



Inside this Issue

Getting the best value out of your IT spend	1
Silver Fern Award nominations sought	6
Committee Profile	7

Getting the best value out of your IT spend

At our November Branch Seminar, heads nodded in agreement as Anne Hall outlined her proposition that there is significant scope for organizations to gain more from their IT spend than is currently the case. Anne linked her presentation around six points:

1. Understanding the value you require and understanding the spend.
2. The importance of reflecting your expectations in the contract.
3. Recognising that saving time and money are key factors in getting best value. Spending time and money at appropriate times in the process.
4. Achieving business outcomes through technology, with user requirements being met through tendering and contract negotiation.
5. Creating greater value through agreement with suppliers by using approaches such as: staged; business outcome; prototyping; and change management.
6. Performance under the contract. What happens once the contract is signed?



Understand the value you require and understand the spend.

Getting the best value from your IT spend requires that you identify early on the value you require. Otherwise you could end up with a system that can do all sorts of things but still fails to meet your requirements. What is the value that you are looking for? Let's say you wish to implement a payroll and HR system. Why are you doing this? Is it because you don't currently have a system, or perhaps more likely the system you have is not achieving what you want it to achieve.

It is vital that the reason for implementing the new system is identified in business outcome terms. For example your objective might be to reduce the cost of administering the payroll and HR scheduling by 40%. So any new system would need to achieve time efficiencies as well as enabling better management of the payroll and HR requirements.

If you start from the perspective that you need a payroll and HR system then you will be comparing alternatives at a technical level before you have identified the business drivers behind the need for the system. The system that is the most technically advanced for the amount you have to spend may then seem the best.

The IT manager of a large hospital was implementing an integrated payroll and HR system. He had clear ideas about what was required. I was asked to amend the supplier's standard contract to incorporate obligations meaning these things would be achieved. This included obligations on the supplier for integrating the 2 systems. The supplier was not at all happy to do this but gave verbal assurances that it was confident of performing as required. This was not good enough and after a couple of months negotiation, my client walked away from that supplier.

Anne Hall



(Continued on page 2)

(Continued from page 1)

A common flaw is for customers to rely on the suppliers to determine what is best for them.

It is perhaps understandable to do this but essential to bear in mind that IT suppliers do not know what is best for you. They will endeavour to understand your business but typically they will not. What they understand is what their technology can do.

If you can identify the value that you need from the technology, you will be far more likely to be successful in having that value realized. You are far more likely to get what is needed from the technology and to pay for what is needed.

If this is all straightforward to you then consider this: the majority of IT projects cost more than they should. Which brings me to the second item under this section: the need to understand the spend.

People implementing IT solutions tend to look at their spend purely in terms of the amount the supplier will charge them and to rely on the original figures being the total of their spend. This is wrong. Unless properly managed, you will end up paying more to the supplier than what is originally quoted and you will spend far more time on the project than you ever imagined.

This is the result of customers not identifying what it is they need in terms of value and then not actually reaching agreement with the supplier to deliver this value.

Typically customers do not spend sufficient time at the outset of an IT project and trust the supplier to deliver to them what they need. This results in far more time and often money being spent later to rectify the situation. The time spent by customers is often not counted as part of the IT spend, yet this time can "cost" an organization far more than the monetary outlay.

Also the potential for disputes and the cost of resolving disputes is often not counted. Disputes that end up in Court are not the norm. What is the norm when expectations are not aligned, is countless minor disputes. These disputes are time consuming and divert your focus from more important things and are a cost that can be avoided.

The importance of reflecting your expectations in the contract

The contract that you enter into must actually reflect your expectations. This should go without saying but even where customers are very diligent about defining what it is they think they need, this is not reflected in the contract that they sign. People seem not to understand that the "deal" they think they are agreeing to should be what is recorded in writing in the contract that they sign. A good question to ask is: If the supplier achieves what is required of it under the written contract, will this mean that my requirements are met? The answer is often NO.

