content/104447/>

<http://www.imf.org>

<http://www.ppirs.gov>

<https://www.acquisition.gov/Far/>

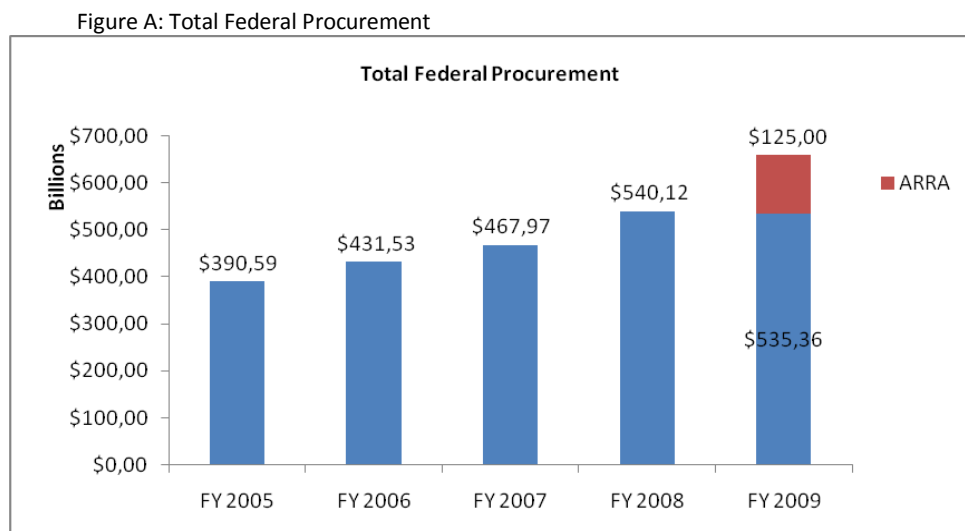
<https://www.fpds.gov>

Appendix 1: Federal procurement in the United States

The Economic Department of the Royal Netherlands Embassy in Washington, D.C., has tried to map the share of Dutch companies in total US federal procurement (Vehof & de Boer, 2010). First, the total federal procurement market was mapped, using the Federal Procurement Data System (FPDS)¹⁷, a web-based database containing all procurement contracts of all departments of the US federal government. Second, an estimation of the total value of federal procurement contracts won by Dutch companies is given. Finally, with the help of the International Trade Administration (part of the US Department of Commerce), a benchmark is made by comparing the Dutch share in federal procurement contracts to the share of companies from five other, comparable countries to place the Dutch share in perspective.

Total federal procurement

Federal procurement in the US 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. Although the overall procurement under the regular budget decreased slightly in 2009, the stimulus packages have to be added in the 2009 procurement overview. Figure A shows that when including the stimulus packages, the total amount of federal procurement increased significantly in 2009. The \$125 billion in the figure shows the amount of goods procured from the American Recovery and Reinvestment Act (ARRA) in 2009.



Source: Vehof & de Boer (2010)

In addition to the procurement figures of the regular budget and ARRA, insight can be gained into the total value of contracts through FPDS. That is, the "base and all options" value of contracts; the total value of a multi-year contract, which is reported for the fiscal year the contract is signed (e.g. a 10-year contract for a service worth \$10 million per year will get reported as \$100 million in the first year the contract is signed).

In collaboration with the International Trade Administration, the total value of all contracts signed in FY 2009 was estimated at \$79 trillion. This amount seems impossibly high, but one should keep in mind the above-mentioned "base and all options" values of contracts. Also, some of the contracts included in the data are blanket purchasing agreements or contracts of an "indefinite quantity, indefinite duration" nature. For instance, the Department of Defense might put out a long-term contract for an airplane refuelling service. The contract may have a minimum value, but this sort of contract might not have a specified amount of fuel – the contract might be for "refuelling services for ten years" without knowing what amount of fuel will be needed and what the market

¹⁷ <http://www.fpds.gov>

price of the fuel may be. For data reporting purposes, contracts such as these are given an arbitrary maximum value that is extremely high.

Despite these reservations, the reported amounts of money associated with federal procurement show that this is an enormous market. Thus, it is striking that so little is known in the Netherlands about the US federal procurement market and the success of the Dutch private sector in it.

Dutch success

To present a good estimate of the success of the Dutch private sector in the US federal procurement market, we looked at the total value of contracts (“base and all options”) won by the top 500 Dutch companies (by turnover) in fiscal year 2009 (Vehof & de Boer, 2010). This top 500 is expected to include the vast majority of Dutch companies active in the federal procurement market. The analysis shows that approximately \$24 billion worth of contracts was signed by Dutch companies in FY 2009. Most money was won in Defense, Energy, Veterans Affairs and Transportation (see table A).

