

Possible Barriers to a Successful Further Diffusion of the Best Value Approach in the Netherlands: Observations of Major Misunderstandings on the Concept and Theory

Wiebe Witteveen (MSc)
Ministry of Transport
Utrecht, The Netherlands

Jeroen van de Rijt (MSc)
Scenter Management Consultants,
Driebergen-Rijsenburg; the Netherlands

In recent years Best Value (BV) has gained popularity in the Netherlands. Many clients have adopted BV after the successful application in the ‘Spoedaanpak Wegen’ projects (Fast Track Projects) by Rijkswaterstaat (Department of Public Works). The social system of users of BV is evolving. In the past years primarily the procurement community was interested in BV (where it all started), but recently risk managers and project managers are becoming increasingly aware of the philosophy. Van de Rijt & Santema (2012) observed that (potential) users of BV all have a different level of awareness of the BV methodology and that experts in BV cannot force others into the “right” or “pure” methodology. However, BV experts can reflect upon major misunderstandings in order to improve the understanding and implementation of the philosophy. In this paper, the authors elaborate on this matter. They observe ten common misperceptions in the everyday application of the Best Value approach, which may hinder a successful further diffusion of the Best Value approach in the Netherlands.

Keywords: Best Value, Netherlands, misunderstandings, adoption

Introduction

BVP/PIPS (Kashiwagi, 2011) is a process/structure that optimizes the delivery of services by hiring experts instead of managing risk. It changes the procurement agent's role from being the guardian over the award of a contract, to a facilitator of the delivery of expert services. The new role of a facilitator starts when a user has a requirement and ends when the expert service has been delivered. The BVP/PIPS approach has three phases: selection, clarification and management by risk minimization.

The selection phase has five filters: past performance information, project capability, interviewing key personnel, prioritizing the vendors and performing a “dominance check” to ensure that the potential BV vendor truly is the best value. Through the selection phase the client's representatives are to assume the vendors are experts, knowing that the clarification phase will be used to confirm that the vendor selected truly is an expert. The paradigm is to minimize the need for technical decision making in the selection process, and maximize the need for the BV vendor to prove they are an expert in the clarification phase. This paradigm encourages vendors to show dominant differential in performance in order to minimize the need for any client technical decision making during the selection phase. The risk in being selected is shifted to the vendors, who are expected to show value through expertise, with verifiable documented support, knowing that experts minimize both risk and cost, thus providing the best value for the lowest cost.

Vendors are selected based on the following criteria (in prioritized order of importance):

1. Interview (rated, and weighted)
2. Non-technical risk which the vendor does not control (rated blind and weighted)
3. Project capability of the vendor (rated blind and weighted)
4. Value added options (rated blind and weighted)
5. Past performance information (not rated or seen, weighted) (Van de Rijt & Santema, 2013)
6. Cost (weighted, but not seen or rated by selection committee)

After the vendors are prioritized based upon the criteria listed above, one vendor is selected to enter the clarification phase. The clarification phase is the most important phase of the BVP/PIPS. If done correctly, the clarification phase should be used to clarify what the vendor will deliver and how they will deliver it. Once the client is convinced that the prioritized BV vendor is the best value (creates an approved risk management plan (RMP), weekly risk report (WRR), and performance measurements (PM)), the contract is awarded to the BV vendor. The BV vendor uses the contract as a risk minimization mechanism, by meeting the technical requirements of the project and minimizing the risks they do not control.

