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12/18/2002 09:53:35 PM

Record Type:Record

To: David C. Childs A-76comments/OMB/EOP@EOP
cc:
Subject: CPPE Detailed Comments/Related Article for the Record

Dear Sir or Madam,

Attached are CPPE's detailed comments, along with a recent publication by CPPE's Executive Director that makes a case for a fundamentally more aggressive, strategic approach than is currently being pursued. I request that both documents be considered as CPPE's input regarding the proposed A-76 revision.

CPPE welcomes any questions. Please direct them to StevenElse@cppe.org.

Respectfully,

Steven Else
Executive Director
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“Too Many Eggs in One Basket”:
Comments on The New “A-76” by The Center for
Public-Private Enterprise

Introduction

The **Center for Public-Private Enterprise** is pleased to comment on the revised OMB Circular A-76, “Performance of Commercial Activities.” CPPE is a 501(c) (3) (non-profit) organization based in Alexandria, Va. that provides research, educational, and advisory services to the public sector and is dedicated to transforming governmental enterprise through innovations in both policy and practice. Since its inception, the Center -- through its publications, seminars, and conferences -- has been in the vanguard of the public debate surrounding public-private competition and how best to revitalize the process. More than probably all others active in this debate, CPPE has been a consistent advocate for a more strategic, holistic approach to commercial activities. That being said, the comments below are in response to the revised version. A broader recommendation for thinking more strategically in this era of e-government and transformation is also provided in a sister document, *“Strategic Sourcing and Federal Government Transformation.”*

General Comment on Policy

The new Circular acknowledges right off the bat that the “... *longstanding policy of the federal government has been to rely on the private sector for needed commercial services.*” The draft then proceeds, with out so much as a pale blush, to put the final nail in the coffin of the Eisenhower-era policy that “...*the government will not compete with its citizens.*” It does so by putting all its eggs in the competition basket and proposing to make A-76 look pretty much like any other procurement, up to and including those sanctioned by FAR15. The problem is that when the subject at hand is how best to optimize the value of the human capital embedded in the 1.8 million-person federal workforce, we really need to take our blinders off.

To the current Administration’s credit, it has been brutally clear that “the name of the game” is competition, and competition alone, regardless of who wins, public sector or private. In other words, it is the *process* that appears to matter far more than the *outcome*. Aside from flying in the face of the overwhelming body of management research over the past thirty years, the problem with this rigid, unyielding faith in the new religion of competition is that it can lead agencies down one, singular path to organizational effectiveness and one path only. And it may not always be the right one.

By focusing on competition exclusively, the new policy -- perhaps unintentionally -- implies that there really are no other *strategic tools* that agencies should consider before jumping full-speed onto the competition bandwagon. By asserting, that “everything is commercial unless you can prove otherwise,” the Administration runs the risk of dragging agencies --- now civilian as well as DOD --- inexorably toward the A-76 process and probably causing them to forego other options that may very well have been more appropriate to the culture, history, skill sets, and missions of the activities involved.

Among these alternative strategic tools are: privatization, innovative public-private and public-public partnerships, strategic sourcing, and the creation of high-performing organizations (HPOs), as recommended by the Commercial Activities Panel (April '02). Competition is indeed a valuable tool for process improvement but it is only one among many, and a limiting one at that.

There is virtually no language in the new Circular (and its exhibits) that addresses these (and other) alternative methodologies. Ironically, the *Introduction* to the existing Circular (March 1996) contains a compelling statement in support of “more businesslike” processes that encompass...

“...a wide range of options including the consolidation, restructuring, or reengineering of activities, privatization options, make or buy decisions, the adoption of better business management practices, the development of joint ventures with the private sector, asset sales, the possible devolution of activities to State and local governments, and the termination of obsolete services or programs.”

Unfortunately, the wording disappears from the new Circular.

There are at least two specific sections in the draft that could effectively hamper agencies from pursuing a broad array of positive organizational change strategies:

- 1- Exhibit B (A.1.c. - "Limitations and Criteria"): "*Agencies shall not perform work as a contractor or subcontractor to the private sector or a public reimbursable source unless specific statutory authority exists or prior written OMB approval is obtained.*"
- 2- Exhibit D, Section H., "Reimbursable Agreements with State and Local Governments." Although governed by the Intergovernmental Cooperation Act (1968), the implementation of the policy has served to discourage creative collaboration between federal, state, and municipal entities. It is time to revisit the overall policy.

The content and procedures outlined in the sections need not in and of themselves seriously hinder public-private or public-public cooperation in service delivery. But the subliminal message they send is one of constraint and narrowness and drives agencies toward a restrictive view of how best to manage their commercial activities.

A number of agencies have adopted far-reaching approaches to organizational revitalization. Specifically, Army's new "Third Wave" initiative, Navy's emphasis on functional assessments, NSA's Groundbreaker I and II, NIMA's innovative use of preferential sourcing authority, and IRS's sophisticated "business case" methodology --- all have pointed in new directions that need to be acknowledged, even stressed, throughout the new Circular or in a companion document that restores balance to the process and encourages transformational strategies that takes agencies beyond the claustrophobic vision inherent in the A-76 process, however streamlined.

The New A-76 and Public-Private Competition

Within the constraints imposed by the Administration's policy paradigm for the management of commercial activities, the proposed revision represents a significant procedural advance over the existing system.

The revision is good news for those who value procedural equity and competitive balance. Specifically, the document signals a sea change in federal procurement practice by placing in-house commercial activities on virtually the same competitive footing as private bidders. Under the existing system, numerous accommodations are made to give agency in-house teams a leg-up on the private sector. These advantages appear to be all but eliminated in the draft document.

Taken together, the changes highlighted below will have a positive effect on the quality, quantity, and fairness of future A-76 competitions. The Center has several specific comments on the document as written.

1. Single-Phase Competitions

The existing A-76 procedure calls for two distinct competitive phases, (1) a private-private phase followed by (2) a head-to-head private-public phase. Under the revised single-phase process, all bidders --- public and private --- compete *simultaneously* and under the same rules, just as *they do in all other federal procurement actions*.

Comment: The change will help restore equity to A-76 competitions and hence build the level of confidence and credibility that all participants have in the process.

2. “Best Value” Competitions

Moreover, under the existing A-76, the award of the contract in phase two of the competition is based solely on the lower of the two public and private bids. Cost is the only decision criterion. In the new system, agencies are authorized for the first time to use “best value” competitions, or “cost/technical tradeoffs.” In other words, during the new single-phase competition, both the public and private bidders can propose solutions that elevate the performance levels above those contained in the RFP.

Comment: One objectionable area in the “best value” section of the new Circular (Exhibit B, C-4. (3). 3, “Deficiencies”) bears mention. If the source selection authority finds the in-house team’s bid to be “materially deficient” and the in-house team’s leader (i.e., the Agency Tender Official) disagrees, the draft permits the agency to “...appoint an individual not involved in the selection process *to resolve the disagreement.*”

This sort of accommodation is typical of the inequities in the current A-76 process. If an agency’s bid is found to be “materially deficient,” then it should be summarily disqualified from advancing in the competition --- period. No such accommodation is given to private sector bidders and since the intent of the new Circular is to “level the playing field” then this provision should not appear in the final version.

3. Length of Competition Cycle

Standard A-76 competitions usually last for two to three years with more complex activities often taking four (or more) years. This is one of the most frequently cited reasons for eliminating the two-phased (first, private-private, then private-public) competitive process.

The revised process limits the length of competitions to *twelve months* --- eight months from announcement to the issuance of the RFP, and then four months to contract award.

The draft asserts OMB’s intent to directly outsource an activity if the agency drags its feet in preparing and issuing the solicitation.

Comment: If this change makes it into the final version, it will dramatically increase the number of private firms that will likely participate in A-76 competitions. OMB should hold the line on this change despite what are certain to be loud protests from employee organizations and many agencies about the provision’s “lack of realism.” Standard FAR Part 15 competitions in government rarely take more than 9-10 months. There’s no reason that a one-phase A-76 process should take up to 12 months.

4. Inter-Service Support Agreements

For many years, agencies have been permitted to buy commercial services via ISSAs -- agreements that allow provider agencies to “sell” services to other agencies for a fee. These interagency “business deals” have been allowed to occur in the absence of competition from private firms who provide the same services.

Exhibit C of the new Circular will force an agency wanting to buy services via an ISSA to re-compete its requirements every five years or less. They will no longer be allowed to rollover the agreements from year to year *indefinitely* and *non-competitively*.

