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THE REGULATORS

Cindy Skrzycki

Room for One More Rulemaking Think Tank?

There is the Center for Regulatory Effectiveness, the AEI-Brookings Joint Center for Regulatory Studies, the Mercatus Center at George Mason University, the Cato Institute, Citizens for a Sound Economy, the Heritage Foundation, and the Center for Progressive Regulation. Not to mention the lawyers and academics who delve into the regulatory fine print for a living, churning out policy papers, books and research....

"You need to be able to pull people out of their agencies or the boxes that they are in and give them a larger community to ask questions," said Jonathan D. Breul, associate partner for IBM Business Consulting Services and senior fellow at the IBM Center for the Business of Government.

FEDERAL TIMES

May 24, 2004

www.federaltimes.com

Cutting paperwork: IRS success holds e-gov lessons

With the April filing deadline behind us, taxpayers will be pleased to learn that the IRS has continued to reduce the filing burden and processing times thanks to the innovative use of information technology. Specifically, the development of a reliable, practical electronic signature is responsible, in part, for an increase in electronically filed tax returns. Because of this increase, IRS has been able to reallocate resources from processing paper to enforcing tax laws. This shift in focus is clearly seen in IRS' plan to close its tax-processing facility in Memphis and move 2,200 positions to its tax enforcement division.

The IRS' electronic signature program yields valuable lessons for other agencies struggling with electronic authentication, and, in turn, trying to enable e-government. E-authentication and e-signatures remain significant barriers to e-government applications, since the public remains hesitant to give agencies sensitive information without assurances of security and confidentiality. Managers must strike a balance to meet the public's needs for solutions that are both trustworthy and user-friendly. As a measure of e-authentication's significance for e-government, the Office of Management and Budget designated it as one of the original 24 initiatives in its e-



By STEPHEN HOLDEN and JAMES COOK

government strategy. The IRS established its e-file program in the mid-1980s to encourage Americans to file their individual tax returns electronically rather than the long-standing paper filing method, which required many IRS employees to open envelopes and type taxpayer information into the agency's databases. For more than a decade, however, a variety of policy, management and technology issues resulted in the IRS having to collect and process paper signature documents for individual tax returns even though the actual returns were filed electronically. Processing those individual paper signature documents alone cost the IRS more than \$350 per thousand returns, the Treasury Inspector General for Tax Administration reported. Beginning in late 1997, however, the IRS began to assess and resolve the issues blocking the use of elec-

tronic signatures. As recounted in "Understanding Electronic Signatures: The Key to E-Government," a new report commissioned by the IBM Center for the Business of Government, the IRS set a clear objective to eliminate paper in the tax-filing process and set up pilot programs to find solutions. After two years, the IRS settled on using personal identification numbers (PINs) as electronic signatures for the e-file program. Largely because of this solution, the number of returns signed electronically each year has increased. Last year, the IRS accepted nearly 52.2 million e-filed returns, representing 40 percent of all individual 2003 tax returns. Well over 70 percent of those e-filed returns were also signed electronically.

It's clear, however, that the IRS did not decide to eliminate paper signature documents from the e-file program on a whim. As the report points out, the IRS was successful because its approach included three crucial elements:

- A strategy that considered all the issues — policy, legal, stakeholder and technological.
- A methodical approach to piloting, learning from, and building on each potential solution.
- A partnership between IRS divisions involved in the e-file efforts and the tax preparers, certified public

accountants, and other private-sector players who serve as intermediaries between the IRS and the taxpayer.

Early in the process, for example, the IRS centralized the staff working on e-file issues by creating the Electronic Tax Administration (ETA). As the report notes, for the first time electronic filing became more than "an issue on some other organization's 'to do' list." The ETA proved instrumental not only in negotiating within the IRS for much-needed resources, but also in working with private-sector partners to revise electronic signature efforts to meet the IRS' strategic needs. Some of the revisions included allowing taxpayers to select their own PINs and authorizing IRS-approved tax preparers to sign tax returns electronically using the clients' PINs.

