

Electronic surety bonds

a tendering process
for the 21st century

Government Clusters common resources common goals

Supplier codes of conduct
...do we really need them?



FROM THE EDITOR

editor@summitconnects.com

March 2010

By now you will have received in your mail the January 2010 issue of *Summit*, which focuses attention on leadership through our special section on the Leadership in Public Procurement Award program and some thought provoking articles. The issue is also online at www.summitconnects.com.

Another print edition of *Summit* is underway, however, we have three important features that we wanted to get to you as soon as possible... that means in an online edition.

I know that surety bonding is something that affects most of you at one time or another and so the Surety Association of Canada has provided rationale for you to move from your traditional bonding process to an electronic process. We trust you will find the information timely and useful.

Everyone is facing some belt tightening these days. The federal government has been maximizing its IT tools and processes through clustering. Michel McGee provides you some insight into the why's and how's of the federal Integrated Financial and Materiel Cluster. Streamlining processes and technology and working together are great means to leveraging capability.

Sustainable procurement is a new column for *Summit* magazine, We hope that you will find Larry Berglund's ideas and comments thought provoking and helpful. Larry is a long time procurement professionally who turned his passion for the environment into practical steps as he conducted business in his various public sector roles.

Please also note the information on our You Asked for It! workshops, designed with input directly from you. Get in touch if you would like a workshop designed specifically for the challenges you and your colleagues are facing in your organization. We will bring the session to your place of business if you choose.



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Electronic surety bonds

This could be the best innovation in the tendering process for this century. The Surety Association of Canada explains why and how moving to electronic surety bonding would benefit procurement.



by Steven Ness



Government clusters

A closer look at the federal government's Integrated Financial & Materiel System cluster

by Michel McGee

opinions

Sustainable procurement

Supplier codes of conduct

Author Larry Berglund asks if we really need them.

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Electronic

surety bonds

a tendering process
for the 21st century

by **Steven D. Ness**

“E-commerce” has become the buzzword of the new century as businesses in every sector struggle to keep up with the bombardment of technological advances that become available literally at the touch of a button. Automation has come to virtually every aspect of commercial endeavour: from procurement, through production to inventory control, administration and delivery.

In keeping with this trend, the construction and surety industries are exploring the use of technology to enhance the level of service provided to their clients and to streamline their administrative processes. In the construction/surety world, the tendering process lends itself very well to automation for several reasons:

- Time pressures involved in the bidding process are considerable – being even one minute late can mean disqualification. An automated

approach where documents are delivered instantaneously can alleviate the last-minute pressures of a tender closing.

- The laws of tendering require strict, error-free compliance with the bid documents. Automated creation of the bid bond and other tender documents can significantly reduce the chance of errors, which can lead to a bid being declared informal.
- The ease and economy of transmission: Not only is delivery easier, faster and “greener” (i.e. smaller carbon footprint), it is far less expensive and can reduce or eliminate the mounting courier costs.

The challenge of change

As is the case with any major change, the shift from paper to a digital environment is not without its

challenges. In addition, the unique nature of the surety product and process magnifies some of these issues and adds a few more.

E-tendering has been described as the train that's always coming but never seems to arrive. Despite the tsunami of technology that pervades every aspect of personal and commercial life, the construction community has been frustratingly slow to embrace the tools of automation to streamline the tendering process.

Such hesitation may be understandable given the natural human reluctance to stray from one's comfort zone and adopt a radically different approach to a century-old practice. Other factors come into play as well: lack of manpower and resources; concern about the stringent rules governing bidding practices, etc. Whatever the reasons, however, the construction industry in Canada has made relatively little progress in automating the tendering process.

On the bright side, our sluggishness in responding to the automation challenge affords us an opportunity to learn from the mistakes of others and more effectively manage the upcoming changes. In the United States, a number of public owners, particularly state departments of transportation, grabbed the electronic tendering bit between their teeth and ran with it, without consulting with the industry or even each other. The result was a patchwork quilt of incompatible technologies and divergent approaches that continue to create chaos and confusion across the country.

If we take one lesson away from the American experience it should be this: consult, consult, consult. Work with the industry to develop a broad based approach that addresses the needs and constraints of all stakeholders to the tendering/bonding transaction.

From a technical standpoint, there's good news. The technology to create, record, execute and deliver electronic bid bonds is readily accessible and indeed there are a number of commercially available electronic surety systems, some homegrown, others developed in the US.