Comment: While this change is a good first step, it only addresses the behavior of the *customer agency*, i.e., the agency *buying* the services. It avoids the core problem --- what do we do about the *selling* agency?

Agencies who use ISSAs to sell their services (e.g., franchise funds) devote enormous staff resources to their “business” but never undergo an A-76 study to determine whether they or the private sector should be providing the service. Indeed, a strong case can be made that these “entrepreneurial entities” should

be privatized outright since they are classically commercial, i.e., pure fee-for-service operations and often provide products and services unrelated to the core missions of the agencies in which they reside.

The Center strongly recommends that all these entities be: (1) *automatically* subjected to an A-76 competition every five years or (2) privatized, abandoned, or divested within a specified period after the effective date of the Circular.

5. High-Tech and Infrastructure Considerations

Besides the specific comments above, there are still at least two significant shortcomings of the revision that really must be addressed for it to fill current voids: potentially unique approaches to high-tech areas, such as information technology, versus general commercial services; and ways to better address infrastructure issues in an A-76 study.

Conclusion

There are serious shortcomings to the draft revised A-76. CPPE urges OMB to take this opportunity to fundamentally overhaul its sourcing program, not attempt to patch a hopelessly inadequate and broken approach to commercial activities.

Strategic Sourcing and Federal Government Transformation

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ABSTRACT: The Bush Administration has acknowledged the need to transform government's business processes. This article presents the case that a more strategic approach regarding human capital, best business practices, sourcing and transformation is required in order to achieve enterprise-wide, long-term success in government reform. It begins by highlighting the GAO's new sourcing principles and then moves into an analysis of strategic sourcing concepts. Focus then shifts to a portrait of an ideal public-private partnership. Subsequently, the article spotlights the Department of Defense, considered to be on the "bleeding edge" of outsourcing. A local government case study highlights the differences between taking a tactical and a strategic approach to sourcing. The article includes a discussion on the relevance of strategic sourcing to a government chief information officer's undertakings. It concludes with recommendations for greater success in both transformation and strategic sourcing efforts and the observation that the two should be intricately linked.

INTRODUCTION

The U.S. federal government has been in a constant mode of reinventing the way it does "business" since the end of the Cold War. The reinvention process took on new fervor with the budget crises of the mid-1990's. Looking at successes that corporate America enjoyed in this timeframe in the global marketplace, some government leaders saw the need and opportunity for vastly improved efficiency and effectiveness in government's own business approaches. Numerous studies, including a Defense Science Board 1996 Summer Study on Achieving an Innovative Support Structure for 21st Century Military Superiority, drew attention to the effectiveness of business solutions used by government, in contrast to those used by corporate America.

During the Clinton Administration, a program for re-inventing government was launched under Vice-President Gore's National Performance Review (NPR). The NPR's primary metric used in judging success was based on downsizing — reduction of full-time equivalents, or jobs, in the federal government. Also during the Clinton Administration, the Internal Revenue Service began a highly public transformation journey with the published vision of becoming a "customer-facing" organization (Thompson, 2000).

But during the same decade, corporate America began moving its sourcing solutions beyond a focus on cost (achieved primarily by downsizing, consolidation and using technology to effect business process streamlining) to a focus on achieving organizational transformation through sourcing strategies.

The current Bush Administration has acknowledged the need for transformation in a wide range of areas. Most notably, the Office of Management and Budget (with its responsibility for executing the President's Management Agenda and 24 eGovernment initiatives), Department of Defense, Navy and Army have announced aggressive transformation programs over the past few years. It is not unusual today for

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talk of government transformation to be linked to initiatives such as eGovernment and interagency synergies, demonstrating a move beyond downsizing and into the area of strategic organizational transformation.

However, from its own failed or minimally successful transformational efforts and from observing successes in the private sector, government now recognizes that organizational transformation cannot be achieved without leveraging the resources and expertise of external partners. Indeed, the NPR in the late 1990's changed the meaning of its acronym from "National Performance Review" to "National Partnership for Reinventing Government" in order to capture this new tone of "partnering" and "reinvention." (The NPR officially closed on January 19, 2001. Its last Web site can still be seen at http://www.fedgate.org/fg_npr.htm.) Transformation on an enterprise-wide basis requires synergistic relationships among government organizations, private industry, non-profits and constituents.

Strategic sourcing has been a particularly important and underleveraged pillar in government business transformation but has been crucial in the successes of private sector business transformation. For the government, strategy in business transformation is more important than ever, in light of the dynamics among human capital, regulatory complexities, politics, and rapidly changing technology. Transforming the government's complex business environment requires acknowledgment of these challenges and deployment of tactics built on creativity, private and public sector best practices and proven, successful methodologies. The approach, according to Gartner analyst, Henry May in his "Sourcing: From Remedy to Strategy" presentation at the Gartner Symposium/ITxpo2002, requires empathy — a "soft" quality he deems necessary for strategic sourcing success.

This article presents the case that a more strategic perspective and approach regarding human capital, best business practices, sourcing and transformation are required in order to achieve enterprise-wide, long-term success in government reform.

After providing some definitions of strategic sourcing and transformation, this article summarizes some remarks on transformation and the President's Management Agenda (Walker, 2002) from the General Accounting Office (GAO)'s Comptroller General, David Walker. New sourcing principles just published by the GAO's Commercial Activities Panel, led by David Walker because of its perceived importance, are also highlighted. Following a general analysis of the concepts and relationships of strategic sourcing and transformation, the article moves into an analysis of the essential synergy of a strategic sourcing approach and transformation. A portrait of an ideal public-private relationship is also presented.

Because the size and impact of its tactical outsourcing efforts are considered "bleeding edge", the Department of Defense will be spotlighted. A case study from local government will then follow. Although it, too, is essentially an example of a tactical approach to outsourcing, it highlights key considerations for any successful outsourcing initiative (whether transformational or more humble in scope, and whether it is at the federal, state or local level). One of the key points underscored by this case study will be the fundamentally tactical approach taken to outsource something as central to a city as public utilities. Tactical approaches do not take into account transformational goals or the "science" of strategic sourcing.

A last area of emphasis is the relevance of strategic sourcing to transformational undertakings, as related to a Chief Information Officer's areas of responsibility in government. The article concludes with several recommendations for greater success in both transformation and strategic sourcing efforts — which, truly, should be so intricately linked that no one can tell the difference between the two.

DEFINING AND RELATING STRATEGIC SOURCING AND TRANSFORMATION

Before proceeding any further, it is essential to present some definitions of strategic sourcing and transformation, and to illustrate their critical synergy for either to succeed. To do this efficiently, an extended quotation from an interview on May 15, 2002 with Frank Camm of the RAND Corporation follows

(Camm, 2002). He is speaking in terms of strategic sourcing overall and how he sees it relative to what the government seems to be thinking, especially linked to the Department of Defense:

“I understand ‘strategic sourcing,’ broadly writ (and unlike anything being contemplated in [the Department of Defense] DoD today), to be a systematic, on-going effort to align individual sources and the portfolio of sources with broad, high-level corporate strategy. Easy to say, hard to do. For DoD, the relevant strategy addresses military capability, safety of operations, total ownership cost, and socio-economic/administrative law issues. Strategy is stated in term of outcomes relevant to the operation of the department.

For DoD, strategic sourcing should be about choosing and managing a set of specific sources in ways that advance one or more of these key strategic goals without degrading another one. It is a never-ending process. The world changes, and there will always be room for improvement.

The pursuit of strategic sourcing, defined this way, would help transform DoD. It could act as one critical element of transformation; other elements address internal processes, technologies, etc. Real transformation cannot occur effectively in any area until DoD identifies its core strategic goals and uses them to rank-order alternatives. That’s very hard to do.

Real transformation is primarily about revisiting and assessing basic assumptions. You must ask anew what you really care about, what your strategic values are. Do the technologies, organizations, incentives, etc., you have in place today really address what your strategic values are today? Such an exercise is likely to reveal that how you choose and manage sources of goods and services today does not address what you really care about today as effectively as they could. In sum, real transformation requires a return to basics in all activities, including sourcing. Unless that return to basics is really strategic in character, it will not align your sources with your strategic values. That is, it will not lead to strategic sourcing. Conversely, until you have aligned your sources with your strategic values, opportunities — potentially large — remain to transform yourself.

All I am really saying is that transformation and strategic sourcing cannot be separated. Strategic sourcing is part of transformation. And strategic sourcing cannot occur without real transformation focused on broad, substantive, strategic goals.”

