



t h e **B U S I N E S S** o f
GOVERNMENT

Changing Organizations

- 3** **Improving the Business of Government:**
Defense Commissary Agency

Outstanding Leaders

- 4** **Chief Executive Officer's Perspectives on Managing**
Dennis W. Bakke, President & CEO of The AES Corporation
Alan G. Merten, President of George Mason University

Stimulating Ideas

- 7** **Book Review**
Drucker, Handy, and Peters on Management
- 8** **Article Abstracts**
"A New Mandate for Human Resources"
by Dave Ulrich, *Harvard Business Review*
- "Estimates of Burnout in Public Agencies"
by Robert T. Golembiewski, Robert A. Boudreau, Ben-Chu Sun,
and Hauping Luo, *Public Administration Review*
- 10** **New from the Office of Management and Budget**

At the Editor's Keyboard

Paul R. Lawrence



That success can not be achieved without the support and assistance of others should be obvious. It just is not widely acknowledged or practiced. That is what author and management expert Tom Peters points out in his latest book, *The Circle of Innovation*.

Peters devotes a sizable portion of his book to demonstrating that effective support increases the chances of success. Inside or outside the organization, across town or the world, Peters argues that we should establish alliances with those who can help. In particular, he points out that strategic alliances with suppliers or vendors can lead to extraordinary results.

According to Peters, a strategic alliance is characterized by:

- obtaining assistance from those who are the best-in-world at what they do,
- working well together because of great personal chemistry,
- trusting each other,
- developing a relationship over time,
- reciprocity and equality of the relationship,
- understanding the reasons for investment in the alliance, and
- integrating "your" people and "their" people.

Peters' message is being practiced by many businesses today. The quest to identify core competencies has forced companies to better understand which activities they will perform and articulate why they should continue performing them. Non-core activities are often performed through strategic alliances. An automobile company, with its host of suppliers delivering just-in-time components, is a good example of an organization capitalizing on strategic alliances.

Academia has long recognized the benefits of strategic alliances. Reaching out to alumni, businesses, and the community represents its efforts to enlist the support of others. One measure of a successful university is the number and depth of its strategic alliances.

Government has been slow to take advantage of the power of strategic alliances. The old, adversarial ways of doing business discouraged the creation of solid, long-lasting relationships. While the procurement process has been dramatically reengineered and improved under the leadership of the Office of Federal Procurement Policy, old attitudes toward suppliers still exist among some federal managers.

There is room for improvement in attitudes on both the government side and the supplier side. From the perspective of a management consultant, we need to move away from the attitude that we are "job shops," constantly shifting from one hot topic to the next. From the gov-

ernment's perspective, the federal manager needs to move away from the old image of "beltway bandits" eager to rip-off the government at any opportunity. Both attitudes are unhealthy and lead to poor working relationships.

In my company, we are working hard to create a long-term orientation on the part of our employees. We have reengineered everyone's "scorecard" to recognize and reward consultants who build long-term relationships with customers. The name of the game is no longer how many request for proposals can you respond to or how quickly can you finish a project.

On the part of the government, we applaud recent improvements in the procurement process. We especially appreciate the government-wide contract vehicles that allow all contractors to build on-going relationships with agencies. Taking past performance into account is a key part of these vehicles and a major improvement in the process. From our side of the table, we like being held accountable for our performance.

Perhaps the timing for these new attitudes is just right. In the new millennium, we will have a smaller government. The consensus is that it will do more with less. But the unanswered question is how will this be done.

Many think it will result from the streamlining due to reengineering. But a more interesting solution would feature a small government supported by an active network of strategic alliances with businesses and academia. Done properly, this government of the future would be a unique combination of the best from both the private and public sectors.

The public sector would provide leadership and direction to address complex problems. It would be liberated from non-core tasks, which could be handled by alliance partners. The private sector could supply a deeper understanding of desired goals and effective methods that produce measurable results. The net effect would be alliances between organizations and relationships between people that are focused on delivering the promises of government.