Through this approach, the IRS provided for the highest stakeholder support, managed the burden and leveraged existing technology. The specifics of the IRS' solution may not be transferable, but the approach certainly can serve as an example to other agencies pursuing the complex, critical objective of providing electronic authentication to their e-government users.

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Smart government starts here

BOOK EXCERPT

Workforce in transition

BY JONATHAN D. BREUL AND NICOLE WILLENZ GARDNER

Governments today face a growing set of challenges around the recruitment, retention and management of their workforces. In short, one of the most critical jobs of government today is getting the best from its biggest asset — its people. Getting the most from people and building a workplace that promotes top performance is a huge challenge — one that we address in a new book called “Human Capital 2004.”

The first human capital challenge is that of building a workplace supported by an effective, streamlined personnel system that promotes top performance. After decades of relative stability, the federal personnel system is now in the midst of a period of profound change. In 1993, Congress passed the Government Performance and Results Act requiring managers to report on how their budgets had been spent on various programs. Today, government managers develop multiyear strategic plans, complete with mission, goals and descriptions of the steps necessary to achieve them.

Departments and agencies struggling to improve performance have sought increased flexibility in order to improve their ability to hire, compensate and manage their employees. A new Internal Revenue Service leadership team has used these flexibilities to transform the IRS into a customer-centric, performance-oriented organization. A crucial component of the successful implementation of the IRS’ organizational strategy was its ability to design a new human resource system that supported and was clearly linked to achievement of the organization’s mission.

In August 2001, President Bush placed human capital on his management agenda. With the Homeland Security Act of 2002, Congress and the president did away with the “rule of three,” an artifact of federal hiring practices that dated back to the 1870s. The same law gave flexibility to the new Homeland Security Department from key provisions of the federal civil service law including those relating to compensation, classification, hiring and promotion. In Jan-

uary 2003, the National Commission on the Public Service issued its second call for sweeping reform in the federal government’s personnel incentives and practices.

The economic reality of a smaller — as well as an aging — federal workforce adds to the momentum for change. More than half of the senior managers in the federal government are nearing retirement age. Many talented public servants are abandoning federal service in their 30s after reaching government’s middle level. Entry-level hiring has produced equally disappointing results. Graduates of top universities too often see public service as rigid, cumbersome and lacking opportunities to perform.

The government is recognizing that one key to organizational performance is a high-performing workforce. The Office of Personnel Management, Defense Department, DHS and NASA have all embarked on pay system reorganizations. The vision is a payroll system that rewards performance over tenure.

Like the federal government, state governments historically adopted civil service



systems as a bulwark to guard against patronage hiring and firing and to insulate public employees from the political fallout of their work. Recently, states also have begun dramatically changing the way they recruit, hire, promote, classify and pay their employees.

So what does this mean for managers and employees?

First, when it comes to the management of human capital, governments are quickly moving into a world where one size does not fit all.... In the 21st century, the tasks undertaken by government are so complex and varied that it must now embrace the most flexible and progressive human capital management practices that are characteristic of a fast-moving, globally connected society.

Second, human resource managers as well as employees will be shifting their perspective. Human resource managers must learn to partner with senior leaders, see their activities within a broader context and understand how their programs impact employees' performance as part of the organization's overall performance. There will be a need for new models and tools to help undertake this significant shift.

In many ways, existing systems have become a barrier to effective agency performance. Without the right frameworks to capture, give incentives to and reward the workforce, these systems are seen as obstacles to becoming a high-performance organization. For these reasons, in November 2003, Congress gave broad new authorities to the DOD secretary to redesign the civil service system governing the department's 700,000 civilian employees. The secretary is authorized to design a new pay-for-performance system, to hire highly skilled workers more quickly and to promote top employees. Pentagon officials will be able to rewrite the rules governing collective bargaining with agency unions.