That said, regardless of the system used, it is vitally important that the end-user trusts the process and is assured that the "document" received is as valid as any

paper equivalent. In that regard any electronically generated document should meet three threshold criteria:

1. **Integrity of Content:** the assurances that the document received is the true document executed and the content has not been changed or altered.
2. **Secure Access:** restricting the access to the document to those authorized to view and/or download it.
3. **Verifiability / Enforceability:** assurances that the document was duly executed by the parties identified and that it is enforceable in law.

If we take one lesson away from the American experience it should be this: consult, consult, consult.

The Surety Association of Canada can help

The Surety Association of Canada (SAC) strongly supports the automation of the suretyship process and has resolved to direct its energies and resources toward assisting construction buyers with the transition to an automated tendering process. We urge construction buyers who are contemplating a move to electronic tendering to visit the SAC website: www.suretycanada.com.

Visitors to the "E-Bonding" section (found on the top ribbon of the home page) will find a wealth of resource materials and supporting information, which can be accessed and downloaded by construction purchasers and other stakeholders.

The SAC will provide hands-on assistance to owners who are moving toward an electronic tendering system – assistance which includes:

- Providing general guidance to project owners and assistance in navigating the transition to an automated environment. This includes the publication of *Designing Electronic Pathways Together: A Blueprint for Electronic Bonding* (accessible on the SAC website).
- Setting criteria for electronic delivery systems to ensure integrity, verifiability and enforceability of any electronic document delivered. For the most part, these criteria are set out in the document entitled: *Evaluation Guidelines: Electronic Bonding Technologies* (accessible on the SAC website).

- Consulting with project owners to provide tips and assistance in setting up and implementing workable electronic bond requirements.
- Acting as a liaison to bring the various stakeholder parties together to facilitate the resolution of any problems that may arise (e.g. technological, implementation issues).
- Evaluating existing systems against SAC established criteria. Copies of the assessments of existing software packages are available to project owners and their representatives by contacting the SAC office at 905-677-1353, or by email at surety@suretycanada.com.


How you can help yourself

Here are four tips for public construction buyers that are considering automating their tendering process and requiring electronic bid bonds:

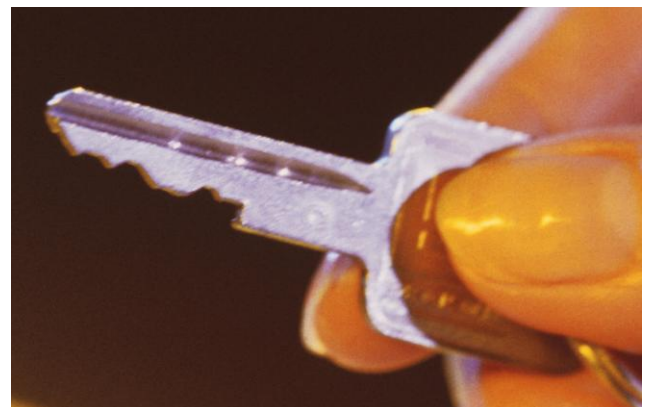
1. **Don't do it alone:** Once more, consultation is the key. Work with industry groups to arrive at a solution that works for everyone. This will ensure buy-in from contractors and sureties, and prevent the confusion and frustration that can wipe out the advantages of "going electronic" in the first place (i.e. reduction of errors that lead to non-compliant tenders).
2. **Don't try to reinvent the wheel:** Public owners and others sometimes try to be innovative by designing their own in-house system for electronic tendering and bond issuance. The product of their efforts is invariably inferior to the commercially available systems that were developed by software professionals. More to the

point, such proprietary systems can only be used for tenders and/or bonds issued to that particular owner, thus forcing contractors and sureties to maintain multiple systems which in turn creates the confusion that can result in non-compliant tenders.

3. **Be flexible:** By all means be diligent in setting the criteria and ground rules for the acceptability of an electronic bond (i.e. verifiability, integrity, security, compatibility with bid system, etc.). Once these criteria are set however, leave it to the contractors and sureties to decide how to meet them. Again, the marketplace offers a choice of systems and methods which can provide secure and verifiable electronic documents.
4. **Take the time to get it right:** Experience in the US has taught us that rushing into things can create more problems than it solves. Carefully consider your criteria once you've consulted with the industry and colleagues within your organization. Once you've decided on a program and approach, test it out to make sure it can work in practice; ideally via a pilot project. Finally, give the industry time to prepare and adapt to the change by phasing in the move to automation and allowing for both paper and automated tenders.

