

# Appendix A: Case Study - e-Procurement in a Local Authority

Here is a fully worked case study based on an assessment carried out in a Local Authority. Some of the details have been omitted for confidentiality reasons.

## **1. Introduction**

The client is a Metropolitan Borough Council with 5,500 employees. The e-Procurement Strategic Review was undertaken ahead of a project planned to bring in an electronic marketplace and modernise the purchase-to-pay (P2P) processes, most of which are still carried out manually at present.

Some 1,000 managers and staff and around 7,500 suppliers are thought to be involved in purchasing, invoice processing and payment for goods and services – a spend of £200m last year.

The objective is to roll out e-procurement within 6 months. The Executive Board had identified a number of potential risks in the early planning of the project and the review was commissioned to bring these into focus, assess their importance and develop strategies to deal with them.

They included:

- A failure of a previous process improvement exercise to deliver expected results
- The issue of compliance in a highly devolved organisation
- The significant levels of change over the past 2-3 years, resulting in ‘change fatigue’
- The lack of strategic priority afforded to procurement by dept heads and operational managers.

## **2. Approach**

Imaginist carried out a review of:

1. The project
2. The organisation
3. External factors, such as the relationship with key suppliers.

The review followed the INPACT assessment methodology, which focuses on both process and culture transformation, identifying the main barriers to success and recommending prioritised actions to address these.

## **3. Results**

The review identified that the lack of attention to both process and culture issues would prejudice the realisation of the planned e-procurement project benefits.

A calculation of the impact of the underlying barriers was presented to the client, together with the reasons for this conclusion.

After discussion it was accepted that the project could take twice as long to implement as planned (and cost 70% more) and that the return in efficiency and cost savings may be as much as 80% below expected levels. The reasoning and basis for this conclusion are detailed in the remainder of the report. The impact assessment calculation is summarised in Appendix A.

A programme of work to deal with the underlying barriers was put in place, in line with the Action Plan in section 4 and the e-procurement project roll-out plan was revised to allow for the greater complexity revealed by the review.

## **4. The assessment**

### **Organisation**

The culture of an organisation and the way it manages its processes are key to assessing how well it will respond to change. The Organisational Culture model is used to indicate the prevalent

culture and the Process Management Capability Maturity model is used to assess the way the organisation manages its processes. From these analyses, an indication can be developed of the organisation's capability to manage the changes.

Other indicators are then used to measure the potential for success of the project, including the level of distrust across the organisation and the robustness of the benefits realisation plan.

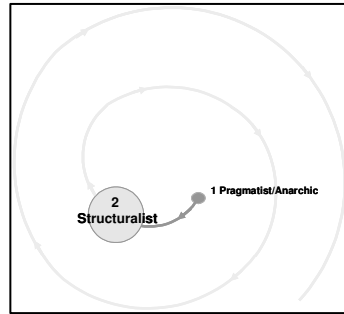
Using the INPACT Organisational Capability tool, the management culture of the organisation was found to be a mix of Pragmatist (1) and Structuralist (2).

Within departments, there was evidence of a degree of pragmatism (1) at managerial level, but this almost disappeared below managerial level, with staff reluctant to act unless instructed to do so.

The well-defined structuralist (2) culture worked quite well but with a strong tendency towards bureaucracy and 'tribalism'. In this Structuralist culture, managers and staff often hide behind the rules and use them as reasons not to take the initiative. Change is seen as largely negative, disruptive and to be avoided. Communication is channelled up and down the management structure of the organisation, with little real dialogue between staff and managers in different departments. In this 'tribal' culture, there is little sharing of ideas and knowledge across the organisation, including within the senior management team.

There was no clear alignment between individuals' aspirations and the organisation's policies and strategic direction, which meant that when changes were introduced, they tended to be imposed and resented. In fact most interviewees, at all levels, felt overloaded and under-resourced, not really coping with their day-to-day workload and suffering the effects of several generations of process change (each leaving unofficial and ad hoc work-arounds in their wake).

Although they recognised the need for cost savings, they could not see how staffing levels could be reduced any further and still enable them to carry out the jobs they wanted to do. Despite the



continual pressures there was still a level of commitment and concern for the effect of this on the public, their 'clients'. There was also a level of frustration that nobody was asking them what would work best.

This lack of empowerment at the staff level also flowed through into the way managers made decisions – the process is slow and convoluted and is informed by poor management information, which results in high level policy never fully translating into action and short-term decisions being taken rather, than well-informed, far-reaching and creative decisions. Senior managers in this environment are necessarily more interventionist than systemist (being able to steer from behind and take the longer-term view).