The people challenge

The second human capital management challenge is getting the most from people.... We are seeing a much greater recognition that the workforce is the key to meeting the core mission of an organization.

To integrate human capital management practices with mission-specific targets, a government manager must:

- Become less process-oriented and inwardly focused.
- Focus the workforce on the explicit core mission of the department.
- Become more partnership-based and results-oriented.
- Work more closely with other governmental organizations, non-governmental organizations and the private sector.

In the future, we expect to see managers contribute to a performance-sensitive personnel system. In this results-based culture, managers place greater emphasis on knowledge, skills and contribution to the mission when considering an employee for promotion and compensation.

Retention is an important factor in the people challenge in human capital management. Research indicates that devotion to government service waxes and wanes. One such example is Army officers approaching their decision point on whether or not to stay in the Army between their eighth and 10th years of service. A major lesson for the entire federal government, including the military, is that increased attention on retaining individuals who have completed 10 to 20 years of federal service will likely pay off with increased retention rates.

The future

Looking ahead, we see a number of changes on the horizon. We see a shift from rewarding seniority to recognizing performance. We see a shift from hierarchical, stovepiped structures to flexi-

New opportunities exist for leaving a significant legacy of commitment to excellence and people.

ble, results-oriented, fluid teams. And we see how improving the management of people will produce much better performance results.

There are huge implications for employees as a result of all these changes. Their training, their measurements and their very jobs will undergo profound change. Governments must embrace human capital management principles that allow for more flexible management, greater responsiveness to modern technology and increased resiliency in adjusting to new demands and problems.

With DHS and now DOD putting new personnel systems in place, less than a quarter of the federal government's workers remain under the traditional civil service system. As more agencies receive new personnel flexibilities, Congress and the president will soon have to discuss what rules are appropriate for the remaining civilian agencies.

These are changing times, and government employees are in an exciting spot. New opportunities exist for leaving a significant legacy of commitment to excellence and people. ■

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Smart government starts here

COLLABORATION

Achieving results no one can

T

BY JOHN M. KAMENSKY AND THOMAS J. BURLIN

he traditional model of agencies independently administering hundreds of programs is transitioning to one that emphasizes cross-agency results. This transition implies collaboration — within agencies, among agencies, among levels of government and among the public, private and nonprofit sectors.

And it's happening out of necessity.

“As bureaucratic government has failed in one policy area after another, policy-makers have looked to implement policy through networks instead,” writes Harvard University professor Elaine Kamarck in a new book called “Collaboration: Using Partnerships and Networks” in the IBM Corp. Center for the Business of Government book series.

Her research on various models for 21st-century government describes how innovations are moving beyond the formal structures of government.

Consider the impact of the Agriculture Department's Food Stamp coupon program on everyone's grocery shopping habits. Ten years ago, food stamps were essentially paper money used once

in a transaction then destroyed. Today's nationwide system that allows you to swipe your debit or credit card through a card reader at the grocery store to pay your bill at nearly all 83,000 grocery stores in the United States

started a decade ago as a collaborative venture sponsored by the federal Food Stamp program in an effort to reduce the administrative costs of delivering benefits and reducing fraud.

This collaboration included banks, state governments, the National Association of Clearinghouse Administrators and grocery stores. Collaboration through the use of networks and partnerships to get results citizens care about is a growing trend. But it challenges government leaders and managers in new ways because it requires them — and their employees — to behave differently from how they have in the past.

One part of this shift is a change from the bureaucratic model, which focused on agencies and individ-

ual programs run by separate organizations, to a model that places more emphasis on services and results.

The new model implies organizing around customers and outcomes, not the traditional focus on agencies and programs.

In a January 2003 report on the status of management in the federal government, General Accounting Office officials said, “National goals are achieved through the use of a variety of tools and, increasingly, through the participation of many organizations that are beyond the direct control of the federal government.”

In other words, government is now turning to networks and partnerships to achieve many national objectives.