In recent years Best Value (BV) has gained popularity in the Netherlands (Van de Rijt & Santema, 2012; Van de Rijt & Witteveen, 2011a). Many clients have adopted BV after the successful application in the ‘Spoedaanpak Wegen’ projects (Fast Track Projects) by Rijkswaterstaat (Department of Public Works). Van de Rijt & Santema (2012) reflect on the adoption process in the Netherlands and state that when looking at the initial conditions in the Netherlands, the observation can be made that (potential) users of BV all have different levels of awareness of the methodology. Some seek access to the latest insights; while some are applying “old” techniques. The Dutch book on Best Value has been revised twice (1st edition 2009, 2nd edition 2011, 3rd edition 2013). Kashiwagi’s book gets revised every year; so many individuals each work with a different “handbook”. Van de Rijt & Santema claim that some practitioners are asking for a “universal Dutch standard for BV.” These practitioners seem to be confused by the differences (at a detailed level) concerning the methodology and are looking for more certainty. Van de Rijt & Santema (2012) propose that the philosophy which BV is founded upon, Information Measurement Theory (Kashiwagi, D. (2013a), proposes that there is no way to influence and control others. The initial conditions of the current environment, lead to the predication that there will be many different “ways of using BV” (final conditions). The idea that people can force others into the “right” or “pure” methodology is an illusion. An idea which lead Van de Rijt & Santema to claim, that the heavy demand of the BV/PIPS methodology has the risk of non-experts posing as experts of the BV approach.

Van de Rijt & Santema describe the adoption process of Best Value in the Netherlands, from the innovators and the early adopters to the early majority (2011). Now, late 2013, the observation can be made that the chasm to the early majority really has been crossed in the Netherlands. According to Rogers’ theory (1965) a large subsection of the social system follows suit with trusted opinion leaders. Even for those who are cautious or have particular worries or doubts with the innovation, adoption becomes a necessity as the implementation of the innovation-decisions of earlier adopters result in social and/or economic benefits. This may result in “newcomers” applying the innovation in a way that the originators did not intend.

Major Misunderstandings

What trusted opinion leaders can do is reflect upon major misunderstandings to improve the understanding of the methodology (“be the mirror instead of the source of light”). To provide an empirical source of information, the authors provided an open source database (available at <http://bit.ly/1jDTAAAt>). Here every Best Value practitioner can add projects to the database themselves. In the last couple of years, the authors of this paper have given hundreds of presentations and training sessions in the Netherlands. Together, they have applied the process more than 60 times, for more than € 1 B (circa 50% of the total in Best Value projects in the Netherlands). They are members of the Dutch Certification Board and can be considered thought-leaders on Best Value in the Netherlands. With Rijkswaterstaat they won the prestigious overall Dutch Sourcing Awards in 2012 with the application of Best Value on the Fast Track Projects (Blikman, 2012). In practice they have observed various misunderstandings in the everyday application of the Best Value approach. In this practitioner’s paper the authors lay out the observations they have made on ten common misunderstandings (Booij *et al.*, 2013). These misunderstandings are based on expert judgement, based on their projects and on numerous evaluations of Best Value projects (Doree and De Bree 2011; Vulperhorst, 2011; ATOsborne, 2011; Zandt and Ootjers, 2013; Van Binsbergen, 2013; De Bree, 2013a; 2013b).

1 - Best Value Procurement is Concerned with Procurement

A common misunderstanding that can be observed is that Best Value is just another “form of MEAT” (Most Economically Advantageous Tender). The term “Best Value Procurement” can be considered to be misleading because the term suggests that procurement has a central role. However, the opposite is true which might be one of the reasons Kashiwagi renamed his book from the “Best Value Procurement” to the “Best Value Standard” (Kashiwagi, 2013). Although “procurement” is certainly a part of the approach it is actually the clarification phase that is considered to be the most important in the Best Value approach (Kashiwagi, 2013; Van de Rijt & Santema; 2013). In this phase the selected best value vendor elaborates his proposal (e.g. clarifying his risk management plan and his planning in more detail) to the client. After the vendor is awarded the contract, they enter the third phase in which they will use the weekly report to monitor any deviations in terms of time, costs, and/or client satisfaction (Kashiwagi, 2013). The Best Value approach is explicitly concerned with risk management and project management during the execution of the project (Vulperhorst, 2011). Therefore it is increasingly accepted to use the term Best Value approach instead of Best Value Procurement.

2 - Best Value is Primarily Suitable for Construction Projects and in Particular for the Large Infrastructure Projects of Rijkswaterstaat

In 2009 Rijkswaterstaat used the Best Value approach for the “Fast Track Projects” (Van de Rijt *et al.* 2011). These projects are considered to be a true breakthrough of Best Value in the Netherlands (Van de Rijt & Santema, 2012). The success of the “Spoedaanpak” has led to tremendous interest in the original concepts of Best Value, which could occasionally be characterized as “hype” (Van der Heijden, 2013a; 2013b).