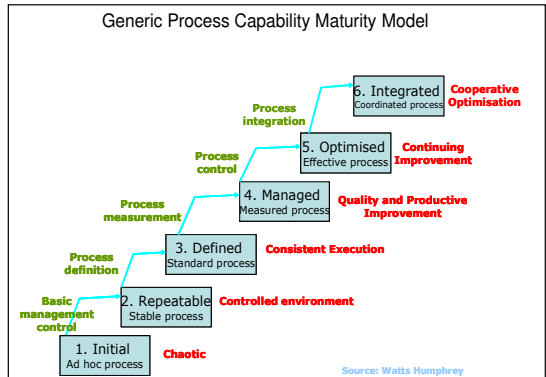
The level of trust between managers and their staff was found to be fairly good. There was less trust in the relationships between the managers and the Senior Management Team, but that is not unusual. However the levels of trust between departments was worryingly low – distrust and lack of respect coloured almost all the relationships. Cross-departmental communication and knowledge sharing was constrained by this distrust and the implication of this situation is that the take-up of e-procurement is likely to fall into the same patterns.

The degree to which managers and staff 'own' the planned changes correlates well to the amount of effort they are prepared to put into making the changes happen and how well the project will generate the expected improvements. The review did not find any real ownership of the proposed changes in the affected departments - and this included some Heads of Department, which is worrying. Managers with little direct interest in procurement will not give the project sufficient priority and their staff will not adopt the new processes, preferring to carry on as before.

The concern among some managers is that the project will not achieve the desired results but the organisation will have moved on to the next change project and nothing will be done to improve performance until budget constraints force another effort to move to the more efficient processes.

Capability Maturity: on the Capability Maturity Model (CMM) scale, the organisation is functioning at mostly level 2 (Controlled environment; repeatable, stable processes), with elements of level 1 (Chaotic; ad hoc processes) and some areas at level 3 (Consistent Execution; defined, standard processes).

There is no evidence of properly managed or measured processes (Level 4) although that is the level of maturity the organisation claims for itself and that is the level of capability the project under review requires. There is therefore a significant risk that it will not succeed without significant changes in the way processes are managed across the organisation.



One significant aspect of the immaturity of the organisation is the lack of commitment from CEO and Board level through to operational managers to making the project a success. Compliance to the new automated procurement processes needs to be mandatory and unless this is accepted by everyone involved in the changes, this project is destined not to achieve its goals.

As would be expected in a predominantly CMM level 2 organisation, visibility of existing process is poor - there has been little real process analysis done at a sufficiently detailed level to understand the implications of the automation of the P2P processes.

It is likely that quite a lot of the existing procurement processes will still need to be undertaken manually, at least in part, and particularly in complex service areas such as Social Services. Unless this is addressed and decisions taken on how to manage the parallel use of manual and automated processes, the tendency will be for managers and staff to ignore the new automated processes, undermining its roll-out.

## The Project

The project was assessed for clarity of objectives, complexity, robustness of its resource plan and how benefits were planned to be realised.

**Clarity of objectives:** the research identified a worrying lack of consistency in the perception of the objectives of the project on the part of key stakeholders across the organisation. Although there had been formal consultation, most managers and staff had little interest in the project, only a vague idea of what was going to happen and no real commitment to their part in realising the intended benefits. There was general fear that it would mean a loss of control and jobs.

**Complexity of project:** The project was assessed using the INPACT Exponential Complexity Equation and came out with a score putting it in the ‘Highly Complex Project’ bracket. This had not been anticipated by participants who had assumed it was no higher than ‘Complex’. The advice for projects in the ‘Highly Complex’ bracket is: “Beyond this point your project is too complex – break it down into separate projects and employ a programme manager”

Highly complex projects require full-time experienced programme management and dedicated implementation resources, neither of which were being allocated to this project – see below. They are unlikely to be fully successful in an immature organisation i.e. lower than CMM level 3, without injecting greater discipline and control over the way the organisation manages its processes.

**Robustness of Resource Plan:** The project was to be rolled out by a project board led by the procurement manager with support from the IT department and the organisation’s Business Transformation Manager (who was also rolling out a CRM system). There were no plans to allocate a full-time experienced project manager to the project or to dedicate department resources to implementation – in fact none of the project board were being allocated to work full-time on the project. These resources are clearly inadequate for a project of this complexity.

**Benefits realisation:** There was no benefits realisation plan, despite quite substantial claims for cost savings and efficiency improvement as a result of the modernisation of procurement. No

benchmarking had been carried out to ascertain actual costs of the manual processes, relying on national published figures for the business plan.

