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INPACT Methodology Case Study Strategic Review Report

Conclusion: “Lack of attention to process and culture issues will prejudice realisation of e-procurement project benefits - the project could take twice as long to implement as planned and the return in efficiency and cost savings may be as much as 70% below expected levels”

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1. Introduction

This case study report has been reproduced with client details deleted, in order to demonstrate the application of the INPACT methodology.

The client is a local government organisation with 3,000 employees. The 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 600 managers and staff and around 4,500 suppliers are thought to be involved in purchasing, invoice processing and payment for goods and services – a spend of £70m 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.

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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 strategic review of:

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

The review followed the INPACT methodology, which focuses on both process and culture transformation, assessing where the main barriers to success are likely to be 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 twice as much) and that the return in efficiency and cost savings may be as much as 70% 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.

The Project

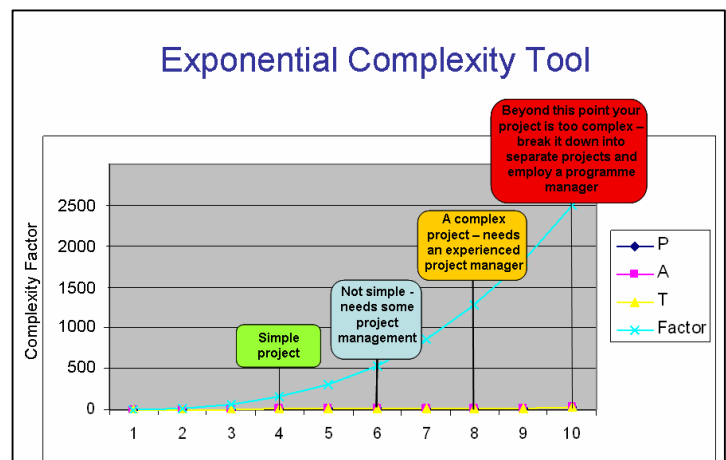
The project was assessed for clarity of objectives, complexity, robustness of its resource plan and how benefits were planned to be realised.

Clarity of objectives: the research identified a worrying lack of consistency in the perception of the objectives of the project on the part of stakeholders across the organisation. Although there had been formal consultation, most managers and staff had little idea of what was going to happen and even less understanding of how the intended benefits would be realised. There was general concern that it would mean a loss of control and jobs.

Complexity of project: The project was assessed using the INPACT Complexity Equation – see illustration - and came out with a score putting it in the 'Highly Complex' bracket. The advice for projects in this bracket is:

Highly Complex Projects require full-time experienced programme management and are unlikely to be fully successful in an immature organisation i.e. lower than CMM level 3. Consider breaking this down into a number of smaller projects.*

* CMM: Capability Maturity Model – see below



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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 – 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 OGC published figures in the business plan.

Automation and streamlining of P2P processes should result in substantial time savings, but 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 not expecting to be held 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.

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, which had not been done 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 developing more. This puts the realisation of price benefits at least 18 months to 2 years out.

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

- Simplification of the invoice matching process, dropping 3-way matching 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 alternative 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.

Organisation

The organisation was assessed for maturity on a number of dimensions. The Strength of Management Culture model indicates the way the organisation is working and this is complemented by an assessment of the organisation's processes, using the Capability Maturity model. From these analyses, three specific indicators are key to the potential for success of the project: visibility of processes, the level of distrust across the organisation and the extent of ownership of change in the departments.

Strength of Management Culture: Using the INPACT Strengthening the Management Culture tool (see illustration overleaf), the management culture of the organisation was found to be a mix of Pragmatist (1) and Structuralist (2).

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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'.

At this level managers 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 (3) between staff and managers in different departments.

There was no clear alignment (4) 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 – see Ownership of Change, below. 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.