Many customers work through a tendering process for an IT solution they require getting many verbal assurances from suppliers to questions that they have, and then sign a standard licence agreement. This is just simply not good enough and if suppliers do not see the need to change their approach, the change needs to be demanded by customers.

A concept, which should go without saying but often does not, is the negotiation of a contract should be a process of aligning expectations. If the contract does not reflect your expectations, then negotiate so that it does. If you expect the supplier to do something, whether because you've requested it in your RFP, because the supplier has promised something during discussions or demonstrated functionality that is possible with the software, but this is not reflected in the contract, then request changes to the contract to ensure the contract reflects these expectations.

Recognize that a contract need not be in writing. The agreement that you reach or think you reach should be no different than what you commit to in writing. It is of course convenient to record the contract in writing though and this discipline not only means you don't have to remember what was agreed but also the very fact of writing down what you agree helps to focus the parties on what it is that you are actually agreeing.

We quite often have clients coming to see us who say "I've done the deal, now I just need a contract". These same clients are then disappointed that the other party, receiving the written contract doesn't immediately sign it. What happens is that their version of the "deal" does not equate with what the other party thought was agreed. This is often because in writing the contract, we raise issues that have not even been addressed between the parties, let alone agreed. Then of course the lawyers are blamed for ruining the deal!!!

A contract recorded in writing that does in fact represent an alignment of each party's expectations, means that issues will have been raised, addressed and agreed. This in turn means that the time and money spent by each party will be effectively spent towards achieving the required business outcomes. This is not usually what happens.

A dispute over \$200,000. We advised a local body on a full ERP solution it wanted to implement. We reviewed the standard supplier's contracts and raised a number of fairly significant issues. The consultant involved advised the council not too worry about the issues too much, saying the supplier had all the right experience and had done these implementations before. We were not asked to assist with the negotiations at all and the council signed the contracts. Two years later they have a dispute over maintenance fees. Should these fees have started as soon as the first module was installed or on successful testing of the whole solution. This was very unclear in the signed contracts and had been one of the issues we raised. It could have quite easily been sorted out before the contracts were signed but was not and the ambiguity had resulted in this \$200,000 dispute

(Continued on page 3)

(Continued from page 2)

Recognising that saving time and money are factors in getting best value

If more time and money were appropriately spent upfront, before an IT project really gets underway, IT projects would be more successful. This would give society more confidence in the IT industry and IT would have better fulfilled its potential to society. What has happened?

Because of the perceived complexities in doing otherwise, IT projects are commenced largely on trust. The desired outcomes and criteria for determining whether those outcomes have been met are never quite articulated so there are a high level of failure of IT projects. [failure = requirements not met, cost and time over-runs]

There is too much trust and good faith that suppliers know what customers want, but they don't. Customers wanting IT solutions must invest time and money into the planning stages. Invest more time and money than is currently the norm for IT projects and invest it properly. The norm is not working. It is not resulting in successful IT projects.

I see a lot of IT projects run their course. I can almost pick the ones that will be headed for disaster. And I believe that a lot of these disasters could have been prevented with an appropriate investment upfront. When I use the word "disaster", it is not necessarily in the sense of outright failure. There are different versions of disaster. The type I am most concerned about has become so much the norm that it is not even considered a bad result. What I am talking about here is the time and costs that typically go into IT projects without even being recognized as avoidable.

A financial institution implemented a document management system. The principle software in the solution was licensed at a significant discount, which would be recognized by rebates to be paid to the customer once the number of users had grown to numbers justifying the discount. The trouble was that the rebates were specified by examples at certain levels of licensing, rather than by applying a formula at any given number of users. So the logic behind the rebates, which were in the hundreds of thousands, was not transparent. This meant there was uncertainty and so a dispute arose. This dispute and all of the time spent by each party in resolving the dispute could easily have been avoided.

Achieving business outcomes through technology and user requirements being met.

It is vital to keep in mind in IT projects that IT is simply a tool. It is a tool to be used to achieve a business outcome. Remember this in tendering stages and in contract negotiation. Tender and contract to achieve business outcomes. Not to get some technology.

