procurement
Under the lens

by Richard Bray

John Kost is a man with a mission – to reform public sector procurement. As a managing vice president at prestigious Gartner Research, he is in an ideal position to do just that, by pointing out the obstacles to efficient, effective government purchasing and highlighting the techniques and policies that work.

With a private sector background that includes sales with Siebel Systems, worldwide business development in TRW's Public Sector systems integration business, and 20 years with the government of Michigan, where he became the first state-level Chief Information Officer in the US, Kost knows both the public and private sectors from the inside.

He spoke recently with *Summit* about the present state and possible future directions of government procurement. The focus was information technology but the lessons are clearly government-wide.

Gartner Research

Since his appointment to the senior ranks at Gartner some 18 months ago, John Kost has produced a series – indeed, a flurry – of speeches, presentations and articles that articulate the urgent need for change in public sector procurement, as epitomized by IT procurements.

Among other things, he believes that: current procurement practices will doom every major government jurisdiction to at least one IT disaster in the next two years; widespread outsourcing of public sector IT is only a few years away, unless human resources (HR) practices undergo change; and, funding projects by "silo" will effectively disrupt attempts to seamlessly integrate data and communications systems.

Looking at the failures already on the books, both here in Canada and the United States, he identified overly ambitious objectives as one contributing factor.

"A big part of the problem in the public sector – and procurement is a big part of the problem – is that because procurement is so complex and so time-consuming, when we set out to do a large IT project, it becomes a Christmas tree," he said. "I use the Christmas tree expression purposely all the time in the sense that people see this as a 'once in a ca-

reer' thing, so they want to have everything they can find on it, because they won't get another shot at it."

In Michigan, for example, Kost watched as a new state welfare system collapsed under the weight of an expanding mandate. (Under federal regulations, the new IT system had to be previously implemented in another state.) "Well, the system we transferred in was from Connecticut and it had something like 280 screens. That was a lot, even for a welfare sys-

tem," Kost said. "But because everyone wanted this thing to be so feature rich and do so much more, by the time they finished the requirements design phase it was at 1,300 screens. It was patently absurd, completely unmanageable and undoable. Nobody was empowered to say no, and the project ultimately was cancelled after 10 years and US$160 million."
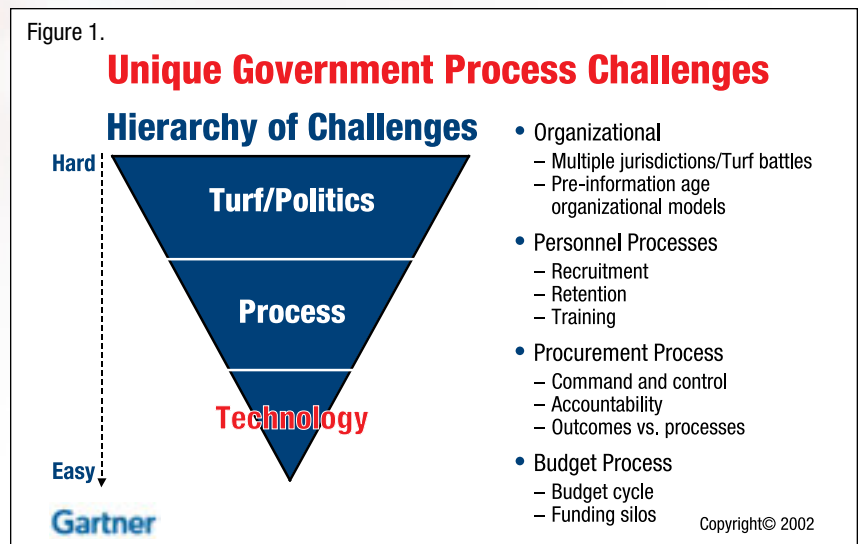
He attributes much of the current deadlock to the structures of government, and not the motivation or skill of the people working within them.

"The mindset of government is still rooted in industrial age society, regardless of what the other sectors of the economy are doing. People do their jobs to the letter and they do them to perfection, but unfortunately some of those tasks are no longer needed, or they are counterproductive, or they are conflicting with somebody else's job role," Kost explained. "When you have a project manager whose task is to build a project on time, on budget and meet expectations, and they meet with procurement people whose job is to ensure that vendors don't file lawsuits, those are completely at odds with one another. They are both doing the right thing but not as the other sees it."

That said, Kost does not believe new legislation is needed – in fact, he believes most laws in most jurisdictions are quite satisfactory. The problem lies in a fundamental misunderstanding between policy people and procurement practitioners.

"By misunderstanding I mean, the procurement policy people think that there are rules and laws in place that are intended to get to a certain successful procurement outcome and for them a successful outcome

Figure 1.

Unique Government Process Challenges

Hierarchy of Challenges

Hard

Turf/Politics

Process

Technology

Easy

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- Organizational
  – Multiple jurisdictions/Turf battles
  – Pre-information age organizational models
- Personnel Processes
  – Recruitment
  – Retention
  – Training
- Procurement Process
  – Command and control
  – Accountability
  – Outcomes vs. processes
- Budget Process
  – Budget cycle
  – Funding silos

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means nobody is in the newspapers and the project gets finished as expected, Kost said. "For procurement people, they see these same sorts of rules and guidelines as primarily driving the notion of fairness, that the ultimate measure here is, 'did we follow a process that no one appeals or protests?' and it is all due-process driven."