Change is never easy. This is especially true for fundamental changes in the way one goes about their business. That said, if the change is prudently managed with an effort to address the transitional concerns of all parties to the transaction, many of the pitfalls can be avoided. 

Stephen Ness is president of the Surety Association of Canada. The Surety Association of Canada is happy to answer questions you may have or to provide suggestions and assistance as you take the initial steps to automating the tendering process. Contact SAC at 905-677-1353, or surety@suretycanada.com.





A closer look at the federal government's Integrated Financial & Materiel System cluster

by
Michel McGee, CGA

Have you ever heard the term “government cluster” and wondered about its meaning?

Think, for a minute, of the 400 metre race event at the Olympics. It's run in two different forms – the 400 metre run and the 4 x 100 metre relay. Though the distance is equal, both races are completed in dramatically different times. The Olympic record for the men's 400 metre run is 43.18 seconds, while the record for the men's 4 x 100 metre relay event is just 37.10 seconds. The latter is less, of course, because the distance is shared by four sprinters each of whom covers just a quarter of the total distance. The former's time is greater because a single runner tires

before the end of the race. In this context, the effort of several individuals working together yields a better result than a single person on his or her own. Such is the strength of a cluster, in which members work together to achieve a common goal. This is why clusters are a popular institution throughout the Government of Canada community.

The term cluster might be new to you, but its concept was established decades ago in the private sector and is now common within the government community. Clusters are voluntary bodies of organizations that work together to leverage efficiencies and participate in common

system development and procurement activities based on mutual or shared business rules. The Government of Canada currently houses 10¹ different clusters in the human resource, financial and materiel sectors alone. In 2008-2009, 106 different departments and agencies, representing nearly 345,000 employees, used clustered human resource, finance and/or materiel systems. Clusters are governed through a horizontal, collaborative model. Shared decisions are achieved through a committee structure with departmental membership at the executive, management, operations and working group levels.

Clusters operate on a cost-recovery basis with member organizations sharing the cost of operations. With the exception of funding provided by specific organizations, such as Government of Canada central agencies for very specific projects, all costs are paid by cluster member departments and agencies through annual contributions. The value of these contributions is determined and approved by the cluster membership annually. As different departments work together to attain a collective goal, they share resources to achieve results more quickly and at a cost savings, which is beneficial to the cluster members themselves as well as to the Canadian taxpayer. The cluster's key mandate is to achieve more effective and economical use of resources in the attainment of common goals – in other words, putting common resources together to achieve common goals.

To ensure each of the departments represented in the cluster has an equal voice, appropriate cluster governance is paramount. The success of the cluster lies in the ability of its members to be

...the effort of several individuals working together yields a better result than a single person on his or her own.

actively involved. When every cluster member is equally involved, decisions made are of benefit to all.

The Government of Canada's largest financial and materiel cluster is the Integrated Financial & Materiel System (IFMS) Cluster – an integrated management system based on a commercial

product that combines finance, assets and materiel, salary and project management, as well as many other functionalities. Created in September 1996, IFMS grew out of the Shared Systems Initiative (SSI), established as a joint undertaking of Treasury Board Secretariat (TBS) and government departments with

the aim of reducing the number of individual departmental administrative information technology systems in use across the government. In the SSI federal government structure, departments clustered around TBS-endorsed systems in such areas as human resources management, financial management, materiel management, travel and salary management. IFMS is one of the shared systems that was sanctioned by TBS as suitable for financial and materiel management. IFMS Cluster members manage the ongoing evolution of the system on a co-operative basis, sharing the benefits as well as the costs.

System clusters are supported by program centres. The IFMS Cluster operates under the Consulting, Information and Shared Services Branch of Public Works and Government Services Canada (PWGSC), which is responsible for not only the IFMS Cluster, but also four other clusters: FreeBalance System (FB), Automated Materiel Management Information System (AMMIS), Government of Canada Human Resources Management System (GCHRMS) and Human Resources Information System (HRIS).

¹ Annual Report on Administrative Systems Clusters in the Government of Canada 2008/2009 – "Cluster 101," Council of Systems Cluster Groups, March 2009.


The cluster is currently made up of 17 member departments that serve 35 different departments, making up approximately 80 percent of Government of Canada spending. Each of these member departments shares the common interest of using the financial management software SAP

All want to use efficient software that increases productivity...

