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At the Editor's Keyboard

Paul R. Lawrence

The other day en route to work I stopped at my favorite convenience store to buy a drink. The store had been rearranged since my last visit and I was disoriented. Searching for the drinks, I asked the clerk about the store's new look. "We're changing," he said, "just like everyone else."

He was right. Everyone is changing. Business magazines routinely profile companies undergoing change. Job advertisements seek change agents. Consultants sell advice to manage, lead, or integrate change.

It just seems that change is now a regular part of our lives. Learning to deal with change, while difficult, has become a survival skill. But the alternative is not attractive. Businesses that don't change frequently no longer attract customers, and ultimately cease to exist. Individuals who don't change and are not constantly seeking new skills and staying abreast of their profession often do not advance within their own organization.

During my professional career, I have undergone several significant changes. Early on, I changed jobs twice in three years in an effort to escape companies whose great years were behind them. Those organizations had not kept up with change. I joined Price Waterhouse in 1987. Given its rich heritage and long tradition, I thought I would be sheltered from change. I was wrong.

On July 1, 1998, Price Waterhouse merged with a former rival, Coopers & Lybrand, to create PricewaterhouseCoopers, the world's largest professional services firm. With more than 140,000 employees in 150 countries, we are now the 61st largest employer in the world. That is quite a change from the U.S. firm that had less than 10,000 employees when I joined a decade ago.

The merger experience has been very trying. There have been new people to meet, listen to, and understand. I have been introduced to new styles and perspectives. This has taken considerable time over the last several months. Time that otherwise would have been spent with family or a good book.

Despite all of this, I know that the merger is not just about our organizational survival. It is about us being able to define our future, rather than having the changing business environment define it for us. It's a bold change that I am convinced will yield tremendous benefits. Our customers tell us they want solutions to their business problems faster, more reliably, and cheaper. With the merger, we now have the resources to invest in the changes necessary to better meet client needs. Had we not done this, it is conceivable that our two firms would have ceased to exist or been overtaken by other competitors that were better able to adapt to change.

It used to be impossible to conceive that any of the country's oldest and most stable companies would be unable to survive. AT&T is an excellent example. The telecommunications industry has changed so much in the past two decades that this once dominant company needs to merge with the cable company TCI to stay viable. Who would have thought that 122 years after Alexander Graham Bell invented the telephone, the company that his revolutionary ideas spawned would be searching for a new niche?

How much change has AT&T gone through? In 1988, AT&T bought NCR. In 1996, AT&T split into three companies – Lucent, NCR, and AT&T. Now, they want to merge with TCI to create AT&T Consumer Services. Clearly, this change is driven by the need to stay ahead of competitors, who were once limited to the traditional telecommunications industry, but now include cable television and Internet service providers. AT&T had to do something big and different, which required a bold redefinition of itself.

Changes like this are not limited to the business world. Just two years ago, background investigations for federal government employees were performed by a unit within the Office of Personnel Management. Today, OPM does not conduct any investigations itself. In response to high costs and other factors, the Clinton Administration decided to create an employee-owned firm from the OPM's Office of Federal Investigations. As the only federal agency to privatize a government function, OPM undertook a bold change. On page three, we describe how these 700 federal employees literally changed overnight to become members of the private sector, and how they have fared in this new environment.

Each of the organizations mentioned above – Price Waterhouse, AT&T, and the Office of Personnel Management – responded to the changing environment around them. Instead of standing still and letting the environment dictate their future, they took control of their fate. All were willing to consider big change, however difficult, and were not content to just tinker at the edges. Major change was necessary, often requiring bold actions.

In the years ahead, I hope that the federal government will consider bolder, more creative actions such as the creation of more employee-owned organizations. The U.S. Investigations Services model is probably applicable to other organizational units in the government. There are undoubtedly other agencies or units in government whose performance could be dramatically improved through merger with another unit. If the experience of Price Waterhouse and AT&T tells us anything, it is that change will be thrust upon you if you don't take the lead yourself.

Paul Lawrence *is a partner at PricewaterhouseCoopers.*
His e-mail: paul.lawrence@us.pwcglobal.com.

Improving the Business of Government

Mark A. Abramson and Paul R. Lawrence

Many people talk about privatization, but few people have done it. Phil Harper, chief executive officer and president of U.S. Investigations Services, now leads the only private sector company in the nation that was formerly part of the United States federal government. To better understand this unique experiment in privatization, we visited Mr. Harper at the headquarters of the U.S. Investigations Services, Inc. (USIS) in Annandale, Pennsylvania.