Tom Peter's description of strategic alliances preaches the wisdom of enlisting the support of others. A key part of any alliance is its mutuality. This is a message that could benefit both the public and private sector. It tells us that problems that are not solved by either sector alone could be solved if both would work closely together.

As the government of the future is envisioned, it is necessary that we focus on its size. But it is equally important that we focus on its composition and how strategic alliances could be used to increase its effectiveness.

*Paul R. Lawrence is a partner at the management consulting and accounting firm of Price Waterhouse.
His e-mail: paul_lawrence@notes.pw.com*



Improving the Business of Government

Mark A. Abramson and Paul R. Lawrence

In March 1996, Vice President Al Gore announced the National Performance Review's initiative to create Performance-Based Organizations (PBOs) across government. In October 1996, the Defense Commissary Agency (DeCA) was given transitional status as a PBO. To better understand the concept of PBOs and to receive an update on their transitional status, we visited the Defense Commissary Agency at their headquarters in Ft. Lee, Virginia.

We were especially interested in several aspects of the PBO concept, specifically those making government more business like with an increased emphasis on objectives, measurable goals, and managerial flexibilities. Can government organizations really act like business? In many ways, DeCA is an excellent case study to seek answers to that question. Its operations are nearly identical to similar organizations in the private sector—providing groceries to customers.

The Defense Commissary Agency was created in 1990 as a consolidation of the military's commissary systems that were previously operated separately by each service. The consolidation process was completed in October 1991 when DeCA assumed full direction and control of the commissary system. Today, DeCA operates 298 commissaries with 17,000 employees worldwide. Its total sales of \$5.1 billion would make it the ninth largest grocery chain in the United States. Of its 298 commissaries worldwide, 199 are located in the continental United States with 99 commissaries outside the United States.

The concept of military commissaries dates back to 1826, when Army officers at specific posts were allowed to make at-cost purchases for their personal use. In 1841, officers were allowed to make purchases for members of their immediate families. The modern concept of commissaries began in 1867, when officers and enlisted men could make at-cost purchases at any Army post.

The defense commissary system is frequently confused with the defense exchange system. The commissary system sells food, much like the local Giant or Safeway, whereas the exchange primarily sells hard goods, ranging from appliances and automotive supplies to toys and clothing, like the local Wal-Mart. The two systems are run separately and funded differently. While the commissary system is funded from both appropriated and customer surcharge funds, the exchange system is financed by funds generated by sales. Unlike DeCA with one unified system, there are now three exchange systems: the Army and Air Force exchange, the Navy exchange, and the Marine Corps exchange.

In the *Blair House Papers*, President Clinton and Vice President Gore set forth their vision for PBOs as discrete management units "that commit to clear objectives, specific measurable goals, customer service standards, and targets for improved performance. Once designated, they would have customized managerial flexibilities and a competitively hired chief executive, who would sign an annual performance agreement with the Secretary and have a share of his or her pay depend on the organization's performance."

To achieve full PBO status, legislation is needed by Congress. Legislation providing DeCA with PBO status was submitted by the Department of Defense (DOD) in 1997 and is still awaiting congressional action. While introduction of the legislation is pending, DeCA continues to seek DOD waivers to amend regulations as they apply to the agency. "In football terms, instead of using a 'run and gun' offense in which you can score anytime, I've moved to the Woody Hayes style of football—three yards and a cloud of dust," states retired Major General Richard E. Beale, director of DeCA. "I've found that change takes time. You have to stay at it—three or four yards at a time and soon you have a first down. If you keep getting first downs you will eventually score, but it will take awhile."

One set of first downs includes performance improvements. Since its creation in 1991, DeCA has worked hard to cut costs and improve efficiency. Headquarters staff has been reduced from 3,272 (October 1991) to 1,269 (October 1997)—a 61% reduction. During the same time period, the number of commissaries was reduced from 411 to 299.