In tendering, highlight the business outcomes that must be met. Don't focus on the functionality you expect will be needed to meet those business outcomes. It is, or should be, the supplier's task to do this. Of course, details will be needed. But these should be focused on how you want the technology to work, or how you want to be able to use the technology. Not the underlying functionality of the technology itself.

In order to relay user requirements to suppliers, you will need to speak to the users. Find out what their requirements are, in the context of achieving the required business outcomes. Don't let the user requirement become a wish list. Things that the users may very well like to be able to do but do not achieve the required result. You should be aware that this will potentially be a very political process. It will be impossible to keep everyone happy. However it is essential to get a certain level of buy in from users before a commitment is finally made.

In the tendering process, it can be very helpful to express the commercial principles on which you will engage with the preferred supplier. Include these in your RFP. These can include things like the supplier being responsible for the software operating as required on hardware recommended by the supplier; that the customer will test the solution and pay the final instalment (say 25%) on testing being satisfactorily completed; that the supplier will be responsible for data migration provided the customer makes its data available in a format as advised by the supplier. These sorts of principles could affect the suppliers pricing. Including them in the RFP prevents the supplier from later saying that they did not price on that basis and will mean less time is required on the negotiation of contracts.

Having worked to identify your business outcomes and so on, include these required outcomes in the contract. Incorporating the RFP and any later correspondence into the contract can do this. Ensure your written contract reflects the agreement you think you've reached. Don't leave things unspoken or unagreed, don't rely on trust and don't just trust that the supplier will have the same ideas as you - they won't. Again, ask yourself: Will our needs be met if the supplier meets its obligations as stated in the contract? Negotiate to ensure this is the case.

Creating greater value through agreement with supplier

Here are four techniques that can be used to create greater value from your IT projects. Each technique impacts on what you will need to agree with the supplier. The message here is: use a technique that is appropriate to ensure you either: increase your prospects of getting what you need AND / OR minimise the cost of getting what you need.

(Continued on page 4)

(Continued from page 3)

Staging

The first technique is to use staging. This involves dividing the project into stages with successful completion of each stage creating confidence that you should proceed to the next stage. This is not often used but we find it a helpful technique. Often suppliers present their solution as an all or nothing offering. Even though they don't themselves know how the project will unfold or the requirements or costs beyond a certain point.

A simple use of staging is to contract to have work done to determine scope and cost of unknown aspects. In one example of this, a client came to see us and wanted advice on whether they should commit to a contract for a customized logistics management solution. What they had been asked to commit to was completely open-ended. The supplier wanted them to sign the contract for the full solution before they would commence any work.

We recommended that they commit only to a contract under which the supplier would undertake a scoping exercise. Following this, the supplier said they would be able to provide fixed prices. The initial stage was estimated to take 10 days and cost \$12,000. The customer signed a contract for the initial work to be done. This meant they could then make an informed decision on whether to proceed further.

The customer contracted to known details. Using this technique reduced the potential risk for the customer. The initial contract stated the basis on which the customer would decide whether to proceed to the next stage. If they had decided not to, they would have invested and lost \$12,000 rather than the whole price of the project. After completion of the initial stage, they entered the subsequent contract, which reflected a far greater level of certainty about what the parties were agreeing to.

Business Outcome Approach

This technique, which can be used in conjunction with staging, requires the customer to identify its required business outcomes and to agree with the supplier that these business outcomes must be met. The technique helps the parties to focus on what the technology is actually required for. It recognizes that technology is secondary and provides a means to meet a business end.

It is not common for this approach to be used, even though suppliers in particular often believe they adopt a business outcome approach. The difference between what they think they are doing and what we advocate is that under our approach, the supplier will actually commit in the contract to achieving the stated business outcomes. We have successfully used this approach with clients. Not surprisingly, making payment to the supplier dependant on them achieving the stated business outcomes makes the supplier's commitment to delivering on these outcomes very real.