Automation and streamlining of P2P processes can lead to substantial time savings, but only in small increments, across a large number of staff. Tracking this is almost impossible, but it is possible to task managers to redeploy this released time on to other operationally key areas which are already subject to monthly or quarterly performance targets - and track the improvement in these. This creates a healthy 'pull' dynamic for the project.

The review found that Heads of Department and service heads were resigned to cuts in budget to reflect the savings available when the e-procurement system was implemented, but they were not being held directly accountable for achieving or reporting efficiency benefits and there were no plans to involve them in measuring improvements. Without this involvement, efficiency benefits will not be realised in practice.

Apart from improved process efficiency, the other two main areas of benefit from automating and streamlining P2P processes are:

- price savings from the wider use of framework contracts and online catalogues
- back office staff reductions from the simplification of invoice handling.

Price savings depend on a sound analysis of spend and use of suppliers, followed by dedicated effort to improving procurement performance. None of this had not been done in preparation for the e-procurement roll-out and did not seem to be in the project plan. Framework contracts were in place for a few commodity areas but were not being widely used. The procurement manager was waiting for the e-Marketplace to be rolled out to give him the basis to start improving this position. The problem with that was that it put the realisation of price benefits at least 18 months to 2 years out. The procurement manager had not been allocated an increase in the number of staff, nor did he have skills in his existing team required to achieve these results.

Back office staff reductions depend on a two key actions, neither of which appeared in the project plan:

- Simplification of the invoice matching process where reliance can be put on 100% approval of purchase at the ordering stage, i.e. mandatory take-up of online purchase ordering, so nothing gets paid unless it has a PO number.
- Working with suppliers to ensure they are able to accommodate e-invoicing (which most can't) or adoption of a range of approaches such as an 'order flip' capability on the e-Marketplace, Government Purchase cards and 'self-billing' .

The lack of forward planning of these aspects of benefits realisation puts in doubt the ability of the project to achieve the savings set out in the business case.

### **External stakeholders**

From scrutiny of the organisation's spend profile, there would appear to be considerable scope for improvement in the cost effectiveness of its procurement but this needs access to good management information (which the current manual process does not provide) and the cooperation of suppliers, who have to make the changes necessary at their end for e-ordering and e-invoicing to be possible.

**Supplier relationship:** The organisation has little knowledge of its suppliers, lacks a coherent supplier strategy, does not monitor supplier performance and makes no attempt to develop good, managed supplier relationships with key suppliers.

Less than 20% of the organisation's spend on goods and services is contracted - and where contracts are in place, they are not actively managed for best value. There are a few instances of collaborative procurement with other public sector organisations and some use of some framework contracts, including nationally negotiated government contracts but these are not part of a systematic strategy.

Where there is greater attention to supplier performance, in some specialist areas, the focus is on operational delivery of service, rather than value for money and continuous improvement.

This not bode well for a relatively rapid move to e-ordering and e-invoicing.

***What needs to be done to deal with these barriers to success?***

The Action Plan table in section 4 overleaf summarises the status of the assessment elements, draws out the implications for the project (including an indication of the impact on costs and timescales and reduction in levels of benefits if the underlying causes are not addressed) and suggests actions that might be taken to deal with these.

The impact calculations are summarised in Appendix A. These are not empirically researched figures – they are a consensus view based on experience and discussion with the client, which ensures client ownership of the assessment and the actions needed to avoid the risks indicated.

Note: Many of the barriers impact on both costs and benefits: they typically act both to delay the project (increasing costs and delaying revenue benefits) and reduce take-up and the levels of benefit realised. For the purposes of this assessment, impact is allocated either to costs or benefits, where experience shows there to be the greater impact.

**Action Plan: The Organisation**

	<b>Component/ Status</b>	<b>Implication</b>	<b>Action required</b>
1	<b>Management Culture</b> L (Pragmatist)/ (Structuralist)	The lack of alignment and empowerment will reduce the level of benefits from this (and any other change projects) by at least 10%.	A1: A programme of interaction and dialogue across the organisation is urgently needed to improve the management culture. This needs to include increasing top management visibility – see 4: Distrust Factor, below.
2	<b>Capability Maturity</b> L (Mostly level 2, with elements of level 1 and some areas at level 3)	The project needs a level of organisational maturity which was not evidenced in the strategic review.  Experience shows that this is a critical factor and impacts both on time/costs and benefit realisation. The latter is included here – a drop of at least 20%, maybe much more.	A2. It is crucial for the Board to make take-up and compliance to the new processes mandatory.  The resources allocated are also not sufficient - discussed in A7, below. The project itself could be used to raise the level of capability maturity, if planned and implemented with a greater involvement of stakeholders, see A3, below.
3	<b>Visibility of process</b> L (Poor)	The new system will not impact on all procurement, so staff will continue to work with manual processes, particularly in complex service areas. This will reduce the value of the new automated system, undermining its roll-out.  The consequential lack of ownership of the changes has been shown to add over 20% to project costs and timescales - and in some cases it has effectively led to the demise of the project.	A3. A process mapping exercise is required to identify those areas where the new e-Marketplace and P2P system will not replace existing processes. Decisions are then needed on how to deal with these to optimise efficiency (including: ‘stop doing it unless it adds value’ – LEAN).  The involvement of system users in the mapping and redesign of processes has the benefit of embedding the principles of process improvement and capability maturity.
4	<b>Trust factor</b> L (Low across departments)	The low levels of trust will slow down communication and response to calls for action - it may even stop the project. At the very least they will increase costs and timescales by at least 20%.	A4. Distrust and lack of respect for managers and other departments needs to be investigated and tackled as an urgent priority.  It often has its roots in poor cross-organisational communication and the lack of top management visibility, which can be addressed as part of a programme of interaction – see A1 above.

