

Problems of Bidding Process in China^{1, 2}

By Peng Wang

ABSTRACT

The bidding process is one of the most important processes in a project, it decides whether a group could have a chance to do a project or not. In such a vital process, there are companies making profits by using special method based on relationship. For this paper, the author interviews an employee to get the real data and analyze these data with the MADM method. The author points the deep reason behind the problems of bidding process. That is the relationship plays the key role in the bidding process. To reach a healthy BAU environment, the author gives suggestions to solve the problems in bidding process.

Key words: Bidding process, relationship, technical parameter, IT, China, culture

INTRODUCTION

Problem Recognition

Bidding process is one of the most important processes in a project, it decides whether a group could have a chance to do a project or not. From the 21st century, Chinese market is becoming more attracting in the whole world. Based on the data from Ministry of Commerce of the PRC, from January to July 2017, there are 17695 foreign companies founded, and the actual foreign capital is used 72.14 billion dollars³. Therefore, the basic research on Chinese bidding system is necessary in order to get the bid among several competitors. There are a lot of visible and invisible rules and conventions during the bidding process. By interviewing an employee in a Telecommunication/ Network company located in Harbin, North-east of China, second-line city, and seeing through the Chinese bidding laws and some bidding documents in the real business, this paper will provide a different view on Chinese bidding process, choosing IT field as an example, to show some process which does not write down in the Chinese bidding law.

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³ Ministry of Commerce of PRC. (2017, September 1). 2017年1-7月The Statement of Attracting Investment from Foreign Companies Website of Ministry of Commerce of the PRC. Retrieved November 2017 from <http://www.mofcom.gov.cn/article/tongjiziliao/v/201709/20170902640365.shtml>

Since there is no effective paper reflecting the system of 'operating in shadow', the author will carry on the analysis from an exclusive perspective; Chinese view. One process the author will discuss is that sometimes basing the special relationship between two parties in bidding process, the part of making the bid will communicate the specific parameter of their bid in order to let the only company they want to cooperate have the chance to win the bidding. So the deeper reason is well worth researching.

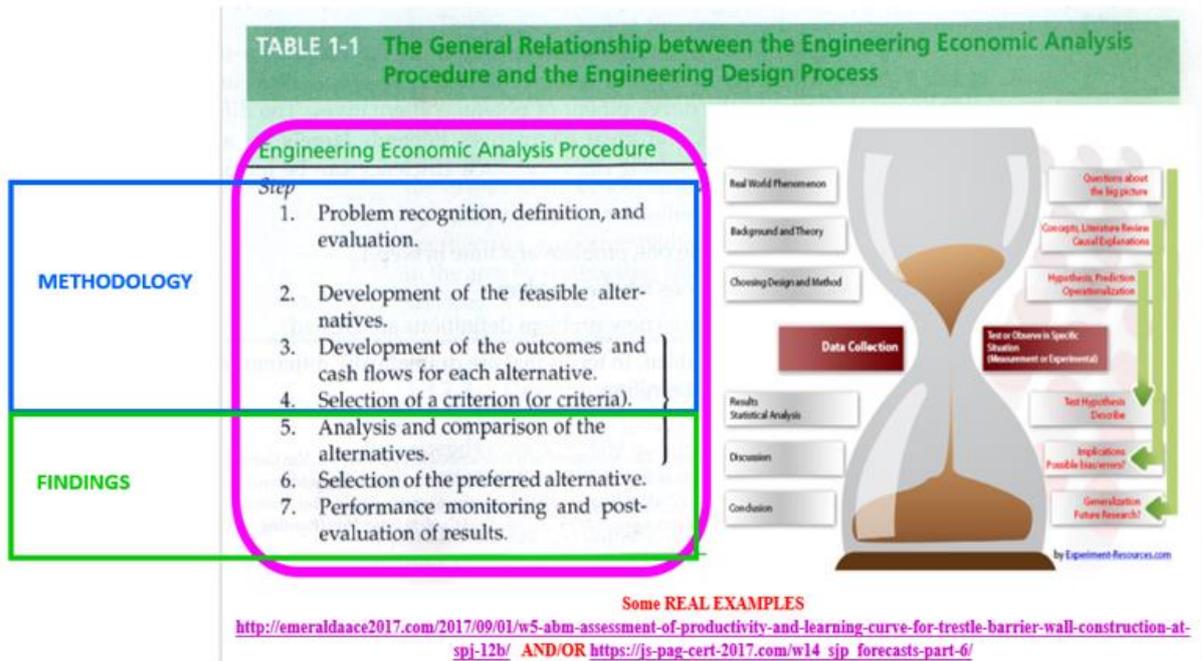
The purpose of this paper is to let those people who want to do business with Chinese companies know some hidden rules in the bidding documents. This might enable some readers to get higher competitive advantage in Chinese market. By looking through the backgrounds of all the bidding process with corruption, the author can find that there is a black-box operation between bidders, and there are communications between bidder and agency. Also there is manipulation by employees in the bid management institution, as well as some leaders' involvement.