(an Enterprise Resource Planning software) – one of the approved shared financial reporting systems of the government. All

want to use efficient software that increases productivity, and collectively, they are achieving that common goal. IFMS Cluster members are varied, ranging in size from the Canadian Space Agency to the Department of National Defence. The IFMS Cluster incorporates functionality specific to government requirements that is shared by all departments throughout the cluster.

The IFMS Program Office is responsible for overall application development and support of the SAP product, based on the Government of Canada business requirements. The product is distributed to member departments and includes functionality for accounting, assets, treasury, purchasing, inventory, sales, billing and project systems. Business requirements for the system originate from member departments, horizontal initiatives and central agency requirements. Departments that do their own development share the results with fellow cluster members.

Many Government of Canada departments are continuing to show that they believe in clusters and their collaborative approach, using common resources to reach common goals, as evidenced by increasing cluster membership. After all, wouldn't you rather have a teammate to pass the baton to than run by yourself? 

This article was submitted by Michel McGee., CGA. Michel is program director, Integrated Financial & Materiel System (IFMS) Program Office at Public Works and Government Services Canada.

Sustainable procurement

Supplier codes of conduct

Do we really need them?

Many leading organizations and industry associations have adopted supplier codes of conduct (SCCs) for many good reasons. SCCs communicate an expectation in terms of corporate responsibility from the supplier community and express organizational values. At a minimum, these standards of performance address working conditions such as health, safety, and social inclusivity along with sustainable business practices within a voluntary framework.

Organizations and associations want to know that companies within its supply chain are not contributing to social problems - either domestic or foreign. More importantly, they want to know how their supplier partners are contributing to sustainable development. However, there is growing evidence that codes of conduct although they are well intentioned may default to protecting profits over the concerns for people or the planet.

A review of the sourcing for a raw material used in the high tech industry reveals a great deal about what SCCs imply and how companies respond. Columbite-tantalite, or coltan as it is commonly known, is a metallic ore which finds its way into the supply chains of manufacturers of capacitors for cell phones, DVD players, laptops, pagers, computers, hearing aids, digital cameras and many other electronic devices. Commercially coltan is converted to a heat resistant powder called tantalum used in circuit boards.

One of the key geopolitical areas where coltan is mined is the Democratic Republic of the Congo (DRC). The International Union for Conservation of Nature (IUCN) has condemned the



Larry Berglund draws experience from four decades of buying in the forest industry, public health care, municipal government, university operations, and consulting services. Larry teaches supply chain management and corporate social responsibility courses, seminars and workshops. He is the author of *Food, Finance, and Philosophy: A Role for Supply Management in Corporate Social Responsibility*. For more information contact Larry at www.prezolus.com.

sourcing of coltan from the DRC as well as the internationally recognized Organization for Economic Co-Operation and Development (OECD). The Canadian government participates in over 20 committees of the OECD with representation by Canadian Parks and Wilderness Society, Toronto Zoo, and the Canadian Institute of Resource Law, to name a few and has a Permanent Delegation of Canada through Ambassador Paul-Henri Lapointe.

The OECD published its 2008, 65-page OECD Guidelines for Multinational Enterprises. Under the section *Concepts and Principles* it clearly states that “*observance of the Guidelines by enterprises is voluntary and not legally enforceable.*” It asks that multinational corporations meet the *softer* expectations of society while promoting commercial interests.

Coltan may be to the electronic industry as ‘blood diamonds’ were to the jewellery industry. Over 70 percent of the global supply of coltan is said to be from the DRC. The DRC has been at war with its neighbours Uganda, Burundi, and Rwanda with illegal trading in coltan being one of the contributing factors. The United Nations

has been on record as saying that the DRC coltan supply is subject to “highly organized and systematic exploitation.” The BBC News reported “coltan is one of the driving forces behind the war in the DRC, and the presence of rival militias in the country.”

To its credit, US-based KEMET Corporation, an electronics component manufacturer, reiterated in July 2008 that “all suppliers of tantalum material to provide a Letter of Certification that they do not or will not, (a) illegally mine any tantalum material from the Congolese mines, (b) purchase any illegal material containing tantalum, including coltan, from the Congolese mines and (c) sell any illegal material to KEMET from such mines. All of our tantalum material suppliers have complied and issued signed Letters of Certification that KEMET Corporation will not receive illegal tantalum mined in the Democratic Republic of Congo.”