In July 1996, USIS became the first 100 percent employee-owned company to be formed from the privatization of a governmental operation. USIS provides an ever-expanding number of background investigations for the public and private sectors. Previously, the functions of USIS were performed by the Office of Federal Investigations (OFI) in the U.S. Office of Personnel Management. After undergoing the reduction-in-force (RIF) process at OPM, nearly 700 former federal employees were all offered positions at USIS on the day after they were separated from the federal government. Ninety-six percent of those offered positions by USIS accepted. No one was involuntarily unemployed, those declining USIS positions either retired, stayed as part of OPM's oversight staff, or transferred to another agency.

A key feature of the creation of USIS was the decision to become an ESOP (employee stock ownership plan). All employees are owners and annually receive shares in the company. In addition to the company's 401(k) plan, the shares are USIS's primary pension plan. All employees thus have an equity position in the company and a stake in how profitable the company is and how well it performs in the marketplace. "Based on my previous private sector experience, I became convinced that owning shares in your company is essential to the long-term financial success of any business. We made shareholders out of over 700 people," states Harper.

The Office of Personnel Management faced a complex series of options prior to deciding to go the privatization route. It could have totally eliminated the Office of Federal Investigations or it could have merged its operations with another government organization, such as the Defense Security Service (formerly the Defense Investigative Service). Other options included creating a government corporation or simply contracting out the entire operation. Under several of the options, all 700 employees of OFI would have lost their jobs. OPM's goals were cost savings, seeing that investigative services were available, and treating their employees fairly. After months of deliberation, OPM decided to pursue the unknown path of privatization.

While much concern about the path to privatization was voiced by federal employees at OPM, a certain amount of relief was expressed after the decision. OPM's Office of Federal Investigations had been through a difficult several years in which there was much uncertainty about its future. "When I came to USIS," recalled Barry Kingman, vice president of human resources, "I heard many stories from employees who had been afraid to spend much money on Christmas presents because they did not know the future of OFI and whether they would have a job during the next year."

The entire process – from the beginning to the opening of USIS in July 1996 – took three years. According to Phil Harper, the road to privatization was long, difficult, and arduous. After the Clinton Administration made the decision to privatize, the initial step in the ESOP process was a feasibility study in 1995 to assess the viability of the function in the private sector. In the USIS case, OPM contracted with ESOP Advisors, Inc., to conduct the feasibility study. The study included a financial analysis to determine the potential revenues, expenses, and cash flow for a newly privatized operation. The ESOP Advisors concluded, "…it is possible for the Investigations Program to transition from current Federal operations to viable operation in the private sector. The business and operational conditions (that) exist currently…are similar to those business conditions that exist in the private market. The current financial results of operations demonstrate the potential for profitable operation on the basis of a contract to provide current investigations services if certain conditions are met."

After the feasibility study, OPM selected American Capital Strategies (ACS) to develop a business plan. ACS then selected Marine Midland Bank as its financial trustee. Working with the law firm of Arnold and Porter, Marine Midland put together a management team that included Phil Harper, who previously held the position of president of Wells Fargo Alarm Services.

"We faced much opposition when the privatization plan was announced," recalled Harper. "Congress held hearings, the General Accounting Office launched a study, and law suits were looming from other firms in the investigations field. Much concern was expressed

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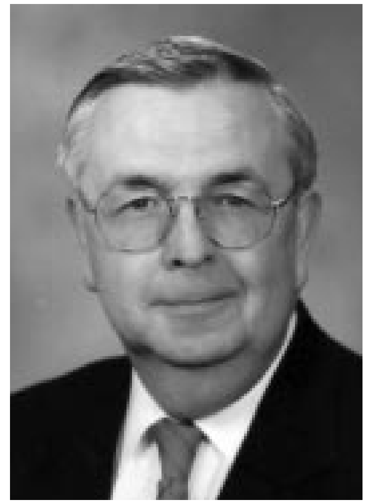
about whether you can or should privatize a national security function." During this same time period, OPM and the new management team of USIS began holding separate briefings for the OPM investigation staff about the new venture. An employee liaison committee was also created by OPM.

The months of negotiation were difficult. Harper recalled, "We were up against two myths. The first was that the private sector was made up of a bunch of pirates who would take government employees out of OPM, use them, and then throw them out. The second was that government workers are overpaid and don't work hard. Neither myth is true, but we had to work hard to overcome both of them." In future privatization initiatives, both myths will have to be directly addressed by those pushing the initiative.

When asked about lessons learned from his experience launching USIS, Harper stated, "Leadership has to be willing to take on the challenge. This is hard to do and somebody has to take the lead and say they want to do it. In our experience, Jim King was our leader when he was at the Office of Personnel Management. He pushed hard for the change and took a lot of heat for the proposal."

The challenge of commencing operations was a large one. In the case of USIS, it was especially difficult because there had been no prior history of a government function being privatized. Harper and his new management team had to negotiate with the General Services Administration about taking over OPM's facility and equipment at its Pennsylvania headquarters. In addition, USIS had to create its own payroll and financial accounting systems from scratch because it could not use systems previously used by OPM. "We had to get our first payroll checks out and we did," recalled Harper. "We also found that we had to pay attention to federal and state employment laws which previously didn't apply to government-run activities."

