

Creating a Best-in-Class Procurement Organizational Structure

CGI's Spend Management Solutions Practice
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This paper highlights best-in-class state procurement organizations and focuses on changes they made to their operating structures to enhance their efficiency, capture broader savings, and improve procurement effectiveness. It outlines organizational issues for other states to consider as they assess their own operating structures. It is hoped that this paper, in conjunction with CGI's paper, "[Procurement Efficiency in Government: Policy, Process and Technological Transformation](#)," provides a roadmap for states striving to continually improve their procurement operations.

CURRENT CHALLENGES

For years procurement officials and national procurement organizations have debated the most appropriate organizational structure for state procurement oversight agencies. The pendulum swings back and forth between the merits of centralized versus decentralized operations. The oversight structure greatly influences decisions about purchasing staffing, effective contract administration, the breadth of buyers' expertise, and responsibility for contract enforcement. From the 1980s to today, various factors have influenced state procurement agencies in shaping their evolving organizational structures.

Factors Influencing Centralized and Decentralized Structures

Whether a state agency's procurement operations are centralized (where the central procurement authority purchases all items over a small dollar threshold) or decentralized (where state agencies have varying levels of delegated authority to purchase what they need) often depends on history and the financial condition of the agency. Typically when budgets are tight, the pendulum swings to centralized control. When dollars are flowing, the focus shifts to customer service and more decentralization, delegating procurement authority to agencies. The tides can change quickly. Small purchasing errors have resulted in restrictive statutory provisions, such as mandating total centralization. Knee-jerk corrections and ever changing legislative agendas have contributed to a complex and often very restrictive procurement structure that sometimes result in the state overspending millions of dollars.

Likewise, a more decentralized structure intended to provide greater flexibility and customer service can result in the central procurement authority actually losing the authority to approach statewide procurement strategically. This issue is exacerbated when legislation provides separate procurement authority for such functions as information technology, higher education, highway and facilities construction and risk management.

As noted in CGI's white paper on procurement efficiency, the true challenge is to develop a procurement program that creates an inclusive environment for all stakeholders in the decision-making and ongoing management of procurement. The

program must also leverage interactions with vendors and encourage a collective, strategic approach to obtaining needed goods and services while maximizing savings.

BEST-IN-CLASS EXAMPLES

The states of Virginia, Illinois, Georgia and Minnesota have been through major transformation efforts in recent years. Each state has been honored for their accomplishments by receiving the prestigious National Association of State Procurement Officials (NASPO) Cronin Award. This award recognizes states that have undertaken significant innovative and cost-savings projects that improve service levels and can be replicated by other states. Components of their combined transformation efforts include:

- Executive-level support for the transformation
- Positioning the central procurement authority so that it can execute strategically
- Investing in training and resources for procurement staff
- Stakeholder involvement
- Increased leverage of the purchasing power in the state
- The effective implementation of information technology to support transformation initiatives

ACHIEVING A BEST-IN-CLASS ORGANIZATION

Center-led Structures

Today, state governments need to determine the most appropriate way to effectively leverage limited staff resources. As noted earlier, for years procurement officials and national procurement organizations have debated the most appropriate organizational structure for state procurement oversight agencies. The pendulum swings back and forth between the merits of centralized versus decentralized. Currently the pendulum appears to be positioned over a middle-ground of center-led structures.

Center-led operations combine the advantages of both the centralized and decentralized models, allowing the central authority to better prioritize its category management and focus on strategies and high-value, cost-saving functions. It enables individual agencies to conduct the procurements that are unique to them while the central office provides support as required and audits the process to ensure compliance. While some states, such as Wisconsin, discovered this middle ground years ago, successful strategic sourcing and procurement process review efforts of the early 2000s validated this approach.