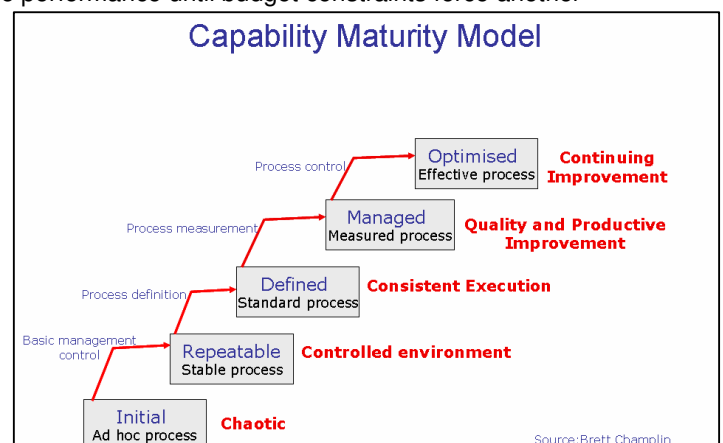
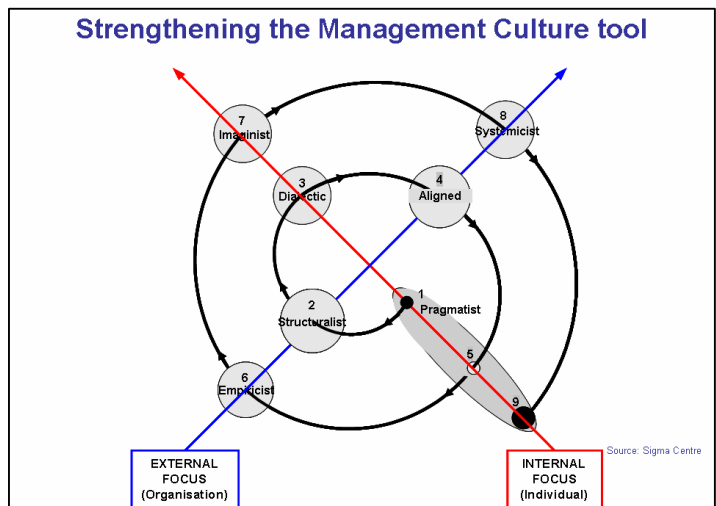
This lack of empowerment (5) at the staff level also flowed through into the way managers made decisions – the process is slow and convoluted and is informed by poor management information (6), which results in high level policy never fully translating into action and short-term decisions being taken rather than well-informed, Imaginist (far-reaching and creative) decisions (7). Top managers in this environment are necessarily more interventionist than systemist (being able to steer from behind and take the longer-term view) (8).

The implication of this situation is that the take-up of e-procurement is likely to fall into the patterns dictated by the management culture. 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 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 scale – see illustration - 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 little evidence of level 4 (Quality and Productive Improvement; managed, measured processes) although that is the level of maturity the organisation claims for itself.



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The project under review requires level 5 capability (Continuing improvement, optimised, effective processes) and there is a risk that it will not succeed.

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, the project is destined not to succeed.

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 processes will still need to be undertaken manually, at least in part, and particularly in complex service areas. Unless this is addressed and decisions taken on how to manage the parallel use of manual and automated processes, the tendency will be to ignore the new automated processes, undermining its roll-out.

Distrust can be a significant factor in determining the cost and time needed to implement a change project. The level of distrust was assessed between managers and staff and between departments. Distrust was found to be high across the whole organisation - indeed there are parts of the organisation where it is sufficient to potentially stop the project in its tracks.

Ownership of change: the degree to which the managers and staff 'own' the 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. This should be a basis for the Benefits Realisation plan. The review did not find any real ownership of the proposed changes in the affected departments - and this includes Heads of Department, which is worrying.

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: In general, 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.

Only 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.

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.

This does 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 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.


Many of the barriers will act both to delay the project and increase costs, as well as reducing the take-up and the levels of benefit realised. For the purposes of this assessment, the calculation is based on where experience shows there to be the greater impact.

