NEW ZEALAND TECHNOLOGY
INDUSTRY ASSOCIATION

THE ART OF THE POSSIBLE
USING PROCUREMENT TO INNOVATE

BRIEFING PAPER

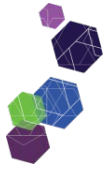CONNECT

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This NZTech briefing paper provides highlights from the recent NZTech CEO's Forums in Auckland and Wellington, including key observations from roundtable discussions involving the senior executives from a broad cross section of New Zealand's leading technology firms in collaboration with senior procurement representatives from the government.

EXECUTIVE SUMMARY

The New Zealand government has developed a clear vision for the delivery of better public services through improved use of technology. The industry recognises the significant progress that has been made in a relatively short period of time. Yet there is a feeling that the current system of technology procurement and a culture of risk aversion within government agencies is creating significant obstacles to the progress and success of real transformation.

With a focus on the art of the possible, or how could the procurement of technology be used to innovate and support the government's transformational vision, the industry/government discussion forum identified a number of useful insights, including:

- A 'one-size-fits-all' procurement process works for pens, but not for complex transformational services. Commercial experience indicates that a more agile approach results in lower costs and better end-results.

- The current Government Rules of Sourcing actually provide the flexibility for agile and collaborative procurement yet these are not being applied well.

- A culture of risk avoidance is common in government and the procurement process can reflect this. To transform the public services the culture must first transform to support the more advanced level of engagement and procurement maturity required.

- Accountability is often unclear, and this appears to be further challenged by the high level of contractors engaged throughout the process.

- A framework for more regular and structured engagement with the GCIO, and with agency CE's is desired by government and the market to help moderate the culture of risk aversion, to build trust and to help ideas flow.

- The industry needs to be more aware of the high level of flexibility allowed in government procurement and where agencies are performing in detrimental ways, we need a safe way of feeding this back.

PROCUREMENT vs TRANSFORMATION

Throughout the government and New Zealand's technology sector there is a shared desire to improve public services through better use of technology. This has been captured in the New Zealand government's Better Public Services (BPS) strategies and in particular in the Results 9 and 10 objectives. In conjunction with this, the government's ICT Strategy and Action Plan sets out to transform government ICT in order to deliver better services and enhance trust and confidence in government. The most recent Action Plan Update reinforces the focus on positioning technology as an enabler of agency business-led transformation.

The Government Chief Information Officer (GCIO) and the relevant teams in DIA, MBIE and other agencies have done an excellent job of moving toward this vision. The industry recognises the significant progress that has been made in a relatively short period of time. Yet it is apparent to the industry that the current system of technology procurement is challenged in achieving the vision of transformation of government services.

There is a perception that the current process doesn't differentiate between simple procurement, such as stationery items, versus the procurement of complex technology solutions. One view is that the current procurement process makes it almost impossible to undertake a transformative project as it is perceived to be designed to drive down costs and move out risk. By nature, transformational projects will become risky and costly if approached this way.

Driven by a complex and costly procurement process, high levels of risk aversion and increasing negative media attention about IT cost blowouts the industry and government came together to share experiences and discuss ideas aimed at delivering better public service outcomes. CEO's and senior leaders from a broad cross section of New Zealand's leading technology firms provided input into the discussion. Including Assurity, Catalyst IT, Cisco, CSC, Datacom, Dimension Data, Equinox, Fronde, Fujitsu, Fuji Xerox, Hewlett-Packard, IBM, Intergen, Microsoft, Optimation, Oracle, Provoke, QualtIT, Simpl Health, Solnet, Spark Digital, Unisys, Vodafone and Xero. The discussion forum identified several challenges with the current process that are inhibiting innovation, increasing risk and ultimately driving up costs. These include:

▪ **Too much focus on process rather than outcome**

Even if the intention begins well, with a view to designing a transformational service, when the procurement process begins there is an emphasis on the process and not enough on the outcomes. Somehow the procurement process needs to enable alignment with the government's desired outcomes, that is – better public service.

▪ **The current approach appears to require that a solution is identified**

Whilst the current procurement process doesn't demand it, often agencies set out to identify a solution. This immediately inhibits innovation. It makes an assumption that a small group of people know the answer and misses the opportunity that new ideas may bring.

▪ **Trying to make complex projects predictable**

The way procurement is currently approached requires agencies to take very complex projects and work them into a system that requires predictably. This requirement to plan and predict means the complexity gets dumbed down which ultimately increases the risk.

The key observation from this discussion was that 'one size' doesn't fit all when it comes to complex procurement. It was noted that in many cases the government is doing better at identifying the problem statement and as this happens the industry is willing to share the risk on transformational projects. The industry is also willing to share learnings from the commercial sector where transformations have been successful. It was noted that even in the commercial sector transformations often fail, but where they are successful there are common denominators. Experience tends to indicate that success is highly correlated to culture.