Here is another definition of strategic sourcing from Gartner provided at its symposium/ITxpo: “Define, plan and manage how an enterprise deploys internal and external resources and services to ensure the continuous fulfillment of its business objectives.” (Cohen, 2002).

At the same event, Gartner’s Cohen also amplifies that

- Strategic sourcing is a continuous business process — not a tactical procurement exercise — intended to dynamically map business requirements to service delivery options.
- A sourcing strategy is mandatory — it is the methodology to deploy the technology strategy and the means by which a business strategy is optimized.
- The pace of business change and the inherent chaos in the evolving ESP [External Service Provider] market demand the rigorous application of risk management principles to the sourcing process.
- Highly multisourced environments will be the norm; enterprises must develop new roles, processes and governance structures to effectively manage the environment/ITsourcing.

Gartner is doing a “road show” at numerous sites across the United States on strategic sourcing in 2002 (Gartner Brochure, 2002) and one of the marketing bullets illustrates the centrality of transformation to strategic sourcing: “What is strategic sourcing and why is it critical to enterprise transformation?”

Another excellent definition of strategic sourcing is provided in Venkatesan’s article on strategic sourcing in the Harvard Business Review (Venkatesan, 1992). In addition, extensive articles on the

breadth of outsourcing are available on line at <http://www.outsourcing-journal.com> (*Outsourcing Journal*).

GENERAL ACCOUNTING OFFICE VIEW ON TRANSFORMATION

At the Association of Government Accountants' 13th Annual Leadership Conference, Washington, D.C., January 25, 2002, the Comptroller General of the United States, David M. Walker, presented the GAO's views on "Transformation in Government" (Walker, 2002). His presentation covered the basics of "what, why, who, how and when" regarding transformation in the federal government. He noted that Webster defines transformation as "an act, process, or instance of change in structure, appearance, or character; a conversion, revolution, makeover, alteration, or renovation." He described the case for change as being that the government is on a "burning platform" and noted "the status quo way of doing business is unacceptable."

Walker cited rising public expectations for demonstrable results and enhanced responsiveness as one of two sources for transformation imperatives. The second source was government performance/accountability and high-risk challenges, including the lack of effective human capital strategies.

Walker introduced the President's Management Agenda in light of the need for transformation, citing five government-wide initiatives in the agenda: strategic management of human capital; competitive sourcing, improved financial management, expanded eGovernment; and, finally, budget and performance integration.

Of the three components of business transformation — people, process and technology — Walker stated an agency's human capital is the most important enabler for effective performance management. Human capital challenges, he said, threaten the capacity of some agencies to perform missions economically, efficiently, and effectively, both now and in the future. The problem, he noted, is not government employees but, rather, a lack of strategic planning, along with outdated policies and practices.

As Walker pointed out, a reactive, budget-cutting environment has marked many of the government decisions made regarding human capital since the early 1990's. The emphasis was focused on downsizing and outsourcing initiatives that primarily have resulted in a lack of strategic alignment; inadequate accountability for performance; skill imbalances; workload imbalances for remaining skilled workers; major succession planning challenges; outdated performance appraisal systems and reduced investments in people. These results — individually and collectively — have historically proven to be crucial sources of business failure in the private sector.

As highlighted in Figure 1, Walker noted the areas of cultural transformation that must change in government. Moreover, Walker cited the need to achieve a better balance between results, client/customer and employee issues. He also pointed to the need to work better with other governmental organizations, non-governmental organizations and the private sector (both domestically and internationally) in order to achieve successful results.

Proposing the "next steps" for strategic human capital management, Walker stated government must first establish human capital as a top priority. Then it can focus efforts on transitioning to a modern, high-performance-oriented human capital system. The next step would be to develop and implement updated human capital policies practices and information systems.

GAO's New Sourcing Principles

The final report of the Commercial Activities Panel on "Improving the Sourcing Decisions of the Government" was just released on April 30, 2002. While it advocates a more credible and rigorous approach to sourcing, it still falls short of an appeal for strategic sourcing. In fact, the only reference to "strategic sourcing" was a Department of the Navy effort on business process reengineering.

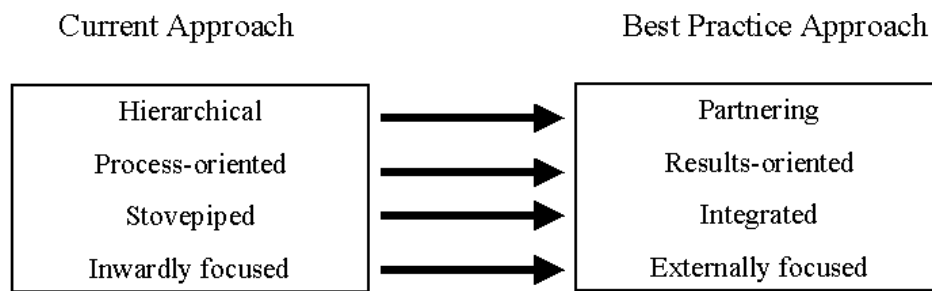


Fig. 1. Cultural transformation areas.

The Commercial Activities Panel report is the result of a one-year study by a senior committee of individuals with extensive experience in this area. It included three public hearings, one at which this author presented oral and written recommendations for improving the sourcing process. The Commercial Activities Panel was mandated by the Defense Authorization Act of 2001 and was organized and led by the Comptroller General, David Walker. As was stated to the author when he discussed participation in the Panel's endeavor, Walker took on the personal responsibility of leadership because of the sensitivity and high visibility of the sourcing debate and the strategic importance of sourcing to the achievement of his own transformation vision for government.

It is noteworthy that one of the panel members, Frank Camm of the RAND Corporation, has also published widely on strategic sourcing, along with a few other of his RAND colleagues (Baldwin, et al.). Much of RAND's writing several years ago was intended to help lead the Air Force and the federal government away from an overly tactical approach to the whole area of outsourcing and privatization. In 1997, Camm stated to this author that it would apparently take several years for the federal government to finally confront the obvious shortcomings of the tactical path it was on.

Rather than go over the entire, new GAO document on sourcing, which is available on the GAO Web site, the following new "sourcing principles" are extracted from this highly valuable and somewhat surprising document. The report is surprising because rumor had it that the union representation on the panel would make it impossible to come up with anything new and constructive in terms of sourcing approaches. The rumors notwithstanding, the report was published over the objections of the senior and significant, although minority, union representation on the panel (Peckenpaugh, May 2002).

According to this GAO document, sourcing should:

1. Support agency missions, goals, and objectives.
2. Be consistent with human capital practices designed to attract, motivate, retain, and reward a high-performing federal workforce.
3. Recognize that inherently governmental and certain other functions should be performed by federal workers.
4. Create incentives and processes to foster high-performing, efficient, and effective organizations throughout the federal government.
5. Be based on a clear, transparent, and consistently applied process.
6. Avoid arbitrary full-time equivalent (FTE) or other arbitrary numerical goals.
7. Establish a process that, for activities that may be performed by either the public or the private sector, would permit public and private sources to participate in competitions for work currently performed in-house, work currently contracted to the private sector, and new work, consistent with these guiding principles.
8. Ensure that, when competitions are held, they are conducted as fairly, effectively, and efficiently as possible.

9. Ensure that competitions involve a process that considers both quality and cost factors.

10. Provide for accountability in connections with all sourcing decisions.

As obvious as these principles sound, they are, in fact, a ringing condemnation of most of the current tactical approach promoted by the Office of Management and Budget (OMB). An overemphasis on the use of OMB Circular A-76 on public-private cost comparisons has led to a fundamentally tactical, cost-based approach for federal agencies' sourcing programs. As this author points out in several articles published in the Center for Public-Private Enterprise (CPPE)'s Forum on Sourcing, Partnering & Transformation, tactical approaches do not take transformational goals into account; and even if they did, they would not be up to the task. Therefore, these new sourcing principles, if adopted, will be pivotal to opening the door for more strategic thinking about the centrality of sourcing to any transformational programs.

ROLE OF STRATEGIC SOURCING IN GOVERNMENT TRANSFORMATION

The following questions are key to understanding the connection between strategic sourcing and transformation:

1. What exactly is strategic sourcing and how does it differ from traditional "contracting out"?
2. How could strategic sourcing and transformation be linked? How have they been linked?
3. Doesn't the President's Management Agenda acknowledge the relationship between strategic sourcing and transformation?
4. Does a strategic sourcing program infer that the private sector is better than the public sector?