**Action Plan: The Project**

	<b>Component/ Status</b>	<b>Implication</b>	<b>Action required</b>
5	<b>Clarity of objectives</b> <b>L (Poor)</b>	A lack of shared understanding of the project's objectives reduces its priority and may prejudice the chances of success. Correcting this once the project has kicked off requires a significant effort, delaying roll-out and adding up to 10% to costs.	A5. Formal consultation has been insufficient – further consultation and dialogue is required with all stakeholders. Creation of a user panel is strongly recommended to share responsibility for delivery – see 8: Benefits Realisation, below
6	<b>Complexity of project</b> <b>H (Too complex)</b>	The project is too complex to manage as it currently planned and resourced. It will have to be broken down into a phased roll-out - the 6 month timescale is certainly unrealistic. The extended roll-out will increase project costs (see 7, below) and delay realisation of benefits, with an impact of 50% on year 1 revenues. 30% has already been included under 1 and 2, leaving a net 20% incremental impact	A6. Implementation should be re-planned in phases over a longer timescale and benefit realisation brought in line. The difficulty of introducing e-procurement across a number of buyers and suppliers is best dealt with by identifying and rolling out the priority spend categories first.
7	<b>Robustness of resource plan</b> <b>L (Inadequate)</b>	The lack of full-time project management, together with the lack of top management commitment, strongly indicates a project that will not deliver the expected results. Adding the necessary resource would raise costs by 20% at external consultancy rates but may ensure the project's success.	A7. A full-time project manager is needed, in addition to additional procurement resources and skills to tackle supplier as well as buyer take-up. Unless these resources can be found in-house, they should be brought in using external experience and skills to accelerate the pace of the project. The earlier realisation of savings should pay for the additional costs.
8	<b>Benefits Realisation</b> <b>L (No plan)</b>	A significant proportion of the expected benefits from a modernisation project come from efficiency savings that are only achieved if managers redeploy released resources in their department. 40% of the project's cashable savings in year 1 was from process improvement. Given the lack of benefits realisation planning, the authority will be lucky to realise half of this.	A8. Operational managers need to be made accountable, as user representatives in the project, for adopting the new processes and redeploying staff to release resources and drive increased productivity in their departments. Use existing key service targets to measure improvements, rather than trying to monitor time savings.

	<b>Component/ Status</b>	<b>Implication</b>	<b>Action required</b>
9	<p><b>Relationship with suppliers</b></p> <p>L (Poor)</p>	<p>The lack of knowledge about the supplier base and lack of contract performance management means that there is not the foundation of trust needed to engage suppliers and get their co-operation to make the necessary changes. The impact of this on project timescales can be significant – but even more critically, streamlining of invoicing reduces accounts payable headcount, which can make up a third of the potential gains from e-procurement. Although this only comprised 20% of projected revenue savings in year 1, we would not expect to see more than half of this being realised, and that will come more from budget cuts than as a result of the project.</p>	<p>A9. A rationalisation of the supply base needs to be carried out before implementation of the e-Marketplace to avoid having to load 7,500 suppliers' details and to take advantage of suppliers already on the e-Marketplace. This requires an analysis and cleansing of the supplier database, which should be carried out by an external service provider to ensure that key data is appended (e.g. impact on local suppliers).</p> <p>A10. A communication programme is then needed to ensure that all the key suppliers are ready and able to accept e-orders and, where possible, issue e-invoices.</p> <p>A11. Finally, a supplier adoption plan needs to be put in place to bring key suppliers on board as the system is rolled out to buyers.</p> <p>A12. It is strongly recommended that an e-contract management system is brought in to improve contract management and supplier performance.</p>