** NB The impact calculations included in this report are based on experience and discussion with the client, not empirical research. They are intended to be used as indicators of the extent to which costs and timescales are increased and levels of savings are reduced if the underlying causes are not addressed.*

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4. Overcoming the barriers to success

Project				
	Component	Status	Implication	Action required
				
1	Clarity of objectives	L (Poor)	A lack of shared understanding of the project's objectives will reduce 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 as much as 20% to costs.	A1. 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 4: Benefits Realisation, below
2	Complexity of project	H (Too complex)	The project is too complex to manage as it currently planned and resourced. It may have to be broken down into several projects and the 12 month roll out timescale may have to be extended. This could increase project timescales and costs by at least 30%.	A2. Implementation should be re-planned in phases over a longer timescale. (It may also be necessary to downscaling the anticipated benefits.)
3	Robustness of resource plan	L (Inadequate)	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 but avoid a reduction of at least 10% on benefits.	A3. A full-time project manager is needed, in addition to a procurement manager with the knowledge and skills to tackle supplier as well as buyer take-up. Unless these resources can be found in-house, consider buying in the experience and skills – this would accelerate the pace of the project and the early savings should pay for the additional costs.
4	Benefits Realisation	L (No plan)	Modernisation of procurement processes can deliver significant efficiencies, but these will not be achieved unless managers are targeted with redeploying released resources in their department. At least 20% of the project's cashable savings were projected from process improvement, of which the authority will be lucky to realise half.	A4. Operational managers need to be made accountable, as user representatives in the project, for adopting the new processes to drive increased productivity in their departments. Use existing key service targets to measure improvements rather than trying to monitor time savings.


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Organisation				
	Component	Status	Implication	Action required
				
5	Management Culture	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%.	A5. 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 8: Distrust Factor, below.
6	Capability Maturity	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.	A6. It is crucial for the Board to make take-up and compliance to the new processes mandatory. Ramping up of resources has already been discussed in A4, above. The project itself could be used to raise the level of capability maturity, if planned and implemented with the involvement of stakeholders. (This is covered in A7, below.)
7	Visibility of process	L (Poor)	It is likely that quite a lot of the existing processes will remain to be undertaken manually, particularly in complex service areas, reducing the importance of the new automated process and undermining its roll-out. This 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.	A7. 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 stakeholders in the mapping and redesign of processes has the benefit of embedding the principles of process improvement and capability maturity.
8	Distrust factor	H (High, throughout) organisation	The high levels of distrust will slow down and may even stop the project – at the very least they will increase costs by at least 30%.	A8. 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 A5 above.
9	Ownership of changes	L (Poor)	The review did not find any real ownership of the proposed changes - and this includes Heads of Department – which will certainly impact on take-up and reduce expected benefits by at least 10%.	A9. The previous actions should help to overcome much of the lack of ownership. However, future change initiatives need to be generated more from within departments if there is to be a culture of continuous improvement.

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External Stakeholders				
	Component	Status	Implication	Action required
				
10	Relationship with suppliers	L (Poor)	<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.</p> <p>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.</p> <p>At the very least we would predict a 10% impact on benefits.</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 4,500 suppliers' details and to take advantage of suppliers already on the e-Marketplace.</p> <p>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>

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Appendix A: Summary of Impact Calculations

	Component	Status	Potential Impact*	
			Process time/cost	Benefits
	PROJECT			
1	Clarity of objectives	L (Poor)	+20%	
2	Complexity of project	H (Too complex)	+30%	
3	Robustness of resource plan	L (Inadequate)		-10%
4	Benefits Realisation	L (No plan)		-10%
	ORGANISATION			
5	Management Culture	L (Pragmatist)/ (Structuralist)		-10%
6	Capability Maturity	L (Mostly level 2, with elements of level 1 and some areas at level 3)		-20%
7	Visibility of process	L (Poor)	+20%	
8	Distrust factor	H (High, throughout organisation)	+30%	
9	Ownership of changes	L (Poor)		-10%
	EXTERNAL STAKEHOLDERS			
10	Relationship with suppliers	L (Poor)		-10%
Total potential impact on project timescales/costs			100%	
Total potential impact on benefits				70%

** NB These impact calculations are based on experience and discussion with the client, not empirical research. They are intended to be used as indicators of the extent to which costs and timescales are increased and levels of savings are reduced if the underlying causes are not addressed.*