As much as suppliers want to deliver something that makes business sense for you, requesting that they commit to this contractually makes them very nervous. A common reaction is that the supplier can't possibly be responsible to this level because so much of the success is in the customer's control. Fine, so agree what it is exactly that the customer will need to do. Under this approach it is important for the customer to accept responsibility for certain aspects and for this to be included in the contract too.

If this doesn't sound like the sort of thing that's in your IT contracts you're right. But what we are talking about here is ways of getting best value from your IT spend. This means getting value from your IT projects at a business level. And this in turn means getting contractual obligations from your suppliers to ensure this value is achieved - and it works.

Prototyping

Prototyping can be used in conjunction with staging and / or the business outcome approach. The technique involves requiring the supplier to produce dummy prototypes that illustrate their solution and more importantly to assist you to decide whether that solution is what you need. It also helps customers to get the confidence they need that the supplier understands what they need.

To begin this process, determine what you think you need and ask the supplier to produce a prototype to illustrate this.

A business outcome approach was used successfully in the implementation of a core banking system. In the RFP the Bank specified the required business outcomes. In the letter of intent with the preferred supplier, the bank repeated the required business outcomes. In the draft contract presented to the supplier, the Bank again repeated the required business outcomes. Only at this stage did the supplier retaliate. They asked how they could possibly be expected to deliver on the customer's business outcomes. However this is exactly what they had represented it could do all the way along. The negotiation to have this approach incorporated into the signed contract was not easy but it did happen. The supplier eventually agreed. This is a very useful approach. What you want from an IT project is not the software provided by the supplier, but what you need that software to do. It is at this level that suppliers should be committing if you want to get best value from your IT spend.

(Continued on page 5)

(Continued from page 4)

You may not need to prototype the total solution but the technique may be helpful if you need some custom work done. The prototype may not require the supplier to produce any code. It may simply be how the front end would look. Having seen the first prototype you may decide refinements are necessary. This is the value of the prototype. The supplier is not required to spend the time, nor you bear the expense, of producing a working version. It can simply be a dummy prototype or mock-up.

Several iterations may be required before you decide that the prototype is right. Only then do you request the supplier to produce a working version.

This is a useful technique because it avoids the need for the customer to be able to explain in technical terms what they require or rely on the supplier understanding what you mean without having to produce something for you to review. This is in contrast to the usual approach in which: the customer attempts to explain what it is they think they need AND the supplier then going away to write the code to achieve that, only to find after much time and expense, that what is delivered is not really what the customer needed at all.

The prototyping technique saves a lot of unnecessary cost and time. As an example, a client we worked with wanted to have a website from which people could purchase and download video seminars. After researching what was available in the marketplace the client found that website products available for online transactions could only manage online purchases with subsequent physical delivery. This is not what was needed.

The chosen supplier promised that they could customize its product to meet the client's need - at additional cost to the client for the custom work required. The supplier explained the changes that would be required in both the front end and the back end of the product to meet the client's need. The client wanted more evidence that having spent the money for the custom work, it would have what it wanted so the prototyping technique was applied. The supplier was asked to produce screen shots of the back and front-end changes. The first prototype showed the client that the supplier had not fully grasped what the client intended. Further prototypes were produced with little cost to the client. Once the client was happy with the prototype, a contract was signed for the website to be developed, including the custom work. If instead of dummy prototypes, the supplier had produced working versions each time, the cost to our client would have been considerably greater.

Change Management

Change management mechanisms recognize that you will not have all relevant knowledge at the commencement of your IT project and also that your requirements could well change as the project proceeds. It can ensure you get better value from your IT spend and also do so at least cost. Change management procedures address the need for flexibility in IT projects. These procedures should be incorporated into your IT contracts regardless of how much time you spend at the outset in getting everything properly agreed.