Win-Win Nature of Strategic Sourcing

According to Christopher Baum, a Gartner Group expert on government, at the Gartner Symposium/ITxpo 2002 in San Diego, CA on May 1, 2002, strategic sourcing, unlike a more dispassionate and tactical contracting out for services, "entails a long-term relationship between the public and private sectors. Such a strategic relationship favors the establishment of the infrastructure for a long-term perspective and 'win-win' success in terms of business and overall government goals."

Baum also thinks that

- "strategic sourcing implies accountability on both sides and a renewable, sustainable relationship that is constituency-facing and based on both service and mission;"
- at a very high level, strategic sourcing must deal with the "why, what and how" of sourcing decisions and fundamentally address the issues of "ownership, roles and responsibilities;" and
- a central tenet of strategic sourcing is about "building trust for the long-term in a process that incorporates verification, accountability and consequences. This kind of trust must evolve and will depend on strategic and abundant communication."

Linda Cohen, an expert in strategic sourcing at Gartner, provided the following insight about strategic sourcing at the same Gartner Symposium/ITxpo: "Strategic sourcing must be predicated on a business case that includes a strategy for achieving desired outcomes (including transformational ones) with timelines, deliverables, funding, management and the kind of consensus required to sustain a long-term relationship, even after the sourcing decision itself is made."

In the simplest terms, strategic sourcing implies a higher level of strategic importance to the sourcing organization than does a more routine "contracting out." Strategic sourcing should look at overall business goals and processes in light of desired performance outcomes, required skill sets, acceptable risks and relationship management. As such, it could dramatically impact on the structure and nature of an organization as it moves forward to tackle a business problem or seize an opportunity.

Linkages between Strategic Sourcing and Transformation

Strategic sourcing should be a cornerstone of a transformation effort. It places an emphasis on human and intellectual capital in transformation planning and execution without mandating any particular process or outcome. Gartner's Linda Cohen thinks that transformational programs depend fundamentally on a strategic sourcing approach to tap the intellectual capital and enduring relationships needed to achieve and sustain transformation.

Linkages between the President's Management Agenda, Strategic Sourcing and Transformation

Unfortunately, the President's Management Agenda has made the same onerous mistake that the Department of Defense made when it launched its Outsourcing and Privatization program in 1995 — it latched onto OMB Circular A-76. This circular basically outlines a very tactical, adversarial and anachronistic method designed to address the issue of who should perform commercial activities in government. Circular A-76 emphasizes public-private competition or "competitive sourcing" based on lowest cost as the preferred methodology.

Had the President's Management Agenda replaced "competitive sourcing" with "strategic sourcing," it may have been seen as visionary and a true catalyst for constructive and enlightened change. Instead, by putting competitive sourcing on the same level as the strategic management of human capital, it nullified the latter and has hurt the strategic credibility of the entire, highly visible Agenda. Ironically, the very cultural shift necessary to achieve the strategic management of human capital is also necessary to embrace a strategic sourcing approach. In other words, the President's Management Agenda is urging a major, strategic cultural shift in one goal, while advocating an anachronistic, problematic and tactical sourcing approach for the area of commercial activities.

Overall, it is a mystery how the present Administration fell into the A-76 trap, especially since, at the very time OMB was mandating an increased use of Circular A-76 and criticizing more strategic possibilities as being too "vague," the GAO was leading the Commercial Activities Panel to address A-76's shortcomings.

Inferences of "Strategic Sourcing Versus Competitive Sourcing"

It is not a question of the government workforce being in any way inferior to a private sector workforce. It is a question of different systems — which one is more appropriate for the oversight of commercial-like activities that the government has been performing, and which is more appropriate to actually conduct the commercial activities?

The potential for government transformation through the enhanced private sector participation in government through strategic sourcing is tremendous. However, to tap most of the potential, fundamental transformation needs to occur in the relationships between potential suppliers of services, local communities and government. One way to establish the gap between the current and the potential "ideal" relationships is to try to imagine what the ideal relationship would look like. Then one could, at a high level of analysis, describe the current relationships and make recommendations for working toward tapping the outstanding potential.

IDEAL RELATIONSHIPS

Relationships are the center of gravity for effective operations because of the uncertain but dynamic requirements associated with future mission demands in many areas of the government.

Ideal relationships between industry, local communities and government enterprises 10, 20 or more years down the road would depend on at least a few common denominators for a “win-win-win” framework. The relationships need to be robust, innovative, built on clear roles and accountability and be sustainable. In addition, as pointed out in an article published in a “sourcing and privatization” themed issue of *Military Engineer* (Else, 2002), relationships need to be built around respective key players’ core competencies that are complementary, well understood and accepted by all.

Given the need for innovative yet robust and sustainable relationships, the role of competition would be an advanced one that differentiates between the scenarios lending themselves to public-private competition, competition among industry, or some kind of direct conversion to another government organization, a local community or industry. This same advanced notion of the role of competition would also be factored in to fine-tune existing “outsourced” or “contracted out” activities.

A holistic, rigorous and granular approach to strategic sourcing would help all key stakeholders understand the framework and governance for sourcing decisions. Along with the centrality of the notion of core competencies, an overall appreciation of intellectual capital would help guide the construction of the dynamic relationships.

Whether major projects or functions were performed in-house, by the local community or by industry, there would be a sophisticated and transparent knowledge base associated with best practices and performance, accompanied by well-accepted metrics for program management in general and for particular sub-areas.

In addition, there would be a strategic, top-notch training program for government officials overseeing government contracts, the majority of which would be performance-based and linked to sophisticated incentive arrangements. Such oversight positions would be highly sought after, appreciated and crucial to well-oiled relationships. A particularly attractive part of the relationship oversight career fields would be opportunities for career broadening in the local community and industry for one-year stints every few years. Similarly, the integration of highly skilled private sector personnel into government positions would be encouraged and creatively executed (New, 2002).

TODAY’S RELATIONSHIPS — DEPARTMENT OF DEFENSE

In an early 1996 discussion among General Services Administration (GSA) officials and its consultants (Arthur Andersen, LLP) with this author, it was stated that the crisis forcing the GSA to embrace strategic outsourcing in the 1995 timeframe was the threat it faced to be completely privatized. The crisis that forced the Department of Defense to pursue an aggressive outsourcing program (also starting in the 1995 timeframe) was a fixed upper limit for its budget at a time when tens of billions of dollars more were needed for modernization, especially of its weapons platforms (Defense Science Board, 1996).

DoD leadership decided that it would shift savings garnered from outsourcing support services to the modernization accounts. However, DoD did not select a strategic outsourcing approach. It was in such a hurry to begin garnering savings from outsourcing, that it elected to emphasize an outdated, unsuitable, tactical approach mandating the use of OMB Circular A-76 on public-private competitions as the key process for making outsourcing decisions. The reason widely given to this author for selecting A-76 was that it was a program that had demonstrated average savings of 20%. “What other program could make the same claim?” — this was the question inevitably tied to an explanation of this decision.

Ironically, despite its need for billions of dollars in savings from its efforts, DoD’s Outsourcing and Privatization (O&P) Program, begun in the 1995 timeframe, has served to illustrate how broken the relationships between installations, communities and industry are (Bierce, et al. 2001).

The irony of the path is that the O&P Program promised so much more than it delivered, making the fragmented and embryonic nature of installations policy only too obvious. The tremendous differences

between the promises and what has actually been delivered have served to undermine DoD credibility regarding many aspects of these programs (Else, 2001; Commercial Activities Panel, 2002).

The O&P efforts have been mainly tactical, idiosyncratic and sometimes verifiably unfair, whether in the areas of housing privatization, utility privatization, public-private partnerships, OMB Circular A-76 cost comparison studies (competitive sourcing) or the Navy's "Strategic Sourcing Program." The impact of the relatively low credibility of the DoD O&P efforts in the minds of many major private sector firms has led to many of them deciding not to participate, or to do so on a very conservative scale (Wagner, 1998). In addition, the problematic environment surrounding the O&P program has often served to undermine morale within many governmental organizations at all levels attempting to do the right thing (Else, 2001; Commercial Activities Panel, 2002). Fortunately, as noted above, the GAO has come out in favor of adopting a new, improved, more legitimate and credible, strategic and results-oriented approach to sourcing in the federal government.