Step 1 - Problem definition

The aim of bidding process is designed for anti-corruption. But if it could not be used appropriately, it could be a legal cover for illegal behaviors. The most common four new tricks:

- **Standard Corruption.** This is the very common terms written in the bidding documents before. For example, company A wants to construct a building; before the bidding, company A chooses a winning bidder who has a good relationship with them, then they put such a term inside the bidding documents: Having the experience of working in our company. So this way, expect the winning bidder they want, other bidders cannot participate in the bid.
- **Controlling assessment.** In this kind of trick, there is also a winning bidder with a good relationship. Due to the concern about the failure, the leader of company A, who is in the bid assessment committee, expresses a strong wish to cooperate with them when they introduce the bidders and say less things about other bidders. Also, during the break of the assessment meeting, he will also communicate alone with other judges to let them vote for the bidder he wants to work with.
- **Multiple bidders.** Company A wants to win the bid, so they borrow or hire five or six different but competent companies; if one of them wins the bid, they will give up the bid and transfer the bid winner to company A, bring up the bid price and these companies share the profits.
- **String.** Some companies will discuss together who should be the bid winner after they get the invitation for bids, and manipulate the bid price, and next time they are going to be the bid winner by turns.

FINDINGS-



In this section you put Steps 5, 6 and 7

METHODOLOGY

In this paper, the author will use the Multiple Attributes Decision Making method as foundation to make a thorough comparison between feasible alternatives to weigh each attribute. Since in the bidding process, the factors which could possible influence the bid consequence is various from organizations. In this situation, MADM analysis method can indicate the most important criteria, based on which the author can give personal perspectives to the successful bidding in China. Also, in order to make more accurate assessments, the author will use Request for Proposal (RFP) as a complementary tool to support the author's theory.

Step 2 - Identify the Feasible Alternatives

In the picking bidding process, there are three bidders: Company A, B and C. Company A is a famous network devices provider. And it will follow the standard bidding process. Company B is a pre-decided bid winner in this process, but their products could also fit the requirements. Company C is a relevant company, they do not have the devices which could meet the requirements. The aim of company C showing here is helping company B and make the whole bidding process more reasonable.

Step 3- Development of the Outcomes for Alternatives

Dominance (Using PairWise Comparison)			
Selection Attributes	Bidder 1 vs Bidder 2	Bidder 1 vs Bidder 3	Bidder 2 vs Bidder 3
Technical Skills	Better	Better	Better
Price	Worse	Better	Better
Past Performance	Worse	Equal	Better
Relevant Experience	Equal	Better	Better
Reputation	Better	Better	Better
Financial Capacity	Equal	Better	Better
Delivery & Installation	Better	Better	Better
After-sales services	Equal	Worse	Worse
DOMINANCE?	MAYBE	Yes	Yes

Ideally, bidder 1 and bidder 2 are highly recommended. But through the Non Compensatory method, the author still could not make a difference between bidder 1 and bidder 2. In this case, the author will use Compensatory Method to give a detailed analysis to identify which one is better.

Step 4 - Selection of the criteria

During this bidding process, we choose these attributes as Pre-Defined RFP Evaluation Criterion, which also have specific percentage weighting:

- a. Technical Skills (20%): It could show whether the devices could meet the tender's requirements.
- b. Price (15%): Most important for bidding, because tender has limited budget.
- c. Past Performance (20%): Rely on the past relationship between tender and bidder.
- d. Relevant Experience (5%): This could reflect whether a company has enough experience to do the project.
- e. Reputation (5%): A good reference and mark that tells us whether the company will adhere the contract.
- f. Financial Capacity (5%): Relative to the payment.
- g. Delivery & Installation (10%): One of the important criteria in contract is the period of delivery.
- h. After-sales services (20%): This one could guarantee tender's rights.

FINDINGS

Step 5 - Analysis and comparison of the alternatives

Project "RFPs" (Request for Proposals) are most effectively prepared using pre-defined standards that provide content guidelines, along with established viability criteria to facilitate evaluation and promote informed decision making. Based on the method which World Bank provides⁴, the author gives two evaluation tables.

Attributes	Bidder 1(Company A)	Bidder 2(Company B)	Bidder 3
Technical Skills	Exceed the standard	Fit the standard	Lower than the standard
Price	263k	255k	230k
Past Performance	Fair	Excellent	Poor
Relevant Experience	Excellent	Fair	Poor
Reputation	Excellent	Excellent	Excellent
Financial Capacity	Fair	Fair	Poor
Delivery & Installation	45days	60days	90days
After-sales services	3 years free	3 years free	Free
Technical Skills>Past Performance>Price>After-sales services>Delivery etc.			