A good change management procedure will enable the customer to request a change and the supplier to suggest a change. The change is most likely to be a change to the customer's requirements, often recognized as the customer reviews releases of the deliverables. The supplier should be required to address the change in terms of functionality, timing and cost and how the change will impact on the project as a whole. With this information the customer can then address whether to proceed with the change. The change should result in an amendment to the contract, which is signed off by both parties. If change management procedures are in place and used properly, both the supplier and the customer will have far greater control over the project.

This leads into:

Performance under the contract

Many contracts are considered successful if they can be put in the bottom drawer after being signed, and never brought out again. IT project contracts should not be treated in this way. IT project contracts should include operational aspects relevant to how the project should proceed. An example is in acceptance testing. The contract should include testing procedures designed to ensure that, on acceptance criteria being satisfied, the customer will have what they need from the technology to achieve their stated business outcomes.

This requires that acceptance criteria are sufficiently detailed and robust. The timing of acceptance tests should be detailed and this timing regime should be adhered to. When defects are identified the process will control the supplier's obligations to remedy the defects including the time frames for doing so. It should be clear to both parties whether a defect raised by the customer is in fact a defect or is actually a change, by reference to the business or func-

I was called to Wellington one day to sort out a change management problem. The contract between the parties had a perfectly good change management procedure in it but it had not been used. Users within the customer had been sending what they called change requests directly to the supplier's developers. The developers had been making all changes requested. However, the customer viewed the changes as defects and so did not expect to pay, while the supplier considered the changes to be exactly that, changes beyond the scope of what it had been contracted to deliver. Because the change management procedure had not been followed, the status of the customer's requests had not been identified. Nor had the cost, which had become a \$500,000 problem by the time I was asked to help. Had the proper process been followed, each request would have been identified as either a change or a defect. If the request was agreed to amount to a change, then the impact particularly in terms of time and cost would have been addressed, the problem would not have occurred. .

(Continued on page 6)

(Continued from page 5)

tional requirements incorporated in to the contract.

Testing may be on a per module basis but should also detail total solution testing following implementation of all modules. Testing through month end may be necessary depending on the type of solution being implemented as may testing with certain volumes of data or speed of processing. Having taken the time to address testing requirements in this way, the testing process should actually be followed.

Relevant people within each organization should be aware of relevant parts of the contract so that the project can be managed in accordance with the agreed contract. This does not mean they need to understand all of the contract or even have a copy of the whole contract, but they should be aware at the operational level about what has been agreed.

In one project we advised on, the contract was negotiated in Sydney for a solution that was to be implemented in several cities throughout Australia and New Zealand. A lot of time, effort and money was invested into ensuring the contract reflected each party's expectations. The first implementation took place in Wellington. However, the relevant people in Wellington did not even have a copy of the signed contract. They were planning to manage the project just as they would any other project, which was not what had been agreed. This would have meant a complete waste of the time, effort and money spent in aligning the party's expectations and would have resulted in disputes along the way.

Anne can be contacted at annehall@itlaw.co.nz or phone 09 377-6220. www.itlaw.co.nz

To summarise the key messages:

Identify the value you require in business outcome terms. Count the cost of your time and any additional charges you might incur in your total spend. Signing the standard contracts of the supplier with the cheapest product may not mean your money is well spent.

Make sure the contract you sign reflects your expectations. Ask yourself whether your requirements will be met if the supplier does all that is required of it under the contract.

Spend time and money upfront to save time and money being wasted later.

Address your required business outcomes and user requirements in your RFP. Follow these through into the contract that you sign.

Use techniques to ensure you will get what you need without paying more than you need to, or spending time unnecessarily. Staging, a business outcome approach, prototyping and effective change management are useful techniques that can be used.

Having signed a contract, ensure performance is in accordance with that contract.

Silver Fern Award

Nominations are now being sought for the inaugural NZIHM Silver Fern Award. This Award is a new initiative, which will be offered annually. The objectives of the Award are to:

- ✧ Promote and motivate the pursuance of excellence in the management of health services in New Zealand;
- ✧ Recognise outstanding effort and achievements in the management of health services in New Zealand.