By observation it is concluded that today Best Value is applied in a larger number of industries. There is no reason to suppose that Best Value is only suitable for infrastructural sector (Kashiwagi, 2013). Examples of Best Value projects in the Netherlands are found in the routine quadrant of Kraljic matrix (both the public and private sector), e.g. office supplies, catering contracts, travel services, printers, and multifunctional devices. Other examples outside the construction industry are the purchasing of strategic products such as complex and technological advanced biorepository through the Best Value approach by UMCG (academic medical centre Groningen) (Posthuma, 2013; Van de Rijt & Santema, 2013). Also ICT-systems have been acquired through the use of the Best Value approach (i.e. by the Dutch Tax Authorities and the Province of Noord Holland). Projects have been procured with the Best Value approach, but also in framework agreements, in both the construction sector and beyond. Using the aforementioned open source database (<http://bit.ly/1jDTAAAt>) support the following observations are made by the authors:

- From 2006 to 2013 the Best Value approach has been applied over 200 times, with a budget spend of over € 2 B.
- 26.8% (56 projects) in the private sector and 73.2% in the public sector (153 projects).
- Within the public sector projects have been executed at several organizational levels :
 - 8 projects at 4 different provinces.
 - 27 projects in 17 different municipalities (7 of the 10 biggest municipalities have applied the Best Value approach).
 - 29 projects at 14 different water boards (out of 25 water boards in Netherlands).
- In total an estimated 107 projects in the construction industry, 31 projects in ICT, 5 catering projects, 3 security projects, 16 commodities and 9 in health sector have been completed.

In the private sector the following parties have put the largest number of projects on the market with the BV approach, i.e. Heijmans (12 projects); Boehringer Ingelheim (7 projects); Ballast Nedam (7 projects); ERA contour (6 projects) and IHC Merwede (6 projects) (all calculations above by the authors based on <http://bit.ly/1jDTAAAt>).

3 - Best Value Selects a Super-Expert Who Resolves all Problems for the Client

Perhaps the most common misunderstanding about Best Value is that the selected vendor will be perfect. Some expect the BV approach to deliver a vendor who will be able to eliminate all problems, resolve all client concerns and foresee all risks before they happen. Unfortunately, Best Value is not the “holy grail” that it at times is perceived to be by some persons in the procurement sector (Robbe; 2013). The Best Value is an approach to identify the best value available for the lowest price. It is not the idea that every BV vendor will perfectly predict the future and can evade all risks. Table 1 below shows risks will still occur, but the source of the risks is mainly the client.

4 - Best Value Transfers all Risks from the Client to the Vendor

Best Value emphasizes the importance of minimizing risks through the utilization of expertise. Based on the results of completed projects, the client’s risks are often the greatest risks to the

project (Kashiwagi, 2013; Van de Rijt & Santema; 2013). Best Value utilizes the vendor’s expertise to minimize the client’s risks. This is primarily achieved by the vendor who indicates clearly what is expected of the client and when this is expected, and by measuring this in a transparent manner. An important goal of the clarification phase is to define clearly what is in and what is out of the scope of the vendor to demarcate these expectations.

An analysis on the results of the Fast track projects confirm Kashiwagi’s claim that most risks are mainly caused by the client (Table 1).