Some highlights of a best-in-class center-led organization include:

- **Approach to the Stakeholders**
 - Having a centralized governance structure
 - Involving agency stakeholders while retaining the authority of the central procurement organization

Best-in-class organizations implement these practices:

- *Executive-level support*
- *Well positioned central procurement authority*
- *Staff development investment*
- *Stakeholder involvement*
- *Increased leverage of purchasing power*
- *Use of IT to support transformation initiatives*

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- Developing a cross-boundary, collaborative approach that leverages the purchasing power of the entire state, including local governments and higher education institutions
- **Approach to the Procurement Staff**
 - Having a highly trained procurement staff working closely with agencies who have been delegated significant procurement responsibility
 - Reducing buying responsibilities for supervisors
 - Employing staff mentorship programs
 - Encouraging information sharing and knowledge management, often with a knowledge officer, to avoid “reinventing the wheel” and to ensure institutional knowledge is not decimated by turnover
- **Approach to the Process**
 - Partnering with vendors to exchange industry information and ideas for process improvement
 - Performing compliance auditing of delegated procurements
 - Conducting proactive contract administration with the goal of jointly solving problems while maintaining anticipated savings
 - Leveraging technology to improve efficiencies and effectiveness, share information and maximize savings

Approach to the Stakeholders

It must be emphasized that the key to success is found early in the process. The cooperation and support of stakeholders across the state is critical. As stated in the procurement efficiency paper, whether or not procurement activity is conducted by a central body or is carried out across the state is not as important as the need to have a centralized governance structure in place. This central governance organization should be a joint effort between the chief purchasing officer (CPO), chief information officer (CIO) and chief financial officer (CFO) with the support of the Governor to manage policy and process and leverage the resources across the enterprise. This governance model requires governments to rethink the current structure and to establish a long-term relationship that forms a cooperative approach that leverages the strengths of each “C” level member. They must collectively set the policy, focus and direction that allows for collaborative cross-government cooperation.

Next, the services of the CPO and the procurement office need to extend beyond the traditional executive branch of government boundaries. Virginia and Georgia are examples of states that have accomplished this effectively. They have adopted an established, structured, cross-boundary approach that includes state and local government, higher education, and government authorities to increase the leveraged purchasing power of government. Most states have developed cooperative purchasing programs that allow local units of government to purchase off of state contracts. In 2007, Minnesota extended its cooperative purchasing program to certain non-profits and has an advisory committee made up of members of the cooperative program. Non-state agencies are the primary users of a number of their contracts for items such as desktop computers, monitors and school buses.

Following these models, states can benefit by changing the historical boundaries and division of power that traditionally have existed between these cross-boundary entities. The insistence on operating separately is generally at the expense of creating additional value and realizing true efficiencies through a cooperative effort that leverages the dollars, human resources and tools of the different entities.

Wisconsin and Massachusetts are examples of states that were early implementers of “standards committees” or procurement teams consisting of agency stakeholders as well as central office staff. This approach taps into the expertise of the agency users, ensures that the resulting statewide contracts meet agency needs, and reduces maverick spending.

Wisconsin, California, Minnesota and other states have worked closely with the information technology stakeholders in their states to establish standard configurations for desktop computers. This approach had the dual benefits of ensuring configurations meet agency needs and leveraging the purchasing power of the state by increasing volumes for the configurations purchased. Minnesota is also currently developing standards (in conjunction with stakeholders) for servers, printers and multi-function devices.

Approach to the Procurement Staff

In the early 2000s most states had record budget deficits. While many administrations embraced the concept of strategic sourcing to maximize savings and minimize cuts to citizen programs, most were not interested in making permanent changes in their procurement organizations. Many states were losing procurement positions and procurement officials struggled to communicate that investing in effective procurement offices would actually save money.

Due to resource constraints, supervisors were heavily engaged in purchasing and commodity management activities, allowing little, if any, time to truly mentor, manage and train personnel. Contract compliance was another serious casualty of budget reductions. With increased workloads, buyers rushed to get the next bid on the street and didn't have the time or tools to focus on vendor or agency compliance. The contract manager relied on the agency customers to communicate supplier performance issues. Even when contracts were mandatory, there was little focus on ensuring agency compliance. Confusion regarding complex contracts with large suppliers often resulted in procurement officials overlooking overcharges that were costing the states millions.

In addition, as states faced record-breaking deficits, training and access to tools such as professional journals and tradeshow and opportunities to network with other procurement professionals were cut significantly if not eliminated altogether. Moreover, procurement positions were cut, resulting in a shift from category experts to generalists, leaving little time for proactive contract administration and monitoring of agency compliance with procurement policies and procedures.

The State of Illinois was one of the first states to recognize the importance of professionalizing its procurement workforce and organizing staff to maximize value-added oversight and improve contract administration. They increased staff when most states were cutting positions and organized staff by category rather than by procurement process. That is, they moved from aligning staff by those who

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States implementing some best-in-class approaches:

- *Georgia*
- *Illinois*
- *Minnesota*
- *Virginia*

conducted small buys, invitations to bid, and requests for proposals, to organizing by commodity or services categories.