Table A: Contracts won by top 500 Dutch companies

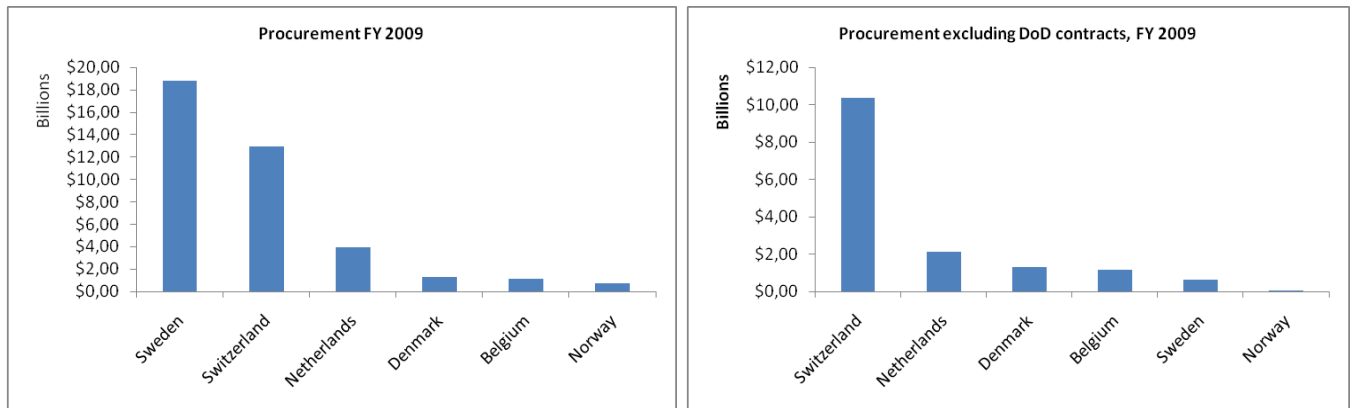
Federal procurement FY 2009	
Contracts won by top 500 Dutch companies	
"base and all options" value	
Department	Dollars
Agriculture	\$10,718,761.44
Commerce	\$36,571,102.95
Defense	\$20,284,516,280.44
Education	\$0.00
Energy	\$1,914,441,229.72
Health and Human Services	\$88,049,008.99
Homeland Security	\$56,509,675.90
Housing and Urban Development	\$14,994,018.68
Interior	\$15,860,305.67
Justice	\$18,713,641.57
Labor	\$27,162,022.72
State	\$8,267,587.04
Transportation	\$159,779,299.65
Treasury	\$30,350,641.35
Veterans Affairs	\$1,390,942,631.34
Total	\$24,056,876,207.46

Source: Vehof & de Boer (2010)

To put the Dutch success in federal procurement in perspective, we looked at the following comparable countries, in terms of economic characteristics: Belgium, Denmark, Norway, Sweden and Switzerland (Vehof & de Boer, 2010). Of these countries, no top-500 lists of companies were available, so the benchmark is made on the basis of the top-100 companies from all these countries (including the Netherlands).

In comparison with these five countries, the Netherlands placed third (see figure A); in FY 2009, the Netherlands earned more dollars with federal procurement contracts than Belgium, Denmark and Norway, but less than Sweden and Switzerland. Sweden does well in Defense and Switzerland in Health and Human Services (HHS). To find the exact reason why these countries earned more dollars in federal procurement than the Netherlands, one should look at companies and contracts on a micro-level (e.g. the Swiss company Novartis earns a large share of the Swiss HHS contracts).

Figure A: Shares of benchmark countries (top-100 companies)

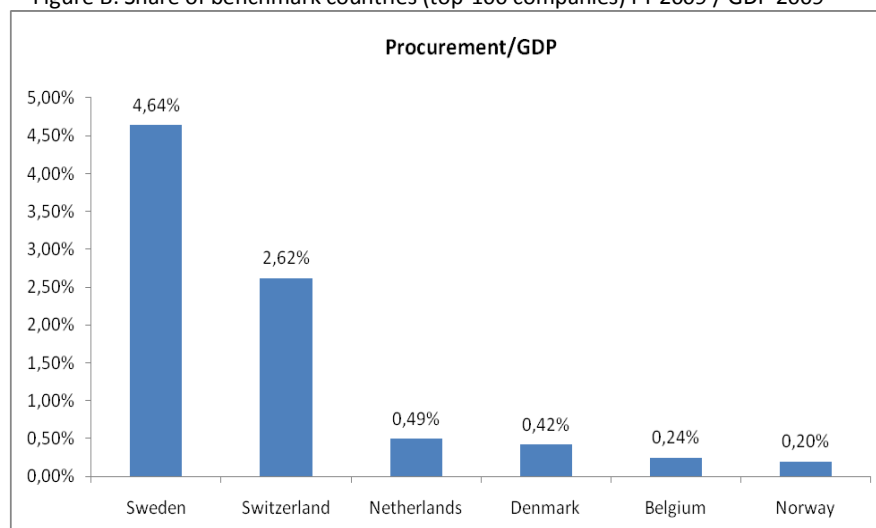


Source: Vehof & de Boer (2010)

Except for Switzerland, which earns the most money through the Department of HHS, all other benchmark-countries earn the most procurement dollars through the Department of Defense (DoD). When leaving out all DoD contracts, which is interesting because of the large share of DoD in total federal procurement, Switzerland remains the country with the largest share in federal procurement, followed by the Netherlands, Denmark, Belgium, Sweden and Norway. Thus, excluding DoD contracts, the Dutch share in federal procurement would be bigger than Sweden but still smaller than Switzerland.