Table 1

Source of risk at the fast track projects (Rijkswaterstaat) (Horstman, 2013)

Party	Occurrence	%	Extra costs %	Extra time %
Rijkswaterstaat <i>Project teams, departments, road districts, traffic centrals</i>	245	88.4%	90.3%	57.4%
Provinces	2	0.7%	0.1%	0.0%
Water boards	3	1.1%	0.5%	0.0%
Municipalities	4	1.4%	0.4%	0.0%
Stakeholders in the environment <i>E.g. a gas company, the planning authority, cables and pipes managers</i>	19	6.9%	8.3%	25.0%
Rijkswaterstaat	271	98.6%	99.5%	82.5%
Contractors	4	1.4%	0.5%	17.5%
Total	277	100.0%	100.0%	100.0%
<i>Total compared to planning</i>			<i>18.2%</i>	<i>9.6%</i>

In addition, the vendor can identify in advance, when possible scenarios of risk may occur. When the risk occurs the vendor is only responsible for performing the agreed (preventive) mitigating measures (Kashiwagi, 2013). The consequences of these risks in terms of time and budget are (rightly) attributed to the client. This misunderstanding tends to occur from both the client’s and vendor’s perspective. It is seen that vendors write proposals in which risks are transferred to the vendor. Paradoxically, instead of minimizing risks, this results in creating risks.

5 - With Best Value the Client Doesn’t Need to do Anything (Bahama-model)

As mentioned previously, the client is the largest source and/or carrier of risks. Therefore, it is a misconception that the client can lean back in a Best Value project (i.e. the so-called Bahama-model, Van den Berg & Jansen, 1996). The idea with Best Value is that the vendor clearly indicates what and when they expect something from the client, measures the performance of the made agreements, and notifies the client when agreements are not met or breached. As a result it is expected that the client will initiate activities and engage with risks that are their responsibility (e.g. take care of the licenses). It is emphasized the activities for which the vendor is responsible, the client minimizes the number of reviews and control activities to give the vendor the maximum space to deliver.

6 - The client no Longer Needs Any Expertise When Using Best Value

This misunderstanding is in line with the previous misunderstanding. Indeed, there is still plenty of work that has to be carried out by the client. In theory, this amount of work is limited by what has been outsourced towards the vendor (the reason why they were contracted). This means that the client still needs expertise concerning the topics at hand, i.e. they are still responsible for their own affairs. A main precondition for successful use of the Best Value approach is to define a sound problem (Van de Rijt & Santema, 2013). The objective is the basis for the assessment framework for the various bids. Knowledge to define the right problem statement is therefore indispensable!

7 - The Best Value Approach Selects a More Expensive Vendor

Through application of MEAT (instead of selection based on lowest price) the project will not become significantly more expensive. Research of Rijkswaterstaat (Table 2) indicates that in 80% of all procurements with MEAT the winning proposal also has the lowest price. The price-increasing effect of MEAT is estimated around 2%. Needless to say, this cannot lead to the conclusion that when the lowest price has been selected this also automatically results into the best quality.

Table 2

Effect of MEAT on the price (Handreiking EMVI Rijkswaterstaat, 2011)

Item	2011	2010	2009	2008	2007	2006
Number of procurements with MEAT	66	86	49	36	41	37
Lowest tender has also the lowest price	48 (80%)	61 (71%)	32 (65%)	26 (72%)	27 (66%)	22 (60%)
Total price lowest tender with the MEAT procurement	861 M€	887 M€	740 M€	534 M€	770 M€	1.231 M€
Total price with MEAT		902 M€	767 M€	548 M€	787 M€	1.243 M€
∑ difference MEAT and lowest priced tender		15 M€	27 M€	14 M€	17 M€	12 M€
Price enhancing effect MEAT procurement system		1.7%	3.6%	2.6%	2.2%	1.0%
Average number of contractors		4.8	4.5	4.2	3.8	3.6

The remaining question is what the effect is of the Best Value approach. To address this, the authors made an overview of their latest 28 Best Value projects in which the request has been made for a price (price was not requested in all projects; these projects are not included in the overview). In 10 out of 28 of the projects the winning bid turned out to have both the lowest price and the highest quality. In 6 of the other projects the winning bid had the second lowest price. The table below demonstrates that out of the latest 28 projects, the winning vendor offered the best or next to best quality (with only one exception). The conclusion can be drawn that Best Value does not lead to the selection of a more expensive vendor. The observation can be made that it might be just the contrary.