Are public managers ready for the challenge? The skills needed to manage in a collaborative environment are different from traditional managerial skills but are becoming essential for successful leaders.

For example, the Office of Personnel Management's list of core competencies for the federal senior executive of the future includes the ability to work in a team environment. It also includes the ability to develop “alliances with external groups (e.g., other agencies or firms, state and local governments, Congress and clientele groups),” be able to engage in cross-functional activities and find common ground with a widening range of stakeholders.

Collaboration is happening out of necessity.

achieve alone

What are the characteristics of successful collaborators? Robert Agranoff, a professor at Indiana University's School of Public and Environmental Affairs, studied more than a dozen networks in the Midwest. He identified a range of roles that government leaders perform, what managers did and what kinds of personal characteristics they brought to their jobs to be successful.

The roles included activities such as:

- Creating the governance framework for the network.
- Making the most of the available resources, such as technology and expertise.
- Being a strategic investor.
- Finding collaborators and helping them work together.
- Breaking down barriers.
- Tracking, monitoring and collecting data.
- Providing an electronic communications system.
- Managing public relations.

As the government moves forward to meet challenges in such diverse arenas as the environment, homeland security, jobs and training, education and health care, the use of collaboration through networks and partnerships is a new tool that enables leaders to achieve national goals in ways that are more challenging and more exciting.

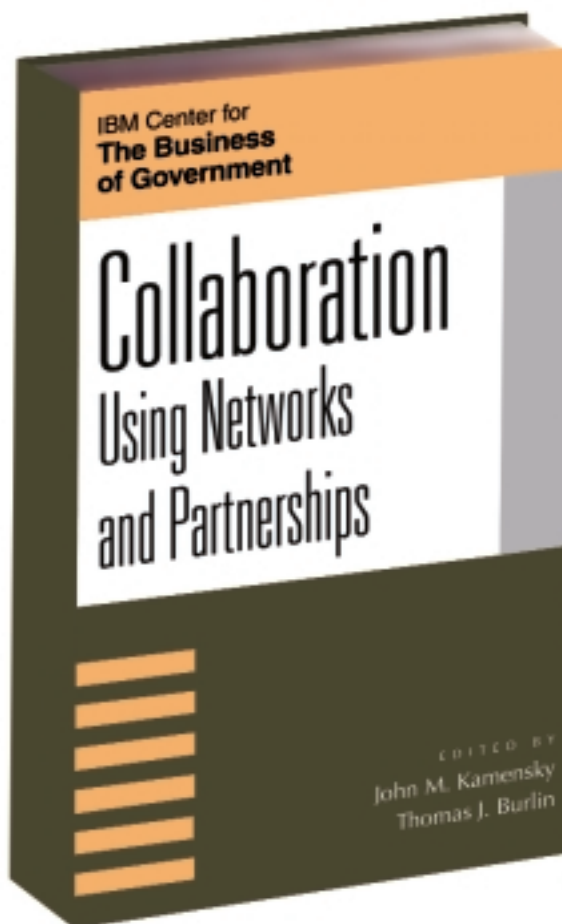
A critical element of success seems to be having the right people involved in the creation of those networks and partnerships. Such people have a different set of skills from those used in traditional government, which depend more heavily on institutional arrangements, legislation and the budget process.

Developing this new set of skills is done by hiring employees who are collaborative by nature, by training current managers and frontline employees, by rewarding this new set of behaviors and by creating communities of practice among those attempting to solve common problems. It will be a major challenge for government leaders whose future policy success will increasingly depend on their ability to collaborate with others by creating networks and partnerships in areas as diverse as homeland security, job training or reducing poverty.

Are you ready? ■

Kamensky is an associate partner with IBM Corp.'s Business Consulting Services and is senior fellow at the IBM Center for the Business of Government. Burlin is a partner and global government leader with IBM Business Consulting Services. They have co-edited a new book, "Collaboration: Using Networks and Partnerships," published by Rowman & Littlefield.

