Procuring for large information technology and systems integration (IT/SI) projects is a major challenge, since they tend to be complex, lengthy, risky, expensive, and often require customized products or software. The procurement process is also complex, lengthy, risky, and expensive. Since information technology is constantly evolving, the solution envisaged at the beginning of a project may no longer apply by the time the system is actually procured. For these reasons and others, IT/SI projects in both the private and public sectors often fall short of expectations. Many industry and government studies have identified the project procurement process as one of the root causes of the poor performance of IT/SI projects.

The collaborative process

Here in Canada, government, industry and small business, in trying to solve the problems of IT procurement, got together to design the benefits-driven procurement (BDP) model specifically for projects characterized by medium- to high-complexity and risk. The process that created BDP is an excellent example of collaboration between public and private sectors. Such cooperation may be one of the best ways for government to generate better value for money and achieve further reductions in spending, while enhancing the quality and delivery of its services.

As a procurement strategy, BDP is unique, since it evaluates vendor bids and measures project success in terms of client-defined benefits or desired outcomes, rather than by conformity to mandatory specifications or lowest cost. It includes a business case with a significant risk-management regime and invites vendors to share in the financial risks and rewards of the project. BDP’s vision statement

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succinctly describes this new approach as a value-added, efficient procurement strategy and methodology for the acquisition and implementation of IT/SI business solutions that will facilitate the achievement of client-defined benefits and, in so doing, contribute to the success of IT/SI projects. While procurement is only one of the problems plaguing large projects, it is critical, since the procurement strategy deployed defines the environment in which the entire project will be executed.

**Identifying the problems**

Interest in improving the procurement strategy and process for information technology began in the early 1990s with the growing dissatisfaction of both government and industry over the frequency and costs of IT/SI project failure. For governments struggling to reengineer business processes in an environment of cost constraint and continuous public scrutiny, project failure can represent an enormous waste of taxpayer dollars and seriously compromise service delivery. For vendors, IT project failures create potential financial liability and can harm corporate reputations.

Procurement problems are only one reason why IT/SI projects often fall short of expectations. Experts have identified a total of 14 causes of project failure; however, procurement strategy plays a disproportionate role. It establishes the relationship between the client and vendors and defines the overall environment in which the project is managed and executed. Vendors responding to a request for proposal (RFP) with detailed specifications enter a bid at the lowest possible cost, setting up an adversarial contract management situation. The winner strives to manage within the narrow limits of the specifications, creating constant conflict over what is within or outside the specifications. The result is contract management rather than project management. Furthermore, considerable time is required to develop and respond to detailed specifications and to evaluate the proposal. Meanwhile, technology is evolving and prices are dropping. By sticking to the original specifications, government risks spending too much money for outdated technology.

Mindful of these problems, the Treasury Board Secretariat in 1995 launched a review of 25 government IT projects to identify underlying issues in project management, risk assessment, staffing and other areas that affect success or failure. The result was the *Enhanced Framework for the Management of Information Technology Projects*, designed to ensure that government IT/SI projects meet all of their business goals, which include the delivery of expected benefits on time, on budget and with approved functionality.

This document was published shortly after the appointment of Alan Williams as Assistant Deputy Minister, Supply Operations, Public Works and Government Services Canada (PWGSC). Williams came from Indian Affairs and Northern Development Canada (IAND), where he had worked extensively on IT projects. He brought with him an appreciation for the value of consultation, which was indispensable to achieving progress at IAND. “When I began looking at the problem posed by information technology projects, it was obvious that the first step was to bring in experts from industry who really understood the problem,” said Williams. He also believed that the best way to attack the challenge was by addressing the issue of procurement. “I felt the best way of approaching the issue of IT success was to ensure the other 13 factors for success were in place, and then use procurement as the lever for achieving progress.”

**The working group**

In September 1996, PWGSC created a small steering committee of government and industry representatives and a larger working group charged with designing a new purchasing strategy. The working group began its deliberations in October. There were 21 members, including representatives from PWGSC; Treasury Board Secretariat; the Office of the Auditor General; and four government operating departments – National Defence, the RCMP, Human Resources Development Canada and Revenue Canada. Also included were industry representatives appointed by the Information Technology Association of Canada (ITAC), the Canadian Advanced Technology Association (CATA) and the Canadian Business Information Network (CABiNET). Both ITAC and CATA represent large Canadian
technology companies. The inclusion of CABiNET, an association of smaller IT/SI consulting firms based in the Ottawa area, was an important addition to the group. A previous effort to revise the government’s procurement strategy had neglected to involve small business, which had grown increasingly vocal in its criticism of the procurement process. As chair of the working group, Noel Bhumgara, former Director-General, Science Informatics and Professional Services, PWGSC, noted: “It was clearly the full community trying to resolve a serious problem. There was a very strong consensus to design a solution that would dramatically increase the chances of project success.” Those who normally compete rallied around the common goal of creating a new approach to procurement.

A few fundamental principles emerged early in the discussions and helped shape the evolution of BDP. There was agreement that clearly stated downstream outcomes or benefits must be included in the RFPs for all IT/SI procurement projects. Vendors, in turn, would have to show how they planned to achieve the outcomes. Participants also felt that companies should be selected and paid on the basis of their ability to deliver value for money. Vendors whose projects exceed goals for system performance and rate of return should share in the financial rewards; similarly, suppliers who fail to meet projections for outcomes and benefits should not expect to receive full (or any) compensation for their work. Finally, the group agreed that the new procurement environment must be characterized by collaboration and consensus. Too often, IT/SI procurement projects had become adversarial, with clients and vendors arguing over the terms of the contract and withholding critical information from each other. The objective now was to foster cooperation between client and vendor so that both were aligned and working toward the same project objectives.