CULTURE IS CRITICAL

John Kotter, Professor of Leadership at Harvard Business School wrote a seminal work a decade ago on why transformational change often fails and it remains relevant today. The current government has done an excellent job of initiating transformational change within the public service. The vision is clear, there is a powerful coalition of leaders driving it with urgency, yet some of the most common obstacles remain and this will require a cultural change.

The vision coming from the government in its plans for better public outcomes, from the ICT Strategy and from the Government Rules of Sourcing clearly indicate the focus should be on transformation and that fiscal objectives should not get in the way of the drive for better public services. For example:

"There will be a culture that values innovation, and the regulatory and legislative environment will support this"

extract from Result 10

"…our fiscal objectives are not contradicting the drive for better public services. Rather, our strong fiscal objectives will be achieved by better public services and that is why we put such a strong focus on improving those public services and a stronger focus, in fact, than we actually put on saving money."
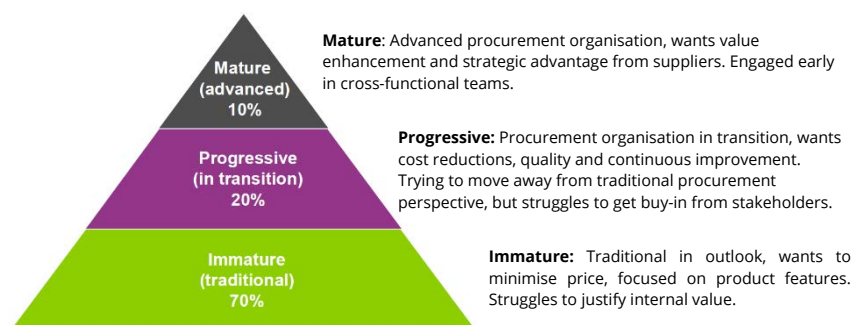
Bill English, Minister of Finance

"We need to attract creative, clever and commercial suppliers to help us deliver innovative and effective solutions to get the best value for New Zealanders which isn't always the cheapest price"

extract from Government Rules of Sourcing

However, at the coal face this message seems to have been lost. Within the departments there is a culture of risk aversion which is perpetuating a traditional procurement approach. According to Huthwaite International Research's procurement maturity model there are three common levels of maturity in procurement.

Figure 1: Procurement Maturity Model – Huthwaite International

Mature: Advanced procurement organisation, wants value enhancement and strategic advantage from suppliers. Engaged early in cross-functional teams.

Progressive: Procurement organisation in transition, wants cost reductions, quality and continuous improvement. Trying to move away from traditional procurement perspective, but struggles to get buy-in from stakeholders.

Immature: Traditional in outlook, wants to minimise price, focused on product features. Struggles to justify internal value.

In some government agencies there are still procurement teams operating in the lower section of the maturity model, however there is a very strong drive at a central level to mature government procurement capabilities. Investment is currently being made in upskilling and educating procurement staff, the development of simplified contracts, simplified RFx templates and other tools to gain a mature level process. The industry needs to be made more aware of the real flexibility already built into the government's Rules of Sourcing and support the transition from a progressive procurement model to the mature model that will be needed to support transformational change.

While the policy arms of government may be working hard to support positive changes in procurement, the discussion identified a number of very real and current cultural challenges impacting on the procurement of technology, including:

- **Late engagement with industry**

  It was felt that the risk aversion culture and a focus on process has created a system whereby the government often engage with the industry well into the decision making process, and then only via a very formal process. Having earlier engagement with industry and sharing longer term views of projects under consideration would enable technology companies to proactively suggest innovative solutions.

- **No level of failure is acceptable**

  Under the current culture transformational projects are always going to be large, costly and risky. Successful transformations in the commercial sector tend to be led by a very strong culture of "fail fast" or "learn and adapt" combined with agile development approaches. These projects always start with small scale pilots before being scaled up. Often these initial projects fail, yet the learnings from them help reduce the risk of catastrophic failures. This approach is identified in the government's ICT Strategy and is further reinforced as acceptable in the government's Rules of Sourcing but the prevalent culture of risk aversion and immature procurement processes still don't support it in reality.

  > *"Changes to services will often be trialled with customers on a small scale before being adopted more widely, speeding up the innovation timeframe and reducing the risks associated with 'big bang' change – effectively helping 'design out' risk".*
  >
  > *extract from ICT Strategy & Action Plan*

- **A growing culture of contractors creates significant issues**

  A culture of contractors has developed in relation to government projects. The use of contractors is particularly prevalent in the all-of-government work. There are now contractors employing contractors and agencies using panels to source contractors rather than undertake projects. This accelerating trend causes a number of issues including increasing overall costs as rates continue to grow. It is also difficult to get contractors to buy into the greater good and this lack of attachment makes it harder to create accountability. One of the biggest challenges for government projects appears to be a lack of accountability – from aspects as simple as timing delays during the RFP process through to major decisions as project scope creep sets in.

- **A focus on product and price**

  Once technology procurement is underway there is a greater focus on product and price. There is usually no scope or consideration for opportunity cost or productivity gains to be realised through a project. When agencies develop RFP's that identify a list of requirements and then invite feedback on which items are more complex and costly to deliver this allows companies to provide insight and inputs which add value.