The nominee must be a member of the NZIHM/Australian College of Health Service Executives; be nominated by at least three Fellows/Associate Fellows of the College; and be a long standing supporter of NZIHM/ACHSE and its objectives.

The award criteria require the nominee to show leadership and achievement in the areas of:

- Patient care, either at their own hospital or health services organisation, or in the health services field.
- Professional development for better health services management in their organisation or in the health services industry.
- Management and organisational development, either in their own health service organisation or in the health services industry.
- Health services activities, i.e.: initiated and participated in activities to improve health service delivery in their own organisation or in the health services industry.
- Management and organisational development, either in their own health service organisation or in the health services industry.
- Health services activities, i.e.: initiated and participated in activities to improve health service delivery in their own organisation or in the health services industry.

A panel, comprising the NZIHM National President, Vice-President, Treasurer and a representative from ACHSE Federal Council will review nominations and the award will be presented together with a citation at the NZIHM Annual General Meeting.

Individuals may not nominate themselves. Rather, nominations are sought of individuals who might be entrants. Nomination forms, which outlines in detail the criteria for nominations, are available from the NZIHM National Office.



New Zealand
Institute of Health
Management
A Branch of the
Australian College of
Health Service
Executives

For all inquiries re Branch activities or membership contact admin@nzihm.org.nz or (09) 577 5477 Phone/Fax



SEMINARS

Our next Seminar is planned for the week commencing 23 February 2004. Details will be available early 2004.



We thank Eurest for their continued support of our Branch Seminar programme

Inform is published monthly for members of the Auckland Branch of the New Zealand Institute of Health Management

Edited by Bruce Parkes

Profile

Newly elected Auckland Branch committee member, Jacki Richardson, brings her energy, enthusiasm and wide experience, both in health management and as a former NZIHM National Councillor, to enrich our activities. Jacki's committee portfolio is liaison with the non-hospital sector.

Jacki began her career in health at Middlemore Hospital in the 80s. After working in the Health Department and venturing on "the semi obligatory O.E. to Europe, Jacki moved into management. First, in the public sector with positions as a Research and Development Consultant in the Auckland Area Health Board's Personnel Development Unit; followed by roles as Diagnostic Services Manager, then Clinical Support Services Manager at North Shore and Waitakere Hospitals; before moving into the private sector.



Positions as Chief Executive Officer, Mercy Parklands Hospital and Retirement Home Ltd; Service Manager, Child Youth and Respite Service & Quality Manager at Spectrum Care Trust Board and her present role as Chief Executive Officer, Spectrum Care Trust Board have honed her propensity for innovation and challenge, strong commitment to customer service and an understanding of commercial realities.

Jacki brings to her roles as Chairperson of the Management Expert Committee for the development of National standards for Health and Disability Services; and a member of the Intellectual Disability Expert Committee, Health and Disability Standards, her background as a management professional, blended with tertiary qualifications and practical experience in a variety of sectors in the health and disability industry,

Currently enrolled as Doctor of Health Science student, Jacki holds an M Phil (Hons) In Management Studies and Labour Relations; Diploma in Business; B.A. in Sociology, with Economics and Psychology; and is a Registered General and Obstetric Nurse. Her research interest is the determinants of organizational success within health/disability services.

Jacki is a Fellow of the New Zealand Institute of Management and an Associate Fellow of the New Zealand Institute of Health Management.

Contributions Welcome

1. The Auckland Branch welcomes contributions to **Inform** on subjects of interest to managers in the health and disability sector. Articles may be longer researched contributions, comments on current practice, or shorter notes and/or reviews. The range of possible subjects is very wide.
2. The maximum length is generally 3000 words. Shorter contributions are very welcome. Please include an e-mail address so authors can be contacted and a brief list of key points or an abstract.
3. Copy should be provided by e-mail or on a computer disk.
4. Contributions may be passed to the Editorial Committee for consideration.
5. Make submissions or contact the Editor for more information at nzihm@extra.co.nz