As mentioned above, Massachusetts and Wisconsin were early leaders in establishing procurement teams consisting of agency stakeholders and tapping into their expertise for improved procurements. Wisconsin also maximized limited resources by pulling purchasing staff from small agencies into the central office. This allowed purchasing for small agencies to be accomplished collectively by accessing procurement officials that already existed and were potentially underutilized.

The State of Georgia is an example of a state that completely restructured its procurement office. In addition to creating category-focused portfolio managers, they created a chief knowledge officer to coordinate knowledge-management tools and analytical resources. They invested heavily in professional development, both through in-house, Georgia-specific classes and in cooperation with professional procurement organizations. Finally, they created leaders for contract compliance and customer care. They did all of that while conducting a strategic sourcing initiative and beginning to implement an e-procurement system. In the NASPO Cronin Award summary of Georgia's project, the award committee wrote, "This project was eye-watering from its sheer scope."

Approach to the Process (Leveraged Purchasing Power and Technology Solutions)

All of the best-in-class examples in this paper leveraged purchasing power by engaging in strategic sourcing efforts to maximize procurement dollars. Virginia was the early leader in implementing a technology solution combined with a governor's mandate that all state agencies and institutions of higher education use the new statewide electronic purchasing solution called eVA. The system is also accessible to local units of government, with approximately 500 localities participating.

The State of Minnesota implemented a spend management system that enables data-driven decisions about which contracts to pursue. They moved from a system of getting customers whatever they wanted to working with their customers to get them what they actually needed. As a result, according to their 2007 Cronin Club Award application, they eliminated more than 400 contracts that had been providing limited value. Concurrently, they adopted data-driven strategic sourcing strategies with an estimated savings of \$110 million over a five-year period. While the extensive reports available through the spend management system were initially daunting, the opportunities for professionals to meet and share how they used or modified reports to meet their needs created enthusiasm and inspired collaboration in maximizing the value of the data available.

Illinois set out to provide all state procurement staff with access to information that is generally held in individual files, in individuals' heads, or lost in big, encumbered organizations. They developed a knowledge management team and a system whereby procurement staff submit research requests electronically and, in turn, receive benchmarking and industry data, product information, and other states' best practices and analysis on particular purchasing issues. Over time they have built a library including research on a wide variety of procurement categories (such as copiers, healthcare, grants, IT consultants, food supplies and office supplies) and training materials on procurement (including vendor negotiations and total cost of

ownership, templates and checklists, frequently asked questions, and a listing of subject matter experts).

SUMMARY

Establishing a best-in-class procurement organization is a long, continuous process. Economic conditions, the political goals of an administration, and legislative mandates all have a significant effect on the focus and priorities of a procurement organization. Most states are not able to tackle all aspects of their organization as the State of Georgia did. However, it is generally possible to obtain support for at least one aspect of a best-in-class operation and over time build from there. It is hoped that this document and CGI's complementary white paper, "[Procurement Efficiency in Government: Policy, Process and Technological Transformation](#)," helps support state procurement offices in their continuous improvement efforts.

About the Author

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At CGI, she was a manager on the California Strategic Sourcing Initiative (CSSI) and project lead for the CSSI Training project. In both projects, she performed liaison activities with the California Purchasing Division and assisted in project management.

For more information

Download the paper

[“Procurement Efficiency in Government: Policy, Process and Technological Transformation,”](#) which can be found in the “See Also” section of www.cgi.com/spendmanagement

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ABOUT CGI

At CGI, we're in the business of satisfying clients. For more than 30 years, we've operated upon the principles of sharing in our clients' challenges and delivering quality services to address them. A leading IT and business process services provider, CGI has approximately 26,500 professionals operating in 100+ offices worldwide, giving us close proximity to our clients.

Through our spend management practice, CGI has the deep capabilities and extensive service and technology offerings that support governments in enhancing their procurement operations and vendor relations. CGI is ready to serve as a consulting resource, solution provider and managed services partner to assist government decision-makers in the development, analysis, implementation and management of the procurement solution that best fits their needs.

The below diagram highlights our full, end-to-end procurement solutions offering:

CGI's Spend Management Offerings