Table 3

Overview of the ranking of winning bids based on price and quality (Van de Rijt & Witteveen, 2011b)

Price of the winning bid			
Lowest price	1	1	10
Next to lowest price		2	6
Second to lowest price		3	5
Quality position of the winning bid			
	3 rd	2 nd	1 st

An important thing to realize is that the total costs involves more than the price of the bid. Actually, one should also take into account the integral costs of the other vendors. During this process the costs of the client should be included. Compared with traditional procured projects these seem to be lower when applying the Best Value approach (the client needs to do less work during the preparation). The costs of executing the project should be lower too since experts are doing the work. The effects of Best Value on the integral project costs might be a good topic for future research.

8 - In Best Value the Vendor Writes the Entire Contract

In many presentations it is stated that “the prioritized vendor writes the contract” (Kashiwagi, 2013). Especially for lawyers this statement seems to be a little too simplistic. The nuance needed is allocated in the fact that the envisioned vendor contributes to the content of the contract, because aspects are mentioned in the proposal about the performance (i.e. the way they will handle risks). The tender documents (risk assessment and value added plan), the most important statements made during the interviews, and the documents from the clarification phase determine the content of the contract and what is delivered by the vendor. On the contrary, the terms of the contract originate in cases from the client (i.e. general procurement conditions or proposed risk allocation). For these aspects it is still the client that writes the contract itself (the vendor gives input for specific aspects of the contract).

A closely related misunderstanding that can be observed and that we would like to address here as well is that “there is not a contract required with Best Value”. Best Value is concerned with accountability and transparency. Agreements have to be written down (during the clarification phase) to create clarity in both directions (client-vendor). These clarifications are then poured into a contract. It is not so much the contract itself that is central, but the agreements made that it contains.

9 - There is Only One Way to Apply Best Value

Some people believe there is only one (very strict) way to apply the Best Value approach. In the Netherlands various applications of the Best Value approach are introduced, e.g. with a risk assessment of the vendor, a scope document and no more than two interviews etc. Van de Rijt et al (2011) describe why there had been deviation from the original methodology in the Fast Track projects. One of the main principles of Best Value is “no control”; we cannot control and influence others. As a result it is very natural that there are various ways of applying the Best

Value approach (Van de Rijt & Santema, 2012). It is important that the main considerations of the Best Value philosophy remain intact. The moment that the client or his representatives start making decisions the project is no longer Best Value!

10 - Execution of a Best Value Project is Very Simple

Although the Best Value approach seems to be very logical and simple at first glance, in practice the implementation does not turn out to be that easy. A number of principles are counterintuitive. Human nature intervenes quickly based on ingrained patterns such as reverting to technical details (instead of dominant information), directing and controlling (sometimes disguised as the euphemism “orchestrating”) of the vendor, or in negotiations with the vendor (instead of pursue a win-win). Some advice is to use a certified Best Value advisor, who is able to coach and facilitate the successful application of the Best Value approach.

Conclusion

Best Value is taking off in the Netherlands. It is being embraced by the procurement professionals, the project managers, the risk managers, and the major owners/buyers of construction services. The BV approach is also being embraced by clients of non-construction products and services. The increasing demand of the BV approach brings along the risk of non-experts posing as experts of the BV approach. As shown in this paper, there are numerous misunderstandings about the concept of Best Value. These misunderstandings pose a risk for successful further implementation of the Best Value philosophy. As concluded earlier by Van de Rijt & Santema (2012), this risk can be partially mitigated by having a Certification Board which certifies BV professionals who (with verifiable performance information) show they understand the idea and process (Best Value in the Netherlands). There is no real control though: many hybrid forms of Best Value will appear and develop. Best Value will grow, as long as the results show the benefits (on time/on budget) of using the approach. Education is a key concept in order to successfully implement the Best Value approach. Education will lead to a correct understanding of the philosophy. On its turn this will lead to a better application of the Best Value approach, also by the early majority and other “followers”. Logic shows that the better the application is, the more successful the effort will be. In this paper the authors have laid out their observations on ten common misunderstandings that will help other practitioners to avoid common pitfalls.

References

Berg, M.A.M.C. van den & Jansen, C.E.C. (red.) (1996). *De ontwerpende bouwer*. Tjeenk Willink: Zwolle.