During this time period, Beale states, "We tried to benchmark ourselves against the best in business. We want to run DeCA as an efficient, well-run business. With the end of the Cold War and the military downsizing, we had to get our costs down." As an outgrowth of the benchmarking process, DeCA improved many of its business processes: bill paying, delivery ticket invoicing, new resale ordering agreements, increasing discounts earned, and speeding up the overseas ordering and receiving system. These improvements, as well as the reductions in staff and the number of stores, resulted in \$300 million in savings. At the same time, DeCA created quality improvement teams in all of their stores. "I was really impressed by the quality and dedication of these teams. They were creative and eager to make change," reports John F. McGowan, director of operations at DeCA.

(continued on page 12)



Improving the Business of Government (continued from page 3)

But, according to Beale and McGowan, much remains to be done to make DeCA even more business like. There are numerous pending proposals in the areas of financial management, procurement, and personnel that would give DeCA more flexibility in running their operations. In financial management, DeCA sought to move from its current structure of three distinct funds to a single fund. A single fund would have reduced accounting costs, as well as provided the flexibility to



**Richard E. Beale, Director,
Defense Commissary Agency**

move money from one area to another. DeCA withdrew the initiative when it determined switching over would create an unacceptable one-time drain on the surcharge account paid by its customers.

DeCA also sought major change in the way it operates within the Department of Defense. Instead of being required to use DOD-wide area network services from the Defense Information Systems and Agency (DISA) and transportation from the Defense Transportation System (DTS), DeCA asked last year for authority to use less expensive commercial vendors. "Giving DeCA a cost break is no simple decision for DOD," said Timothy C. Ford, director of public affairs at DeCA. "Commissary commerce helps support the military's communication and transportation systems during peacetime, so letting DeCA go 'outside the fence' for these services could affect readiness." Neither proposal is expected to gain DOD approval anytime soon.

While DeCA is seeking legislation from Congress and waivers from the Department of Defense, it continues to operate in a highly politicized environment. At the same time that DeCA is attempting to improve its operations and efficiency, the mission of the organization—to provide a non-pay benefit to military personnel, reservists, and retiree's—is also being debated. In October 1997, the Congressional Budget Office (CBO) issued a report that concluded that "government-run stores with below-market prices are not a cost-effective alternative to cash compensation."

The CBO report, like other previous reports over the years, questioned the basic premises for DeCA existence: (1) that the commissaries are a vital part of the military total compensation package, and (2) DeCA is needed because it serves military personnel in far-off isolated foreign bases, such as Keflavik, Iceland and Izmir, Turkey, and remote bases in the United States, such as Minot Air Force Base, North Dakota and Fort Irwin, California. The CBO report set forth four alternatives for Congress to consider, including adopting the PBO approach, contracting-out the commissary function both within the

United States and overseas, or providing cash allowances to active duty personnel.

"I realize that I work in a political environment," states Beale. "As a military officer, I learned that many decisions are made for diplomatic and political reasons. Our political leaders have to make trade-offs and tough decisions. In the final analysis, government is about trade-offs."

Do society and our political leaders want government organizations to truly act like a business? Based on the experience of the Defense Commissary Agency to date, there are no clear answers. Disagreements arise as to how far government should go in the quest for efficiency. Should DeCA operate outside of the Department of Defenses existing systems and be allowed to use lower cost alternatives? How much autonomy should a government taxpayer-supported entity have in making decisions about its internal operations? Is it sound public policy to use the commissary system as part of the military compensation system?

We did not come away from our visit to Fort Lee with answers to the above questions. We did, however, come away with an increased understanding of the complexity of the simple premise that government should operate more like business. In the years ahead, this debate will continue to rage as our political leaders wrestle with this complex set of questions.



the **BUSINESS** of
GOVERNMENT

Volume 1 Published bi-monthly by Issue 2

Price Waterhouse 

1616 North Fort Myer Drive
Arlington, VA 22209
(703) 741-1000

| | |
|----------------------|--|
| Editor-in-Chief | Paul R. Lawrence |
| Managing Editor | Mark A. Abramson |
| Contributing Editors | Perry Pockros Jay Tansing Ben Walker |
| Graphic Designer | Scott Blodgett |

© 1998 Price Waterhouse LLP, Price Waterhouse refers to the U.S. firm of Price Waterhouse LLP and other members of the Worldwide Price Waterhouse Organization.