A further perspective on the success of the Dutch private sector in federal procurement in relation to the success of the benchmark countries can be found by looking at the broader economic relations between the Netherlands and the US in comparison with the economic relations between the benchmark countries and the US. For the share of exports to the US and the share of imports from the US, the Netherlands is ranked first in comparison with the benchmark countries¹⁸. Overall, the Netherlands is the 3rd largest investor in the United States (after Japan and the United Kingdom), and the Netherlands ranks 1st when it comes to US direct investment abroad¹⁹. In addition, the Netherlands has the largest economy of all countries in the benchmark. Figure B presents a further perspective on the success of the benchmark countries in procurement (FY 2009) by taking into account their Gross Domestic Product (2009).

Figure B: Share of benchmark countries (top-100 companies) FY 2009 / GDP 2009



Source: Vehof & de Boer (2010)

¹⁸ <http://www.census.gov/foreign-trade/balance/index.html>

¹⁹ <http://www.bea.gov/international/>

Appendix 2: Interview protocol

Success factors for acquiring US Government procurement contracts. Interview protocol

V 4.0 20-04-2010

Interview protocol for:

- **Dutch companies that have been successful in acquiring US federal government procurement contracts.**
- **Consultants who support foreign companies in doing business with the US federal government.**
- **US federal government officials.**

Note: Part 1 differs per group of interviewees.

Part 1 (Dutch private sector)

1. *According to our research, this company has had success in acquiring US federal government procurement contracts. Can you elaborate more on the importance for this company of doing business with the government?*
 - *Is the government a key client?*
 - *Percentage of turnover?*
2. *What sort of acquired contracts dominated in the last few years and why?*
 - *Public Private Partnerships, Delivery Order?*
 - *Purposes of the agreement?*
 - *After sales?*
 - *Multiple sourcing?*
3. *Please give a description of the process from inducement to signing a contract.*
 - *Reasoning for doing business with government?*
 - *Entering new market (entrant or incumbent)?*
 - *Auction or negotiation or... ?*
 - *What strategy was used and why? Changed during the process?*
 - *Competitors for the contract?*
 - o *American competition? Disadvantages vis-à-vis American competitors?*

Part 2

4. *What do you think are the main barriers for foreign companies wanting to do business with the US federal government, and why?*

For instance:

Industry-specific factors: 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.

- e.g.
- Industry structure (monopoly/ few big competitors/ many small competitors)
 - Non-level playing fields
 - Competitive rivalry in the industry
 - Bargaining power of the buyer
 - Bargaining power of the supplier

Regulatory factors: Regulations and laws that the US federal government upholds regarding government procurement.

- e.g.
- Protectionism:
 - Buy American Act (US government to prefer US-made products in its purchases).
 - Jones Act (all goods transported by water between US ports carried in US ships).
 - Bureaucratic precautions
 - Federal Acquisition Regulations (FAR)

Non-regulatory factors: Factors that limit fair competition apart from regulations.

- e.g.
- Corruption
 - Errors in procedures

5. *What factors do you think are determinative for foreign companies for acquiring US federal government procurement contracts, and why?*

For instance:

Company-specific factors: Factors that apply to a company and distinguish it from other companies.

- e.g.
- Presence in US
 - Specific knowledge
 - Reputation / references / track record / past performance

Product-specific factors: Factors that create added value to the product/service being sold compared to similar, competitive products.

- e.g.
- Price
 - Quality
 - Uniqueness
 - Sustainability
 - Production flexibility (customization possibilities)

Relational factors: Factors that contribute to maintaining good relationships with parties involved in procurement processes

- e.g.
- Networking
 - Personal acquaintance with procuring party
 - Knowledge of government operations
 - Lobbying (budget)
 - Hiring experts/advisors

Part 4

6. *What boundary conditions do you think exist for foreign companies acquiring US federal contracts, and why?*

For instance:

- *Political circumstances*
- *Economic circumstances*

Part 5

7. *What role did the Royal Netherlands Embassy play in doing business with the US federal government?*
8. *What recommendations do you have for the Embassy on supporting companies in acquiring government procurement contracts?*

Thank you for your participation!