The Department of Defense has made it clear over the past year that it is striving to find more strategic and business-like approaches to conducting its business. Joseph Sikes, Director of the Competitive Sourcing and Privatization Office, Office of the Secretary of Defense, provided two examples. (Sikes, 2002). Sikes stated that the Secretary of Defense's Business Initiatives Council (BIC), part of the Secretary's transformation program, is looking at two items closely linked to strategic sourcing:

- core versus non-core activities that the military services are performing
- a memorandum from Undersecretary of Defense Aldridge that encourages the BIC to look at more innovative and "business-like" alternatives to the use of OMB Circular A-76 in addressing the potential outsourcing of selected commercial activities.

In general, the historical fragmentation of the various, primarily tactical outsourcing programs has harmed the coherency of installation infrastructure and services projects. Even with great fragmentation, there still could be effective, though sub-optimized, relationships between the installations, communities and industry. And even with the significantly scaled-down vision and size of the opportunities, the picture painted to the local community and industry regarding installation opportunities is still an uncertain, intimidating and unstable one (Else, 2001; Commercial Activities Panel, 2002).

Even if opportunities are clearly announced and competition ensues, the lengthy processes and source selection decisions often disillusion many of those who participated, lead to lawsuits and drive away future interest. Unsolicited proposals are not encouraged in the current environment; it appears there is enough of a challenge managing solicited ones.

Unsolicited proposals must be better welcomed in the new sourcing environment that will evolve now that the GAO has essentially condemned the long-standing A-76-centric approach. At the Gartner Symposium/ITxpo 2002, analyst Linda Cohen strongly endorsed increased openness to unsolicited proposals, as did Gartner's French Caldwell (Cohen, 2002; Caldwell, 2002).

Cohen also urged more flexibility in terms of responses accepted from solicitations. She cited one example of a contractor, in response to a Request For Proposal to design an element of an information technology project, proposing that it be awarded the entire outsourced project. This firm had already developed what the government organization needed and suggested that the organization did not have the wherewithal in-house to operate the system even when it had its desired end product in hand. In this particular case, the government organization agreed and tapped into a capability much sooner, and with reduced risks, than if it had it closed off negotiations with the contractor in favor of a new vendor (Cohen, 2002).

CRISIS AND OUTSOURCING IN LOCAL GOVERNMENT: A CASE STUDY

Often, it is only in a financial and/or service-delivery crisis that government organizations entertain an

outsourcing option — in other words, only when the status quo appears to offer no way out. It is not necessarily because transformational goals in terms of results are sought. In fact, only with enlightened, proactive government leadership, is strategic sourcing utilized as an option when organizations must change or be changed.

This case study is along the lines of the former scenario, where the status quo offered no path to a solution. This particular example is certainly strategic in scope, in terms of the outsourcing area — water and waste water systems in the City of Atlanta, Georgia (Else, 2000). It illustrates many of the aspects of business transformation that must be (but too seldom are) thought through and, hopefully, anticipated for any large-scale and highly visible outsourcing initiative. Wider-ranging lessons learned that could be derived from this case study for other functional areas and different levels of government are not explicitly pointed out here. However, many are implied. Some of the lessons will be re-visited in highlighting some specific areas for added consideration when thinking about strategic sourcing.

The big “crisis” for the city of Atlanta regarding utilities was the need for a drastic rate hike for sewage system upgrades and operations. It was estimated that an increase of 100% over current rates would be required to be phased-in over a three-year period (whereas there had been almost no increase at all for about 12 years).

When this “requirement” was announced, there was a political backlash that forced the mayor to look for alternatives. For the intermediate short-term, rates were raised only 17%, and studies on privatizing a portion of the water and sewer systems in order to address the shortfall were begun. These studies led, again, to a lot of political turmoil and to the decision to look at the water/waste water systems as a whole.

Atlanta officials had conducted discussions with officials in the United Kingdom in the early 1990’s, who had fully privatized their water/waste water systems. The United Kingdom officials regretted the path that they had selected because of the lack of leverage they had with the new service providers (as manifested by the ensuing “runaway” rate hikes), once the officials had sold their assets.

With the United Kingdom’s “lessons learned” in mind, Atlanta officials decided to retain ownership of assets and only outsource the operations and maintenance of their water systems. A streamlined competition was conducted with the help of PricewaterhouseCoopers. A major vendor specializing in water services, United Water, won the 20-year contract in 1998, with promises of annual savings of about \$20 million/year. Note the online news announcement:

“United Water Resources (NYSE: UWR) announced that its affiliate, United Water Services, has signed the nation’s largest public-private partnership contract with Atlanta for water operations — a 20-year agreement that will save the city over \$400 million. The agreement calls for United Water, which will receive an annual operations fee of approximately \$21.4 million from Atlanta, to begin managing the water system in January 1999” (U.S. Water News Online, 1998).

Service Declines

One person interviewed in 2001 (who will be known as “John” in this analysis) said that, according to a lot of feedback from customers, service definitely deteriorated. This assessment was reaffirmed by an independent audit:

“A recent audit of a water privatization contract in Atlanta — the largest such contract in the United States — reported a growing maintenance backlog, failure by the company to meet its financial obligations, and significantly lower training hours than required by the contract. The company took longer than it had promised to install meters and respond to meter leaks. At the same time, the company has been seeking additional payments from the city.” (Public Citizen, 2002)

John maintains, however, that money has been saved (although nowhere near the \$20 million/year, despite the mayor’s claims to the contrary). The problem with tracking actual savings is that so much additional money is actually going into the continuous need for upgrades of the deteriorating, capital-intensive

sewage system.

In discussing the decline in service, John stated that this was probably unavoidable because the “bottom line” took priority over quality for the private sector providers. That being said, however, he said that service was still acceptable and that efforts were being made to address areas that need attention. Meetings are held regularly to discuss the contracting relationship and, in his words, “to provide much-needed advice” to the contractors, since the city knows the system better than anyone.

Metrics

When asked about how customer satisfaction was factored into the contract, John stated that there were many metrics but that customer satisfaction was not explicitly one of them. Consequently, there were no explicit incentives (rewards/penalties) addressing this key performance item.

Regarding overall metrics, he stated that a serious problem was the lack of baseline metrics to begin with. He noted, however, that they have metrics for most things that can be measured, but, unfortunately, have not tied rewards and penalties effectively to these metrics. He would, for example, like to be able to reward/penalize for changes in water quality and response times for repairs but cannot do so. Given the extremely short time allowed to draw up the terms of agreement and the overly “close hold” approach of the attorneys involved, there was too little time and opportunity to bring the city experts together with the contractors early on to iron out such details.

Leverage

John stated that the city has leverage regarding unclear areas in the contract relationship by possibly varying the date that it pays the operations and maintenance (O&M) fee to United Water. He explained that the city has a window of 45 days to pay. If the city is unhappy with the responsiveness of United Water to its concerns, it has the option to delay payments to the last couple of days in the 45-day window. In addition, opportunities to participate in capital improvement opportunities (new contracts) also can be tied to overall satisfaction with performance.

Regarding leverage, John also stated that he thinks a 10-year contract would have been better than a 20-year one because it would have placed a greater, sustained sense of urgency on the contractor to stay in good graces with the city. In addition, it would have been easier to re-compete after 10 years.

Capital Improvements

John thinks that the city made a poor bargain in its agreements regarding payment for capital improvements, having agreed to allow a 200% payback to the contractor for upgrades (with the contractor having the burden of arranging financing, etc., and programming the payback in the rates). In addition, the city has agreed to share savings linked to the upgrades in a 50/50 arrangement after the 200% payback is complete.

Advantages of Outsourcing

John stated that, by having outsourced O&M to the private sector, the city is getting savings while being released from the burden of managing a several-hundred-person workforce. He notes that, when compared with the public sector, the private sector has greater leeway in using incentives with its personnel to enable the recognition and reward of top performers. In addition, the private sector has an easier time terminating non-performing workers. The advantages of the private sector in expediting required purchases and in using a “best value” approach versus a “lowest bidder” were also acknowledged.

Need for Expert Oversight of Contractor

One of the biggest lessons John learned was the imperative to have a team of government managers expert in key functional areas to oversee the contractors. He said that initially the contractors anticipated being supervised by only a small handful of manager-level officials. Atlanta, however, has increased its internal oversight team by a factor of almost four, adding experts to cover all the critical functional areas. In addition, the contractors expected to be negotiating only with the mayor and chief operating officer; but the contracting representative actually has a lot of influence.

Lessons Learned

John offered a few recommendations for other government organizations or entities currently operating their own water and waste water systems. He believes it is best to turn over the operations of utility systems to the private sector/municipalities, since utilities should be operated by those for whom it is a core competency. He also thinks that competition is an important element to get the best deal for the government.