From all perspectives, this consultative process was a success since, from the beginning, participants shared a commitment to finding solutions. It was also highly structured, as the composition of the working group suggests. Participants met for a half-day every two weeks. Throughout the process, the players never changed, so there was no need to brief new members or risk losing consensus or momentum. The discussions moved forward quickly. By March 1997, the task was finished and BDP was to be tested and refined through a number of “pathfinder” projects. (The current Year 2000 Mission Critical System RFP is an example of a procurement that incorporates the principles of BDP.)

The elements of BDP

The major elements of BDP underscore two features that are fundamental to the procurement strategy:

- Flexibility. Each IT/SI project is unique, possessing its own peculiar issues and complexities. Thus, BDP is driven not by the need to adhere to a rigid, one-size-fits-all process, but by the specific downstream outcomes and benefits of the project. Similarly, the incorporation of “gates” and “off-ramps” throughout the project ensures continuous feedback and realignment of direction, reducing the risk of project failure and financial waste.

- The degree to which BDP engages the intellectual property and other skills of the private sector. Vendors are expected to offer solutions throughout the project life cycle, to identify and manage risks, and to manage all aspects of the project in collaboration with the client and the procurement authority.

Some of these elements are the business case, gates and off-ramps, compensation, and vendor performance.

The business case

Perhaps the most important element of BDP is the business case. Every IT/SI project must contain a rigorous business case that rationalizes the investment proposal in the absence of a full specification, and identifies and quantifies the desired outcomes. It must articulate the role of both client and vendor in achieving the desired benefits and include a risk assessment that considers the identifiable risks, assigns them to each party and provides a means for mitigating them throughout the life cycle of the

*Quoted with the approval of N. Bhumgara from a conversion with the author.
project. The business case, which is developed by the client department with help from PWGSC, must ensure that business benefits are realistic and stop impractical or poorly conceived projects from proceeding. It should also allow the parties to focus on delivering the project instead of on managing the contract.

Competing vendors must propose plans for achieving the desired outcomes and strategies for managing risk. Financial evaluation criteria will be explicitly stated in the RFP and will help determine the quality of the vendor solutions, which is also critical. Among the financial parameters to be considered are the payback period, rate of return, budget limits and financial impact thresholds. The winning supplier will meet with the client to review, refine and, if necessary, revise the business case – the “due diligence” phase of the project. If the project appears impractical, it will be “gated,” or terminated, before any more money is spent.

Gates and off-ramps

The concept of gates and off-ramps is an important element of BDP. Each project will incorporate milestones for reviewing the validity of the business case, performance and risk profile. Does the business case still hold? Are changes required in the way the project is being managed? Is the project still valid? Should the client or vendor decide not to proceed and take the off-ramp, the Crown will sever the relationship in accordance with a dispute avoidance plan set out in the contract. If all goals are met, the project may then proceed to the next gate. This gating process continues to the end of the project – a typical project will likely have three to five gates.

Compensation

BDP reshapes the whole issue of compensation. In developing the supplier contract, each party must accept its share of the risks. For the vendor, that may mean sharing the financial risks when projects fall short of expectations. The contract may also have to provide incentives, including non-traditional arrangements. For example, the vendor may wish to be paid out of the downstream revenues generated by operational savings or revenue generation rather than by a flat fee.

Vendor performance

Another important element in BDP is that competing vendors receive credits for past successful IT/SI projects. Failure to perform may preclude participation in subsequent RFPs, as provided for in the vendor performance policy. Those lacking relevant experience will find it more difficult to win projects. Suppliers must also demonstrate their overall capability as project and risk managers, as well as their track record in providing solutions and managing processes. Financial stability is also an important issue – a $500 thousand company will not be awarded a $20 million project. There will, however, be an expanded role for smaller companies in the new purchasing strategy. By establishing a series of gates, BDP breaks down the procurement process into smaller chunks, parts of which can then be awarded through subcontracts to smaller consulting firms. CABiNET’s representative on the steering committee noted that the new strategy should encourage government and large companies to use smaller consulting firms that can deliver specialized expertise to a project.

The common purpose procurement policy

BDP represents a major revision to the government’s common purpose procurement (CPP) policy. Introduced in 1992, CPP was designed to improve the quality of purchasing decisions by engaging private sector expertise to help in defining procurement needs. Among its many benefits, CPP simplified the purchasing process and in some cases reduced the cost of doing business for both clients and vendors. An assessment of the federal government’s first 20 CPP projects indicated that most were successful in meeting government objectives. An IBM Canada project conducted for the Department of National Defence, for example, delivered twice the operating savings expected. The CPP methodology has since been emulated by several provincial governments in Canada and in other jurisdictions around the world.
Conclusion

The experience gained in developing BDP holds important lessons for governments striving to reduce costs without compromising program quality. Solutions can be found by combining the skills and intellectual energies of government and business in a collaborative exercise characterized by consensus and a commitment to achieving success. Business in particular has exceptional capabilities to offer government and the Canadian taxpayer, including technical know-how, international networks of contacts, financial wherewithal and expertise in managing human resources. Indeed, it is difficult to imagine a single fundamental objective of government where business is unable to help, either as individual vendors or through alliances.

Canadians everywhere want to be part of the solution to the high cost of government. Collaborative exercises of the public and private sectors such as the development of BDP have become an effective way of finding and implementing real answers.