

Executive Summary

The bureaucratic barriers for SMEs in the construction sector as a result of their participation in public procurement

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Summary

SMEs often complain about the excessive bureaucratic burden when participating in public tenders. Using three companies from the construction sector as examples, we investigate the bureaucratic costs involved in participating in public tenders (known as "monetary costs") and how emotions further intensify the bureaucratic burden (referred to as "psychological costs").

The size of the company affects the monetary costs

Monetary costs per participation in a public tender tend to decrease with company size. The smallest company has the highest costs at around €3,070, while the costs for the small and medium-sized enterprise are approximately three times lower.

Larger companies tend to have lower costs per tender due to economies of scale and routine, as well as lower labour costs for the person handling the application. Instead of the management, increasingly specialised employees take over parts of the application process. However, other factors, which are only partially dependent on company size, also influence the level of monetary costs. On the one hand, the company's chosen strategy for participating in public tenders (e.g., focusing on specific public clients versus diversifying clients) plays a role. On the other hand, the working practices of the awarding authorities also impact the monetary costs.

An inverse relationship between psychological and monetary costs

The highest monetary costs for all three companies arise during proposal preparation. While this step also involves negative emotions, they are less pronounced as the necessity of the process is understood. In contrast, tasks like compiling formalities, searching for tenders, or submitting proposals trigger frustration, anger, or irritation due to unclear requirements or inefficient processes, leading to higher psychological costs. However, monetary costs are low in these steps.

Reducing psychological costs is urgently needed

To ensure sufficient SME participation in public tenders in the future, efforts to reduce bureaucratic burdens should prioritize lowering psychological costs. The "once-only" principle could provide significant relief by eliminating the need for companies to repeatedly supply information already held by other government

entities. Additionally, fully digitising the participation process through a centralized tendering platform with extensive standardization could substantially reduce psychological costs. This would enable companies to search for tenders, prepare proposals, and submit bids more efficiently.