Good on them for making such a strong commitment towards corporate social responsibility in their SCC. There are likely many more companies in this sector that are acting responsibly and still protecting their bottom line. As too, there are likely many more which have chosen other sourcing options – not all of which are in line with sustainable business practices.


Thousands of kilograms of coltan are leaving the Congo area each year. It is going into our consumer products creating the consumer paradox – “I like the product but I don’t want to know how the stuff got inside.” Coltan will continue to be mined under exploitive and illegal conditions until consumers are made more aware of ‘what’s inside’ and choose to buy more responsible products; or until more sources are available which comply with the expectations of a global society; or until the material is designed out of the product.

Organizations ... want to know that companies within its supply chain are not contributing to social problems...

In September 2009 the Electronics Industry Citizenship Coalition (EICC) met with industry representatives to discuss responsible tantalum sourcing. The reasons for the meetings may be due to the increased awareness by customers and communities with the mounting problems related to current sourcing practices. The EICC has had an electronic industry code of conduct in place since October 2004. Membership in the EICC includes HP, Apple, KEMET, Microsoft, Sony, Dell, and other leading brands.

If society and business support organizations such as the OECD and EICC, we should have confidence that they will be assertive and progressive in their demands that MNCs meet the expectations of a global society. As reported by the NGO OECD Watch, the OECD *Guidelines* do not have the teeth to ensure compliance and allow for a lot of discretion by the parties to address the issues being reported. It would also appear that the EICC has found its code to be comprehensive but difficult to monitor the compliance in practice.

Consumers changed the tide for the diamond and clothing industry and for many other retail items by challenging the integrity of the brand supply chain policies and practices. Consumers may be able to do the same for the coltan industry. However, the list of toxic or inimical materials is so long it would take years to expunge them on a case-by-case review. This in part is why governments acknowledge the importance of the work done by the OECD, the EICC, other industry review committees and business leaders. Each has a role to play and compliance is the key. Consumers rely on codes of conduct as being bona fide. The Forest Stewardship Council (FSC) and Marine Stewardship Council (MSC) certifications are building credibility with consumer preference. Supply professionals expect that responsible companies and industries will act responsibly and stand behind their voluntary codes. Where they fail, they expect that sanctions will be appropriate and effective. Thinking globally means acting responsibly.

Supplier codes of conduct with the ability to meet compliance expectations are what we need. What’s inside your SCC? 

In my research I often find reports and books that might be useful to those in the public procurement profession. Rather than keep that knowledge to myself, I thought I would provide that information to you in The BOOKSHELF.

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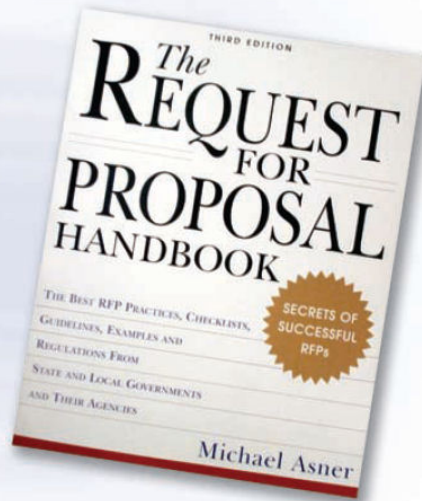
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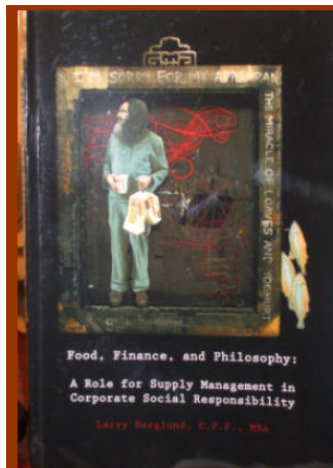
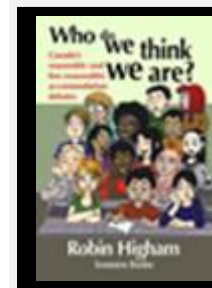
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The following four books were recently launched by Invenire. Invenire books are available in selected bookstores and at the website of the distributor, www.commonerspublishing.com. Invenire has a proven track record of enabling groups and organizations in all sectors to make improvements in collaborative governance to help meet their stewardship challenges. Its publishing arm aims to invigorate the discussion of ideas and governance.



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