Table 1

Attributes	Bidder 1(Company A)	Bidder 2(Company B)	Bidder 3
Technical Skills(20%)	1	0.8	0.2
Price(15%)	0.6	0.75	0.45
Past Performance(20%)	0.6	1	0.6
Relevant Experience(5%)	0.25	0.25	0.2
Reputation(5%)	0.2	0.15	0.1
Financial Capacity(5%)	0.2	0.2	0.15
Delivery & Installation(10%)	0.5	0.4	0.3
After-sales services(20%)	0.8	0.8	1
Total Score	4.15	4.35	2.7

Table 2

- 5 points: Fully Meets
- 4 points: Meets, with minor gaps (no compromise required)
- 3 points: Meets, with moderate gaps (some compromise required)
- 2 points: Partially meets (significant gaps, compromise required)
- 1 point: Does not meet

⁴ The World Bank. (2016, July). Use of evaluation criteria for procurement of Goods, Works, and Non-consulting Services using RFB and RFP. Retrieved from <http://pubdocs.worldbank.org/en/201591478724669006/Guidance-Evaluation-Criteria-FINAL.pdf>

Note: All the scores in Table 2 are calculated using the formula:

$$\boxed{\text{Final Score} = \text{Original Score (Max.=5)} * \text{Percentage Weighting.}}$$

In Table 1, we could find that company A is better in most attributes like technical skills and Relevant Experience, company B has a more attractive price, better past performance and excellent reputation too. Company C has only free after-sales services, no other advantage.

But when it comes to the table 2, we could clearly see that the company B has a higher final score. The reason is we give the score with percentage weighting when we evaluate them. Different Attributes have different weighting. Since the company B is the pre-decided bid winner, the bid evaluation committee could design a different percentage weighting to influence the final score. That is why even company B does not better than A but they could still win the bid.

In fact, we could see the attribute 'past performance' as the performance of relationship. As company A does not have the relationship with tender, when they give the solution, they have to meet the basic technical requirement. So they will choose an exceed solution. That leads to a higher price. However, company B has relationship with tender, they have already discussed with tender, all the technical requirements are defined by company B's devices. Thus company B could win the bid by a lower Price.

Step 6-Selection of the preferred alternatives

In the standard bidding process, the tender should be isolated with all the bidders so that all the parties could have a fair competitive environment. In the picking process, the author believes that company A is better. Because company A follows the legal bidding process. There are some reasons to follow the legal bidding process. First of all, it could save public procurement funds and ensure the quality of procurement. It has great significance to preventing and punishing corruption and upholding social fairness and justice. Secondly, people do projects for people, by following the legal bidding process, we could make sure that the people could benefit from the project product. In this aspect, company A's devices could better fulfill the requirements even though their devices are expensive. From long-term considering, it is a better alternative. Although company B wins this bid, but they use illegal way. This could lead to legal issues in the next few years. This could be a way to compete but it is not a recommendation.

Step 7- Performance monitoring and post-evaluation of results

We could see that without the relationship, the only way to win the bid is to ensure that the solution could meet the basic technical requirement no matter how high the price is. However, the thing is opposite if we could have a relationship with the tender. With the relationship, we could have a preparation before bidding to get the advantage. How could relationship be so important in bidding process in China? Here are some Deep reasons:

- Shared Profits

Usually when it comes to the bidding process, there are always some shared profits. In the economic society, every company or every person wants to earn the profit, we could not stop to seek profits, so if there is a chance to gain the profits, someone would like to have a try even though sometimes it is illegal. With the relationship, two companies will create a chain of transporting profits. After winning the bid, they shared the profits as pre-agreed. This kind of reason could explain well why most western countries have problem in the bidding process,⁵ also in some Africa countries.

- Culture & History

Beside the shared Profits reason, there are also the culture and history reasons in China. In the past, China was a clan-style, gigantic & minor settlement with matriarchal clan as the main link, with friends and colleagues and their relatives as the secondary link. In this case, the large clan's interpersonal network is an absolute force in small cities and rural areas. It would undoubtedly be wise to rely on a local mainstream strength. This is true even in many places up to now, that is what we all called the relationship. Relationship is everywhere. The relationship between a small city and a metropolitan area is limited. Its relationship circle is smaller and the influence of the relationship is bigger. Therefore, history and geographical differences have a great influence on the relationship.

CONCLUSIONS

To draw a conclusion, this paper takes two examples of bidding process and use MADM method to analyze the vital factors. Furthermore, the author gives a personal perspective towards this problem that is in a word, in the dreaming world, the fittest bid can survive from the competitive commercial business environment; however, the real world is thoroughly contrary.

From the author's opinion, the nature of bidding is to be fair and transparent, and corruption can ultimately appear. Therefore, since the author has already found these problems in bidding process, the author strongly recommend that the organization should avoid them to ensure that all the parties in bidding process could enjoy their own rights and a fair economic environment.

⁵ Ariane Lambert-Mogiliansky, & Konstantin Sonin. (2009). Collusive Market-Sharing and Corruption in Procurement. Retrieved November 2017 from <http://www.enpc.fr/ceras/lambert/JEMS.pdf>

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