Pursuing Best Value for Money in Procurement

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Introduction

Achieving good "value for money" as a procurement outcome is almost certainly implicit if not quite explicit in most transactions. Surely, every procurement officer, whether at the interface between client and supplier or several steps removed, in writing procurement policy, has a direct interest in ensuring that good "value for money" is accomplished. Certainly, the public expects "value for money" from government products and services and shareholders of major corporations expect “value for money” from activities and investments. Yet our news bulletins bring us frequent examples of projects or programs that have not delivered good value for money.

We have seen in the last year the BP disaster that cost billions of dollars and immeasurable social and environmental harm. The Government’s BER and home insulation programs have come in for strong criticism in terms of “value for money”, as have some major defence programs.

Even as I write this paper, a headline appears on the ABC news website - *Value for money.* The article says that the Prime Minister, Julia Gillard, has announced the formation of a "reconstruction inspectorate" to ensure no money is wasted during disaster rebuilding efforts around the country. She was reported as saying, *“we must ensure that every dollar is a dollar that is spent effectively and that every dollar spent from taxpayers' money goes to do work that is necessary to rebuild the nation".*

How do we know if “value for money” is being achieved? At a domestic level, we know intuitively when a product on offer at the local supermarket delivers good value for money, and shoppers rush to snap up bargains as they see good value for money at the January sales. But what about major projects and programs? How do we assess their “value for money” performance?

The Australian Standard on Value Management (AS 4183 – 2007) provides a method and framework to achieve best value for money in products, processes, services, systems or organisations. The method is applied internationally by both private and public sectors and may be used in association with all procurement activity. Value Management may be applied at any time in the life of an entity but by far the most benefit will be achieved at the very earliest stages when strategic and conceptual decisions are being taken. The process of Value Management is a collaborative one, in which multi-disciplinary groups work together through a structured work plan, seeking the best possible outcomes for the entity being considered. These groups might include decision makers, stakeholders, technical specialists and others.

Value for money

“Value for money” is a relative term, and only makes sense when used as a means of comparison. The supermarket customer knows that the baked beans on sale this week represent good value for money, *compared with* the normal price. And so it is with major projects and programs. We can only determine if we have received poor, good or excellent value for money by *making comparisons* with other options (including, sometimes, the option of “doing nothing”) and that is what the Value Management framework is set up to do. To help the comparison process along, the Australian Standard makes clear distinction between “value” and “money”, thus, for a range of possible options, we can see which option comparatively provides the best relationship between “value” and “money” and hence, best “value for money”.

It is worth asking the question, "Why does anything have value?" The Australian Standard identifies three core elements that contribute to the answer. The first of these three factors is "useful purpose". If an entity is perceived to have no "useful purpose" it is likely to have no value at all (to the one perceiving it). The second of these factors is "benefits" or, “beneficial outcomes”, that is to say, the set of benefits or beneficial outcomes that will flow from fulfilling the useful purpose. The third factor is the set of "important characteristics" relating to the entity. It is these three factors that are drawn together and used in the comparison of options.

The way in which these three factors work together to determine value may be seen by considering an example such as a commuter train. To capture value for the purpose of comparing options, we must do so from multiple perspectives. From the point of view of the passenger, the useful purpose of the train is that it takes one from point A to point B. If the train does not do this, then to the passenger, it has no value at all. But assuming that it does take the passenger from point A to point B, the question of value does not end there. Beneficial outcomes of being taken from A to B might be getting to work, or leaving one’s car at home. Important characteristics of the train service (to the passenger) might be the frequency, regularity and reliability of the service. A more-reliable service is likely to have more value in the eyes of the customer than one that is less-reliable. We could add other points, too, such as personal safety and comfort. Indeed, if we were to bring together a group of commuters and discuss these factors with them, we would probably produce quite a long list of elements but we would be able to place them all beneath the headings of: useful purpose, beneficial outcomes and important characteristics.

If, for a moment, we were to change perspective and consider the value of the train from the point of view of the train driver, an entirely different set of *value factors* would emerge. For example, the "useful purpose" of the train would have nothing at all to do with taking someone from point A to point B. Rather, the useful purpose of the train would be to provide employment. A beneficial outcome of this is that it enables the train driver to "put food on the table". An example of an important characteristic might be health and safety at work. So even though we are considering the same train service, the *value factors* from the point of view of passengers and train drivers are substantially different. We could keep the exercise going and consider the value of the train service from the point of view, say, of the Department of Finance or a major shopping centre. Again, each would have their own perspectives. So it is with any entity. In Value Management, we capture these various perspectives and build them into statements of requirements, thus enabling comparisons between options.

A primary reason that programs and projects fail or at least fall short of expectations is that this task of capturing the value factors from multiple perspectives is frequently not done and things just proceed on the basis of assumptions. Often, the reason given for not doing this is that there is insufficient time, or that it would cost too much. Imagine how different the Government's home-insulation scheme could have been if this task had been carried out at inception.

Benefits of Value Management

We can see benefits accruing at various organisational levels from undertaking Value Management studies. Often, the benefits are reported in terms of costs saved, recognising that for many clients, cost reduction, without compromising requirements, is of paramount importance. But Value Management offers far more than cost savings or avoidance of wastage. At a government departmental executive level, the major benefit is the confidence engendered from knowing that a transparent review process is being consistently applied and that best value for money is being systematically sought. Also at the departmental executive level, there is the benefit of achieving improved alignment between the overall program and individual projects and, also, alignment between the program and government priorities.

At the levels of programs and projects, benefits commence with delivery of best value for money outcomes but certainly do not end there. A major attraction of Value Management is that the process enables and encourages participation of stakeholders such that clients become actively involved in planning and design. The establishment of value factors in the collaborative workshops means that everyone is working towards the same end rather than to their own assumptions. This, too, is a significant benefit. The collaborative workshops accelerate *learning* and enhance communications across a broad spectrum of stakeholders and project-team thus potentially reducing project development time.

Conclusion

The collaborative, learning, approach of Value Management substantially assists program-development through its focus on value and value for money. The Value Management workshops provide excellent opportunities for stakeholders and project-team members to work together, having unity of purpose. This strongly enhances the procurement process and enhances the likelihood of achieving best value for money.

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