Developing this new set of skills will be a major challenge for government leaders.



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Smart government starts here

MANAGEMENT

Transforming supply chains

BY JACQUES S. GANSLER AND ROBERT E. LUBY JR.

In the field of supply chain management, there is a world of difference between how the public and private sectors operate.

World-class supply chains — such as those operated by Wal-Mart, Federal Express and Caterpillar Inc. — all demonstrate order-to-receipt times of two days or less, with near-perfect probability and considerable robustness to respond to unexpected contingencies and surge requirements.

By contrast, public-sector supply chains, such as the Defense Department's logistics systems, average about four weeks — when parts are on the shelf — and are not highly dependable or very flexible.

Yet the public sector still fiercely resists the move to world-class supply chains, despite the huge potential benefits in responsiveness, dependability, robustness and lower costs.

The tools for implementing a modern supply chain in the public sector are available and proven:

- Instant, worldwide communications.
- Interoperable, flexible and secure information technology.
- Remote diagnostics and automated decision-making aids.
- Modern, high-speed transportation.

Furthermore, the demand for the change has been growing as more and more public-sector workers see the benefits of supply chain management in their private lives, where the Internet makes it possible to get enhanced services at lower costs in everything from shopping and bill payments to theater tickets and travel arrangements.

There are several reasons for the resistance. Perhaps the most significant is that at each point in the chain — purchasing, finance, maintenance, inventory management, transportation, decision-making, manufacturing, engineering and forecasting — people feel their jobs are threatened. They are also comfortable with the old way of doing business. "It works,

so why change it?" they say.

Then there are regulatory and legislative rules that discourage such changes. And there are all of the usual cultural barriers that so effectively hamper change in any monopoly environment.

Remember that there is essentially no competitive market operating here, even though the functions are often identical to those being achieved in the private sector.

The status quo, though, comes with significant risks. Take DOD, for example. Officials spend more than \$80 billion annually on logistics support. As demonstrated in both the first and second Persian Gulf wars, where our warfighting capability greatly exceeded our logistics performance, the metrics clearly indicate that they do not do a world-class job, as measured in responsiveness, reliability, flexibility or, particularly, costs.

Commercial firms have found that significant performance improvements can lower costs by 10 percent to 30 percent. In this case, even a 10 percent savings would free up \$8 billion annually for much-needed military equipment modernization.

This, of course, leads to the obvious question: What will it take for the public sector to make the change? Based on a study of many successful transformations of supply chains in the commercial sector and a significant number of public-sector attempts and, more

The public sector still resists moving toward world-class supply chains.

recently, partial successes, seven themes emerge for successful transformation.

1. Have committed, high-level leadership.

To capitalize on modern, information-based supply chain effectiveness and efficiencies, and to change the way an organization does business, leaders at the very top levels must get personally involved. It must be one of their top priorities. Otherwise, the barriers to change are too great.

2. Focus on core competencies and compete the rest.

Based on detailed value chain analyses, it is necessary to examine which elements of the overall end-to-end system are “inherently governmental” and/or are truly core competencies of the organization. One must then be willing to put the rest out for bid, including public/private competitions. Competition is the critical incentive needed to achieve higher performance at lower cost.

3. Outsource whenever it's appropriate.

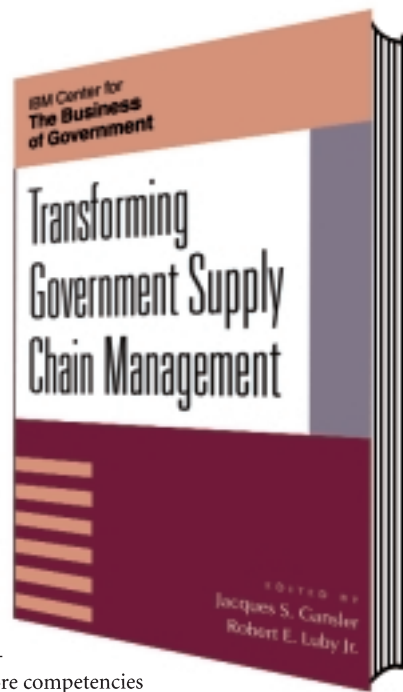
There are organizations whose core competencies lie in many of the elements of the supply chain, and whose performance and costs are market-tested everyday. Take full advantage of them while always maintaining a competitive environment. The results indicate far higher performance and 30 percent lower costs on average when “best value” competitions are used.