He does not, however, think it is a good idea for a government entity to shed itself of the assets because of the danger of losing leverage regarding service and rates in the future. Even if the assets are sold, great attention to the details of the service agreement is critical, with appropriate incentives and the requisite, expert oversight imperative. He strongly encourages systems experts to get involved early in the planning process, helping with “what if” scenarios and, in general, playing the devil’s advocate.

Brief Summary of Federal and Local Examples

The key take-away from the spotlight examples of the DoD and Atlanta, in terms of the thrust of this article, is how wide reaching the sourcing initiatives were, yet how they occurred in an absence of any goal or even apparent thought about fundamental transformation. These are not isolated examples but, rather, are the norm. Sourcing and transformation initiatives are too often seen as totally separate. For either to succeed, they need one another and need to be bridged through thorough strategic planning and disciplined execution in the form of a well-developed strategic sourcing program.

CIO PERSPECTIVE ON STRATEGIC SOURCING

Benchmarks

As one benchmark regarding how much strategic sourcing is on the mind of one government chief information officer’s mind, refer to the interview in this issue of *IKSM* with John Gilligan, CIO of the United States Air Force. Even though the thrust of this excellent and insightful interview is on transforming the Air Force from a CIO’s perspective, no mention is made of strategic sourcing as a concern or enabler. No emphasis on human or intellectual capital is evident either. This is not intended to be a criticism of Gilligan’s vision. Instead, it illustrates that even someone with his vast experience as a CIO (having also served as CIO at the Department of Energy) does not place strategic sourcing high on his list in terms of what it takes to successfully transform an organization such as the Air Force. He is not alone among his peers at any level of government regarding the lack of awareness of or confidence in strategic sourcing at this point in the evolution of government toward being more results-oriented. Recognizing the changing landscape of the CIO, Wharton’s Ravi Aron suggests that CIOs increasingly face challenging decisions surrounding outsourcing (Aron, 2002).

Another excellent benchmark related to information technology (IT) sourcing is the Navy-Marine Corps intranet (NMCI). This massive outsourcing of the design, implementation and maintenance of an intranet for shore installations to a team led by service provider EDS would certainly give the impression that the Department of the Navy has bought into strategic sourcing in a big way. But as Linda Cohen of Gartner Group says, “NMCI has evolved into a large tactical outsourcing of desktop support (Cohen, 2002).” As any evaluation of NMCI would quickly make clear, it was not a deeply developed, well-thought-out strategic effort. Nonetheless the Office of the Secretary of Defense agreed to allow it to continue, partially because of its sheer boldness and the large experiment it represented to learn about outsourcing information technology (OSD official, 2002).

A GAO report, “Desktop Outsourcing: Positive Results Reported, but Analyses Could be Strengthened,” was issued at the end of March 2002. *Washington Technology* reports that in this study the GAO made the following comment related to the lack of strategic sourcing in federal IT efforts based on its analyses of the desktop outsourcing initiatives at six agencies:

“Specifically, agencies did not sufficiently analyze their baseline and projected costs and benefits up front and monitor actual implementation results... Without such critical information, an agency is not positioned to make well-informed decisions about seat management options or able to convincingly demonstrate real results.” (Jackson, J., 2002)

It is noteworthy that the Department of Defense CIO published the “Model CIO Study” in December 2000 which actually includes a section on “Strategic Sourcing.” (Model CIO Study, 2000) In this section the DoD CIO states that “the CIO is instrumental in guiding the transformation of the workforce, processes and infrastructure to improve mission effectiveness and reduce [information/information technology] costs.” The report goes on to say that the CIO must “identify and assess various sourcing options (what could be, what should be, and decision criteria) ... followed by a feasibility study.” (Model CIO Study, 2000, p. 26).

Critical Role of Human and Intellectual Capital

Human and intellectual capital are critical parts of strategic sourcing, which, in turn, are key enablers of successful transformation, especially in complex endeavors such as those confronted by the modern CIO organization. At the Gartner Symposium/ITxpo 2002, major emphasis was placed on the opportunity of CIOs to greatly affect the business strategy of an organization. In fact, this is becoming the major opportunity — and challenge — for CIOs.

To be effective, a CIO needs to have access to a wide range of strategic and technical competencies. But where does a government CIO attract the talent needed? How can a government CIO incorporate the talent quickly, just when required? This is a difficult challenge even for private sector CIOs, and it is magnified tremendously for government ones.

Before leaving this section on a CIO’s perspective, it is worthwhile to note two items from the Gartner Symposium/ITxpo 2002. Gartner analysts cited the four key skills of effective CIOs as being:

- “Shaping demand,” which entails “knowing and understanding the business as well as engaging with key decision-makers”.
- “Setting expectations”, which depends on being able to identify “trade-offs and negotiate a win/win solution”.
- “Delivering”, which “entails being able to use architectures and timetables to drive delivery as well as using partnering to facilitate timely delivery”.
- “The ability to lead”, which means exhibiting “strong leadership qualities” and leading by “influence”.

Gartner’s overall theme of the centrality of strategic sourcing in successful enterprises can best be captured in the following Gartner prediction: “As enterprises begin to look for new ways to deliver serv-

ices, by 2005, 80 percent of leading enterprises will adopt strategic sourcing as a core discipline.” (Cohen, 2002). It should be noted that Cohen was referring to private sector organizations, and this prediction has no parallel projection for the public sector.

While optimistic about the increased likelihood of strategic sourcing as a major approach in the private sector in the next few years, Cohen went on to predict, however, that “few of these enterprises will have formal plans for managing the long-term relationships with their external service providers.” (Cohen, 2002)

Given the central importance of talent — and even brilliance — for IT challenges today, the CIO who acknowledges and masters the art of strategic sourcing will become all the more compelling as a strategic transformation advocate in any organization. Gartner’s senior analyst for strategic sourcing even suggests that CIOs in private sector and government organizations establish a chief sourcing officer under them in order to focus on this critical strategic enabler for all CIO initiatives in the short, medium and long term. (Cohen, 2002)

Barriers to Strategic Sourcing

This article has looked at strategic sourcing in general, both in terms of the ideal relationships it should reflect and the more tactical efforts routinely taken in government initiatives. Strategic sourcing has not been an acknowledged enabler of government transformation, even though it has been key to isolated successes at all levels of government. For example, the manager for the U.S. Air Force Space Command’s commercial activities program reported that a strategic sourcing approach was the reason for its initial, outstanding success with outsourcing supply services for its Command (U.S. Air Force, 1998).

Perhaps because of the inappropriate emphasis in the federal government on OMB Circular A-76, many CIOs and other leaders, especially in the Department of Defense, have been generally discouraged — or even fundamentally blocked — by OMB from using strategic sourcing to meet outsourcing goals. OMB mandated the use of A-76 to DoD to earn savings already re-programmed by negative wedges placed in their budgets or, for the entire federal government, by quotas for competitive sourcing studies that were explicitly linked to the use of the A-76 process rather than a strategic sourcing one (CPPE).

Because A-76 has been seen as such a central barrier to more strategic approaches to sourcing, it is worthwhile to briefly revisit the topic of the Commercial Activities Panel mentioned earlier. In describing the outcome of the Panel led by the GAO, one author noted, “The panel agreed with many critics in government and industry who say that A-76, which has been used primarily in DOD, has outlived its usefulness and must be replaced as quickly as possible ... The panel recommended developing the new rules over several years, with pilot projects testing proposed changes and with agencies using a modified A-76 in the interim” (Frank, 2002).

Either because of the belief that strategic sourcing was not an option, or because of general ignorance of how to pursue or promote it alongside or in place of A-76, sourcing approaches were generally tactical in nature. Wide-ranging, potentially transforming approaches that would be incorporated by the term “strategic sourcing” have been pursued in only isolated and exceptional cases. A fundamental problem is that there is a general “handing off” of the sourcing function itself to acquisition specialists. Whereas contracting officials have a key role to play, theirs is often a tactical rather than a strategic one, since they are not directly linked to the business unit undertaking the new initiative.

It also appears that there is a lack of reflective analysis and planning for attracting and retaining highly skilled IT managers in government. This gap in the strategic management of human capital can partially be explained by the difficulty of hiring civilian employees. Senior officials know how difficult it is to acquire any government employee at all, especially a civilian one, let alone highly skilled and motivated individuals for the particularly complex and challenging positions severely needed for leading information management efforts in government. The Director of the Change Management Center in the Office of

the Secretary of Defense, Mary Margaret Evans, recently noted, "Hiring a civilian employee is like catching the flu. It happens from time to time and you have very little control of it." (Evans, 2002).