Best Value in the Netherlands. Certification Board. Retrieved on December 26, 2013 from URL: <http://pbsrg.com/best-value-model/netherlands/certification-board/>

- Blikman, A. (2012). Rijkswaterstaat grote winnaar Dutch Sourcing Awards 2012. Deloitte. Retrieved on December 26, 2013 from URL: <http://actueel.deloitte.nl/focus-op/dutch-sourcing-awards/rijkswaterstaat-grote-winnaar-dutch-sourcing-awards-2012/>
- Booij, A., Hillen, M. M., Santema, S.C. (2013). Towards the Best Value Tender: the SMART Assessment Tool. *Journal for the Advancement of Performance Information and Value*, 5(5), 31-41.
- De Bree, T.A. (2013a); Evaluatie aanbesteding verbreding Lekkanaal & aanleg 3e kolk Prinses Beatrixsluizen
- De Bree, T.A. (2013b); Evaluatie aanbesteding Verkenning Houtribdijk
- Doree, A.G. and De Bree, T.A. (2013), Evaluatie aanbestedingsfase Nederrijn
- Heijden, G. van der (2013a); Een inkoop hype... Best Value Procurement; <http://spendmatters.nl/2013/02/20/een-inkoop-hype-best-value-procurement/>
- Heijden, G. van der (2013b); De hype Best Value, daar gaan we weer.....; <http://www.aanbestedingsmakelaar.nl/in-het-nieuws/1898-de-hype-best-value-daar-gaan-we-weer>
- Horstman, A. (2013). Performance indicators in the Best Value approach, Proposed process for developing and using performance indicators for infrastructural projects approached with Best Value; master thesis University of Twente.
- Kashiwagi, D. (2013a) Information Measurement Theory: A Revolutionary Approach to Risk Management; Kashiwagi Solution Model (KSM); Mesa, Arizona.
- Kashiwagi, D. (2013b). Best Value Standard; Kashiwagi Solution Model (KSM); Mesa, Arizona.
- Posthuma, S. (2013) Prestatieinkoop en innovatie; Aanschaf van de biobank LifeStore bij het UMCG in Van de Rijt & Santema (2013) Prestatieinkoop
- Rijkswaterstaat ; Handreiking EMVI (2011).
- Van de Rijt, J. & Santema, S.C. (2012). The Best Value Approach in the Netherlands: A Reflection on Past, Present and Future. *Journal for the Advancement of Performance Information & Value*, 4(2), 147-160.
- Van de Rijt, J. & Santema, S.C. (2013). Prestatieinkoop; met Best Value naar succesvolle projecten (in Dutch), Graphicom.
- Van de Rijt, J. & Witteveen, W. (2011a). Guest Editor's Introduction to the Special Issue: Best Value Procurement in the Netherlands. *Journal for the Advancement of Performance Information and Value*, 3(1), 1-5.

Van de Rijt, J. & Witteveen, W. (2011b). Contractor selection using BVP in the construction industry; IPSERA conference proceedings

Van de Rijt, J., Witteveen, W., Vis, C., Santema, S. (2011). Best Value at the Directorate-General for Public Works and Water Management in The Netherlands. *Journal for the Advancement of Performance Information and Value*, 3(1), 90-101.

Robbe, T. (2013); Wanneer Best Value geen Best Value meer is.

Rogers, Everett M. (1965, 2003 5th edition) Diffusion of innovations. NY, New York: Free Press.

Van Binsbergen, O. (2013), PLuG Geluid Perceel 1 Evaluatie aanbesteding.

Vulperhorst, L. (2011); Innovatieve marktbenadering.

Zandt, E. and Ootjers, A. (2013). Evaluatie Totstandkoming van de overeenkomst “het meerjarig in stand houden van infrastructuur, met upgradewerkzaamheden, in het beheergebied van Rijkswaterstaat Dienst Oost-Nederland, perceel 1, 2 en 3” (zaaknummer 31046279).

Acknowledgements

The authors would like to thank Tim Snippert for translating from Dutch to English and Axel Booij for conducting his research.