4. Develop a customer focus.

Rather than focusing on a process or efficiency, world-class operations have found that emphasizing and providing maximum end-user value will result in far greater customer satisfaction and lower costs, because money will be spent where it matters most.

5. Minimize distrust and stress security and confidentiality.

Through continuously working together and through demonstrated dependability, public and private organizations can over-



come distrust. This is clearly the greatest of the cultural barriers to successful supply chain management, especially across organizations. Similarly, security/confidentiality concerns must be overcome — through explicit focus and, again, through demonstration.

6. Use the right metrics and link incentives to them.

Too often, the metrics utilized are process oriented or are only sub-elements of the overall supply chain. Rather, they must be end-to-end performance and cost measures, and contracts must be written to suppliers so that they contain incentives that are directly linked to those measures.

7. Adopt proven supply chain technology.

The private sector found that investments in technology — both hardware and software — were essential and would quickly pay for themselves in savings. However, this was only true if they utilized proven, off-the-shelf elements. Instead of customizing an approach that simply digitized their current processes, companies realized benefits only when they changed their processes to match the world-class approaches represented by the commercial processes.

Overall, the most critical of these seven themes is the first. Without strong top-management priority and leadership, the results will be many speeches but very slow, if any, progress. However, with such leadership — and using the lessons learned in the other six areas — the public sector can truly become world-class. Both users and taxpayers deserve such results. ■

Gansler is a professor at the University of Maryland School of Public Affairs, where he holds the Roger C. Lipitz Chair in Public Policy and Private Enterprise. Luby is a partner in IBM Business Consulting Services, where he leads the company's public-sector Supply Chain and Operations Solutions practice. Gansler and Luby recently edited "Transforming Government Supply Chain Management" (Rowman and Littlefield, 2003), from which this article is adapted.

FROM

GOVEXEC.COM

DAILY BRIEFING
March 4, 2004

OMB seeks agency outreach on linking performance to budgets

By Amelia Gruber
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... At a recent congressional hearing on program evaluations, Jonathan Breul, a senior fellow at the IBM Center for the Business of Government, recommended that agency managers set up meetings with appropriators before submitting budget requests, to discuss the inclusion of performance-based information. Managers should find out where, and in what format, lawmakers would like to see performance materials, he said.

DAILY BRIEFING
May 17, 2004

Executive Branch Management Scorecard

Agencies earn first green lights for job competitions

By Amelia Gruber
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... But in the opinion of John Kamensky, director of the Managing for Results Practice at IBM Business Consulting Services, the modifications simply reflect more realistic expectations. In fact, earning a green light puts agencies under greater pressure to maintain a high level of performance, said Ronald Flom, the senior procurement executive at OPM.

DAILY BRIEFING
May 24, 2004

Financial management upgrades may take years

By Amelia Gruber
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... Standards for financial management need to be fairly stringent, said John Kamensky, director of the Managing for Results Practice at IBM Business Consulting Services. "You do want the books to be balanced," he said. "So that's a place where it makes real sense to hold tight to those standards."

About the IBM Center for The Business of Government

Through research stipends and events, the IBM Center for The Business of Government stimulates research and facilitates discussion of new approaches to improving the effectiveness of government at the federal, state, local, and international levels.

The Center is one of the ways that IBM seeks to advance knowledge on how to improve public sector effectiveness. The IBM Center focuses on the future of the operation and management of the public sector.

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