Some on Capitol Hill, such as Congressman Tom Davis, recognize the problem. He recently sponsored a bill passed by the House that would make it possible for private sector IT professionals to enter the civilian workforce at managerial levels, competing alongside career civil servants for key IT positions (New, 2002). The predominant use of private sector IT personnel by government is now in the role of contractors and consultants. Unfortunately, the requisite IT experience and talent are often lacking in government ranks for hiring and overseeing contractors and consultants. In fact, concern about its management of existing contractors has led the Army to come out with a new initiative that includes looking at increased efficiencies in downsizing contractors, alongside wider government attempts to focus on the government workforce (Peckenpaugh, April 2002).

Consequences of Not Sourcing Strategically

Given the shortfalls in strategic sourcing awareness, experience, goals, programs and actions, many very questionable decisions and processes regarding IT are currently the norm. How can best practices be used when the discipline of strategic sourcing itself is nearly invisible or non-existent? Strategic sourcing is virtually impossible to pursue in most of government today because of the huge barriers of culture and politics.

As a case in point of how seldom best practices are pursued in many IT circles in government, major IT infrastructure efforts are often being done by in-house personnel, with too little thought given to other outsourcing alternatives. By going down this in-house path, organizations are cutting off the potential value of leveraging private innovation and economies of scale, as well as failing to embrace the principles of competition and performance-based contracting. Instead, what often ends up happening is the hurried drafting of vague and toothless service level agreements for in-house teams. At the same time, high-end strategic management roles in the IT area, such as those of enterprise architect, are at times being outsourced.

Some think that outsourcing to Federally Funded Research Development Centers (FFRDCs) is just like leaving the work in-house. This has been so stated to this author by some members of FFRDC organizations. That does not make it so. As highlighted in the Commercial Activities Report sourcing principles, "***Inherently governmental positions should be filled by government personnel.***" (Commercial Activities Panel, 2002). However talented and experienced some FFRDC or private sector personnel may be, there are a number of reasons why they should not be tapped to lead or manage strategic IT positions in government. If they were to transition to the government as, for example, interim civil servants (and this is possible), this would be another story (Office of Personnel Management).

There is no doubt that insights about the respective roles of government and external personnel in planning, managing and executing IT programs could be gained from integrating a robust strategic sourcing program into the fabric of any CIO's business approach. It is equally clear that the additional creativity and rigor that would come from an effective strategic sourcing program would deliver measurable improvements in efficiency and effectiveness.

Having Government People in Governmental Roles

All government officials and experts this author interviewed at the Gartner Symposium/ITxpo 2002 stated it is critical that government officials be seen as leading and managing major IT areas of responsibility, especially enterprise architecture. They also think that IT infrastructure responsibilities or positions considered more of a "utility," rather than potentially "transformational," should be intelligently competed for the most effective and efficient results in the near and long terms. Reasons given for the

importance of key IT positions being kept in-house include:

- IT architecture is one of the most important jobs a government official can do, especially in an era of major IT investments and goals for wide-ranging transformation toward agile and adaptable architectures.
- Enterprise architect (EA) positions are clearly inherently governmental ones.
- Only government officials can be expected to be truly accountable for leading and managing in the architecture area, as well as being responsive to other government officials and organizations dependent on an organization's enterprise architecture and its many sub-components.
- Only government officials can be expected to be objective about the complex issues in the dynamic area of enterprise architecture. Their objectivity and sense of public service must be above reproach and they must only have the image and essence of their own government organization in mind in executing their responsibilities.
- EA positions represent the pinnacle in terms of positions based on wide-ranging organizational and IT intellectual capital, of the type that must incorporate the people, process and technology dimensions in the near, mid and long terms, and this highly valuable intellectual capital should belong unequivocally to the government.
- Relationships between other enterprise architects within an organization's hierarchy and across organizations could be weakened by virtue of an organization's key EA representatives belonging to an outside organization.
- Key IT architect positions should be ones mid-level government officials should be able to aspire to, to the extent that IT talent would be inclined to stay longer in government in hopes of securing one of these strategic billets.
- Such billets could be very attractive to outstanding talent from other agencies or even the private sector, should the private sector eventually be allowed to compete for such jobs. Increased competition, in any case, would lead to raising the bar in terms of the skills, genius and overall expectations regarding innovation and leadership.
- FFRDCs and private sector individuals given these key positions are far more expensive than government officials.
- The talent, "reachback" and experience of FFRDCs and the private sector could still most certainly be tapped — and indeed should be, but more in contractor/consultant capacity working for clearly identifiable, hands-on and accountable government officials.

In conclusion, based on this one area of enterprise architecture, and that of IT infrastructure support, many CIOs could greatly benefit from making top-notch and active strategic sourcing programs key to their leadership vision, strategy and processes.

KEY AREAS MERITING ADDED CONSIDERATION

OMB A-76 — Focus on Human Capital?

The OMB Circular A-76 process is designed to make the competitive sourcing process objective, rather than personal. But federal employees take this threat to their individual jobs very personally. Therefore, during the two-four years that A-76 competitions last, uncertainty, at a minimum, reigns in the workforces competing. Others on lists to be competed in the future also must confront uncertainty in the workplace. The uncertainty alone is often enough to drive the most talented workers to look for positions elsewhere in government (in order to at least postpone any threat of competition to the more distant future) or out of government altogether (Campbell, 2001).

The negative experiences in using the A-76 process provide justification for the claim that a focus on

human capital merits a strategic sourcing approach. Ironically, OMB has shunned strategic sourcing in favor of A-76, classifying strategic sourcing as just a way to really avoid doing anything (Styles Interview, 2001). The Department of the Navy's Strategic Sourcing Program has, ironically, added fuel to this fire, as it very publicly has gone down what can best be called a broad reengineering effort of functional processes, rather than a strategic sourcing program in the broader sense of the term (Styles Interview, 2001). See Figure 2 for a depiction of the Navy's approach. Contrary to what the chart would lead one to believe, in actual practice, very little emphasis is placed on strategic thinking about sourcing options (Jackson, P., 2002).

Focus on Intellectual Capital

So much of the emphasis on outsourcing in government has been on achieving efficiency through reducing costs. By failing to address the centrality of intellectual capital in effective operations in government and elsewhere, the wrong things have at times been in-sourced or out-sourced. This has been done inconsistently and, at times, very erratically as well. The long-term ramifications of overlooking the importance of intellectual capital in both outsourcing and transformation programs are considerable and merit more careful consideration at the highest levels of government.