- **Not looking to local solutions first**

  Government personnel appear to have a tendency to look offshore for the "best in the world", yet appropriate local solutions could be readily available. There is the perception that a large global best of breed solution has less risk. However when the desired outcome requires a transformation, even global offerings will still face the same challenges thrown up by the existing procurement system. By looking closer to home, a stronger level of strategic partnership could be developed and a higher level of accountability. In addition, it could also stimulate the growth of high value exportable solutions.

  Ultimately, the actions of the individuals within the operations arms of the public service are a reflection of the culture they work within. To drive transformational change requires a supportive culture that allows controlled risk taking yet also expects and monitors accountability. This is a difficult balance to obtain, particularly when wrapped in politics. To support this a very mature procurement model is required. The discussion then moved onto how the industry could support the change underway in the government procurement.

RECOMMENDATIONS

Addressing the challenges surrounding the procurement of complex or transformational technology projects will require the government and industry to work collaboratively. While MBIE continues to drive the development of procurement capability the Industry seeks the following actions to support positive progress:

▪ **Regular formal meetings between Industry & Government**

A regular and formal process for the industry to provide feedback to the GCIO and MBIE on the progress of procurement reform should provide a faster feedback loop and ensure both parties are moving forward together.

This format could also be used to create a "circuit breaker" so that organisations can safely feedback examples of where procurement processes are not performing well. Currently this is impossible as there is a fear of exclusion.

▪ **Create a forum for exchange between Industry & Government Leaders**

Greater connection between any two parties should lead to increased levels of understanding, empathy and collaboration. In the current system there is some level of early engagement via a supplier relationship management process (SSRM) with key suppliers, yet there is little formalised Industry Relationship Management.

The Industry has access to an enormous amount of experience that can be positively applied if, as a group, they had more insight into the plans of the government. The industry's challenge is how to showcase our technology to government decision makers.

The industry recommends an annual Summit for Tech Leaders to build connections, share information and work together on developing ways to deliver better public services. We believe this will help mitigate the culture of risk aversion as trust grows and ideas flow.

▪ **Decrease the number of contractors**

Ultimately, if this trend doesn't change everyone will lose. The growing number of contractors is artificially driving up costs, reducing the development and flow of valuable IP, leading to low levels of accountability and disrupting the government's ability to transform cost effectively. Both the Industry and the Government need to commit to changing the levels of contractors engaged in the process.

▪ **Increased support for Competitive Dialogue processes**

Guidelines for competitive dialogue have been produced by the government yet in practice it seems seldom used. This is the practice of engaging with the industry prior to undertaking any formal RFP process in order to work together on the problem. This process can include payment for time. According to MBIE procurement guidelines this would be an acceptable process for transformational projects. Therefore, the industry would like to see education and development to support its uptake where appropriate.

▪ **Increase transparency**

The example of G-Cloud in the UK was discussed. By increasing transparency into who is doing what, for whom and the progress of the projects enables organisations to focus their resources in the right places at the right time.

A higher level of transparency should also focus on the successes. Government and industry should collaborate on increasing the exposure of case studies highlighting successful projects so that other agencies can learn from what is being achieved.

CONCLUSION

According to IDC, a technology industry market analyst firm, the government is the largest single vertical for tech spending in New Zealand accounting for 29% of all spending. At the same time, the government has identified the tech sector as a high growth sector that they are investing in for export growth. So, it seems logical that where possible some of this government tech spending could be used to achieve joint goals of creating better public services whilst supporting tech sector growth.

The government established Callaghan Innovation to help businesses turn good ideas into internationally marketable products and services more quickly. There is no equivalent for the government sector yet they account for almost a third of all tech spending. Given this discussion was framed as "The Art of the Possible" it was concluded with some out of the box thinking. Could it be possible to create something equivalent to Callaghan Innovation for government agencies that wish to partner with industry, in a more commercial model of shared risk and high levels of accountability? Sitting outside the current procurement process it would enable a different approach which should deliver better outcomes in the long run.

In conclusion, the industry supports the government's goals of better public services and recognises how well the government is doing in effecting change. Transformational and complex technological changes are difficult. They require flexibility, agility and very strong governance. It appears that government policy for procurement is in place to support transformational change, yet in reality the more traditional procurement approach of price-out and risk-out is common.

Ultimately the industry believes that more can be done and we wish to work alongside government to help bring about these positive outcomes for the New Zealand public.

The New Zealand Technology Industry Association (NZTech) is the national voice for the technology sector in New Zealand.

NZTech is a not-for-profit association funded by members - the technology businesses in New Zealand and associated partners - from start-ups and local IT firms through to hi-tech manufacturers, major corporations and tertiary institutes.

NZTech works to increase New Zealand's prosperity through better use of technology and strategically focuses on enhancing skills and talents, driving business growth and exports, and guiding and supporting government policy. By actively encouraging relevant initiatives and policies that stimulate and advance the use of technology, together we aim to increase New Zealand's productivity, innovation and economic growth.