As currently managed, he believes procurement inhibits technology success. In his presentations, Kost uses a graphic of an inverted triangle (see Figure 1) divided into three horizontal layers.

"It's the hierarchy of challenges, going from the hardest to the easiest. The bottom layer is technology, the middle one is process, procurement, human resources and those sorts of things, and the top one is turf and politics. That is what I discovered in Michigan. I am not a technology person, but the reason we weren't doing very well in technology was not the technology – it was either because we couldn't get people to talk to each other, or when we did, the process got in the way."

As Kost put it, "You have to redefine success sometimes. I think part of the problem that organizations like your auditor general, the general accounting office and agencies throughout the country have is that they see a very narrow view of success, and it is badly defined when the project kicks off."

Too often, he said, governments launch massive, multi-year turnkey projects that either simply do not work as intended or fail to take advantage of changing technology. "Of course, in three to five years, a few things can change. The makeup of Parliament, for example, technology, all of the expectations that were set could change, and of course the money situation will vary all over the map as well," he said.

There are alternative techniques, Kost said, and they can work. Three years ago, the state of Pennsylvania recognized the need for a state-wide financial management system, but officials also recognized the need for a new kind of procurement methodology to acquire it. "So they laid out the best practices they wanted to do in their payroll, in accounting, HR and so on, and after defining the practices, they did a gap analysis of all of the ERP [enterprise resource planning] products out there that would meet that," Kost said. "They then selected the product with the lowest gap, and did not do a competitive bid at all. They picked the product based on functional fit and went in and negotiated with the vendor."

Despite the fact that another vendor was hired to do the implementation, the fact remains that Pennsylvania had the confidence to use a much different kind of due diligence, rather than rely on the traditional Request for Proposal (RFP) to ensure firms were competitive. The state grasped that, in that particular market, the vendors' competitiveness was already visible in their products' features. Once the best fit was made with state requirements, all that remained was price.

"Competition isn't the issue here," Kost declared. "We have to get a system that fits our needs, and we have time issues. Let's figure out what the right product is, and then get it." In simple terms, "When you want to make dinner, you go to the grocery store and figure out what is going to satisfy your dinner needs. You don't go to six different stores. You don't go to the meat counter and solicit the lowest bid," Kost said.

The Pennsylvania approach increases the amount of weight the process gives to risk, and diminishes the amount of weight given to price. "That is the right thing to do when the product you are buying is mission-critical," Kost said. "The trade-off is between performance and price, in best value procurements.

Time is of the essence?

Much of the value Gartner's John Kost brings to government procurement lies in his willingness to look at the assumptions that underlie current practices. For example, Kost points out the importance of time in technology buying to show how it can undercut practical goals. The longer the procurement process the greater the possibility that technology will progress and functional changes will occur before completion and the higher the cost to the organization.

While agreeing that competition is critically important to successful outcomes, he points out that in a competition, every potential benefit is accompanied by several hidden costs, and time is often a factor. The hypothetical savings of a competition need to be judged relative to the cost of the competition itself: staff spend time and money to prepare a bid and vendors must do the same to respond; time taken to evaluate bids is time not available for other work; and, most important, the presumed services or savings from the procurement are delayed until the choice is made.

The non-financial benefits of a traditional procurement include the image of integrity; internal consensus on a solution; and, the knowledge or belief that there has been a fair and accurate evaluation of the marketplace and an appropriate selection. Unfortunately, maintaining that image of fairness can lengthen the process.

Kost points out that most governments recognize and deal with the issue of wasted time in lower value procurements, through such vehicles as master contracts or sole source awards, but still refuse to deal with the problem in 'big dollar' procurements. The bottom line? Governments need to understand the trade-offs between competition and time, and adjust their processes accordingly.

If your system is mission-critical, price should play a much diminished role because the issue is risk and performance."

In fact, Kost believes, procurement is all about risk management. "What we don't recognize is that there are three kinds of risk – number one is political risk, number two is contractual risk and number three is programmatic risk." Contractual risk can mean lawsuits, poor performance or unexpected costs, while programmatic risk looks at the fit of the solution and its ability to do the job as expected.

"We focus almost all our attention on the political risk, to the extent we almost completely ignore the programmatic risk," said Kost. "Political risk is, 'did we follow due process or are some of the vendors going to get upset?'"

Unfortunately, as Kost points out, some of the measures considered necessary to alleviate political risks weigh so heavily on IT procurement as to defeat the purpose: distance between the people who buy the products from the people who will use them; prescriptive RFPs; detailed and time-consuming protest mechanisms; and clumsy contract change management.

"The places that I am watching are fascinating because they are trying something. It isn't that they are trying something that hasn't been tried somewhere else, it is just that these are places where the culture has been so backward, the fact that they are trying anything is progress." ⋙

Richard Bray is an Ottawa-based freelance writer specializing in the IT sector. He has been published in magazines and newspapers in Australia, the US and Canada. Before freelancing, he worked as a producer, reporter and senior writer for CBC in Toronto.