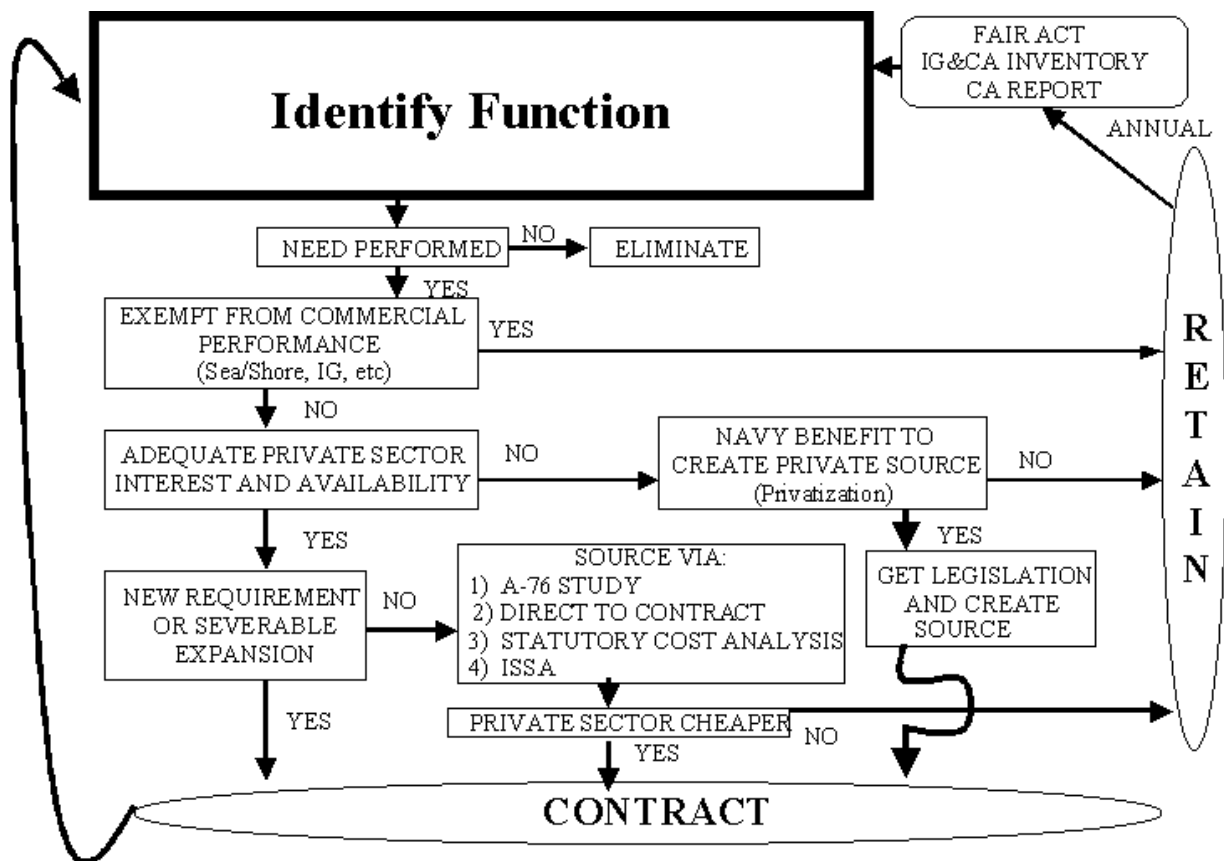


Fig. 2. Strategic sourcing decision tree.

Focus on High-Tech vs. Low-Tech Functions

Information technology should be a central strategic enabler for better planning, execution and monitoring of outsourcing and transformation initiatives. Unfortunately, just as the central importance of intellectual capital for performance excellence is too often overlooked, so, too, is the potential of IT. A key characteristic of tactical government outsourcing and transformation efforts is that IT functions often have been competed in lengthy and non-rigorous fashion, as if they were no more significant than building and lawn maintenance. Exceptions to this tendency (such as the National Security Agency's direct outsourcing of its IT functions) illustrate vision and a mandate for transformation (Verton, 2001). Even OMB officials have admitted that perhaps strategic sourcing has more of a role for areas involving high technology (Styles Interview, 2001).

Focus on Innovation

Sometimes it is essential to innovate in order to open the door to even more innovation. Along these lines, the Central Intelligence Agency (CIA) outsourced part of its technical requirements definition function to a non-profit organization it formed, In-Q-Tel. The CIA subsidizes and coordinates with In-Q-Tel to identify promising commercial capabilities for potential accelerated insertion into CIA capabilities. Rather than ask its contracting department to do something for which it lacked the skill sets, the CIA looked to experts in entrepreneurial technology (In-Q-Tel's roots are in Silicon Valley) to develop new and quicker paths to capabilities needed for rapidly evolving mission requirements. In-Q-Tel has been reasonably successful in its early stages of development and operation, with an independent review finding that its biggest problem has been the slowness with which the CIA is able to adopt products or capabilities brought to the table by In-Q-Tel (BENS, 2002).

RESPECTING THE COMPLEXITY OF TRANSFORMATION

A few major recommendations for success in transformation initiatives are as follows:

- Respect the complexity of the myriad business challenges that government enterprises face but be aggressive in achieving concrete results.
- Employ state-of-the-art planning, knowledge management, training and decision support tools to attack the entire system, from top to bottom and holistically across the targeted government enterprise.
- Engage senior leadership at all levels to engage with their communities and industry and to think strategically in terms of time and scope (infrastructure and personnel) to set programs in place that can lead to success.
- Hold leaders accountable for success based on well-defined, understood and reasonable metrics and milestones.

Whereas the recommendations seem so simple, they require a transformation framework. Such a framework:

- Identifies high-level champions;
- Depends on innovative program managers encouraged with the proper resources and incentives to succeed;
- Includes top notch contracting and relationship components;
- Puts a premium on identifying, leveraging and sharing intellectual capital;
- Defines what success looks like in the near, medium and long terms and
- Places a spotlight on accountability and rewards those who perform effectively through concrete and measurable success.

RECOMMENDATIONS FOR STRATEGIC SOURCING SUCCESS

Each recommendation listed below for strategic sourcing success could be amplified considerably. However, in light of the need to limit the scope of this article, only the first recommendation — on the essential Transformation Framework — will be developed with some supporting points:

1. Introduce a Transformation Framework predicated on:
 - Identifiable, accountable leadership at the top and every level of a new, comprehensive strategic sourcing program
 - A compelling and well-communicated vision, concrete goals, a master plan with firm milestones
 - Emphasis on strategic sourcing, strategic planning, human capital, expert teams, core competencies, benchmarking best practices and innovation
 - Trust and integrity at every level of the program
 - Agreed upon expectations, metrics and incentives aligned with desired actions and results throughout the strategic sourcing and/or transformational undertaking
2. Gain consensus across the federal government for a new approach that includes a strategic vision of the future composition of the federal work force in terms of commercial activities and which is built upon a better understanding of all sourcing and partnering options.
3. Nurture the will and stamina to reap the huge rewards of the tremendous potential for more coherency, effectiveness and efficiency in commercial activity and other installation programs.
4. Fill inherently governmental positions with government officials.
5. While building the transformational framework, attempt to better balance strategic sourcing and more tactical approaches in light of the complexity of targeted functions.
6. Raise the bar in terms of the talent and skill sets needed in key government positions, even if the personnel system itself is slow to evolve in this direction.
7. Look much harder at existing contracts for possible consolidation and re-solicitation as performance-based platforms.
8. Manage the current contractors and consultants better — there is tremendous potential for better synergy and performance without a fundamental structural change in who is doing the work.
9. Review and consider the “Sourcing Principles” published in April 2002 by GAO’s Commercial Activities Panel and highlighted earlier in this article.

CONCLUSION

In summary, this article has provided insights regarding typical sourcing initiatives being pursued by local or federal level governments, often on a large scale. Nowadays, many government leaders speak about the need to transform government to be more results- and citizen-centric. At the same time, sourcing efforts in the areas of installation and municipal services have been generally more focused on cost savings and new ways for recapitalization, rather than on transformed processes and services.

Government culture, with its political and bureaucratic nature, makes it difficult to tackle sourcing initiatives well at a tactical level. To transform government, new progress at institutionalizing strategic sourcing is imperative. Therefore, one of the boldest but doable first spirals of government transformation should be to establish vision and strategy for integrating strategic sourcing into any strategic initiative.

For information technology endeavors, in particular, the results of building and nurturing robust strategic sourcing programs under the CIOs could be stunning, rapid and enduring. The intellectual capital needed to succeed in government transformation must be obtained through an intricate, synergistic weaving of public and private talent, skill sets and competencies. The time for strategic sourcing defi-

nately has arrived.

Government organizations of the future will make sense and succeed in their support responsibilities based on new attention to robust, energized and sustainable relationships with the private sector and non-profit organizations. Such relationships must be established and sustained proactively at different echelons within organizations in light of their overall missions and leverage enlightened strategic sourcing and partnering approaches.

The challenges are not simple ones. Complexity must be respected, and a transformation in culture is essential to take the necessary steps. A major underpinning of transformation is dependent on recognizing the role of talent and intellectual capital in government and its partners in industry.

Norman Lorentz, Chief Technology Officer (CTO) of the Federal Government, spoke at the CTO Forum on April 10, 2002. He stated, "We need high performance human beings in government who want to be there ...[and] to outsource to the private sector what should be outsourced, but we need to change our business processes first." (Lorentz, 2002) Alluding to the enormous change management challenge he faces, he noted in another event on April 2, 2002 that, while changing the direction of an aircraft carrier is challenging indeed, his job as federal CTO was "like turning the whole fleet." (Emery, 2002)

As discussed in this article, it is of particular importance that information technology organizations and leaders embrace the central enabling role of strategic sourcing in order to maximize the leverage that IT can provide for transformation and sustainable leaps in performance and innovation. There is, undoubtedly, a crucial relationship between strategic sourcing and transformation initiatives in government and it may be that CIOs and CTOs may be best positioned to illustrate this synergy in the planning and execution of their roles.

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- See <http://whitehouse.gov/omb/budget/fy2002/mmt.pdf> for President's Management Agenda.
- Additional case study information on Atlanta's outsourced water/waste water system initiative are from author's 2000 interview of Atlanta official (anonymous spokesperson) and statements of key players on both sides, expressed at National Council for Public-Private Partnerships (Atlanta, 1998).



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