As part of the privatization process, the Office of Personnel Management gave USIS a three-year sole-source contract, plus two one-year options, to conduct investigations for the government that were previously performed by OPM. In addition to its federal government background investigations, USIS—unlike the old OPM's Office of Federal Investigations—can seek private sector clients, as well as state and local government clients. USIS now provides a variety of investigative services to the following major market segments: federal, state, and local governments, as well as commercial activities. Within these segments USIS specializes in several vertical markets, such as regulated industries, airlines, nuclear power, gaming and casino industries, law enforcement, and public safety. Types of services include fact-finding, workers' compensation investigations, background investigations, employment/education verification, polygraph services, credit checks, reference checks, qualifications assessments, security services, corporate services (privatization studies, vendor assessment, due diligence studies, public records research), and human resource services (Social Security verification, reference checks, driving record checks, EEO/sexual harassment investigations). USIS, starting with the original 1996 contract of $54 million with OPM to conduct federal investigations, has today become the largest investigation company in North America, with projected 1998 revenues of more than $80 million.



Phil Harper, Chief Executive Officer and President, U.S. Investigations Service

The key question is whether USIS will be an isolated case and remain the only example of federal privatization or whether it will become a historic trailblazer and serve as a model for future efforts. There are many obstacles, however, to the privatization option. It is difficult and time consuming to do. With the exception of USIS, no precedents and little knowledge exist about how to accomplish the privatization process.

When asked to give advice to other government agencies that might want to start the privatization process, Harper stated, "First, get some help. As the old saying goes, you don't know what you don't know. Government executives have had little experience in either creating or running businesses. Second, find out your costs. Third, be prepared to work on the politics of the change."

The USIS experience dispels many myths about privatization. First, it shows that, while difficult, it can be done in the federal government. Second, it shows that the privatization decision can be made on the basis of sound management, not ideology. The challenge ahead is to move the ideological debate over privatization to a management debate about how services can be delivered most effectively and cost-efficiently. Third, it shows that federal employees are not as risk averse as they are frequently painted. In the USIS case, they took the gamble of leaving federal service and entering the private sector as owners. They seem to be succeeding. USIS provides a starting point for other government organizations interested in considering the privatization option.

Public-Private Partnership At Work

Paul R. Lawrence and Mark A. Abramson

Policy-making and public-private sector problem solving is always interesting to watch. When it works well, it is useful to diagnose success factors in order to increase our understanding of key factors that make for successful public-private problem solving. A success story in the making is the creation of the Northern Virginia Regional Partnership and the organization's all-out attack on the area's critical regional shortage of technology workers.

Two ingredients appear to be necessary to successfully attack a public-private problem: (1) leadership that serves as a driving force to problem solving, and (2) a concise, compelling description of the problem that is widely disseminated in the media. In the case of the Northern Virginia technology shortage, the leadership was provided by the Northern Virginia Technology Council (NVTC), one of the largest technology councils in the United States with over 950 private sector firms as members. According to Michael A. Daniels, Chairman of the NVTC, "The Council was created to help promote technology business, identify key issues, and then do something about it."

One of the key issues identified by the Council was a shortage of high-tech workers in Northern Virginia. To better understand the problem, the Council and Virginia's Center of Innovative Technology commissioned a survey in 1997 to determine the magnitude of the perceived shortage. The survey found that more than 19,000 jobs were vacant and that an estimated 112,000 additional workers would be needed over the next five years. The survey received much press coverage and the "high-tech" job shortage issue was clearly on the state and region's radar screen as a major economic development and regional competitiveness issue. A flurry of activity began on many fronts.

Michael A. Daniels, Senior Vice President, Science Applications International Corporation and Chairman, Northern Virginia Technology Council

The Council also examined how other regions were dealing with labor shortage problems. Daniels recalled, "We looked at Michigan, Silicon Valley in California, and Brevard County in Florida. In Michigan, the state got the business community involved in determining how training funds should be spent. In Silicon Valley, work force training centers were established that provided short-term training to respond quickly to the changing skill needs of the Valley. In Florida, a one-stop center was created for people interested in information technology. At these centers, individual skills are assessed and recommendations made on appropriate training."

The survey and their examination of the experience of other states provided the Northern Virginia Technology Council with facts and figures with which to engage key actors in the state. They met with then Governor George Allen, who created a task force to further examine the problem. They also met with members of the state legislature, who created a Committee on Science and Technology.

The Council also brought together business leaders with the area's college presidents to begin discussing future business needs. Several of the colleges began to revise their curricula to provide more information technology exposure to students. As an outgrowth of this activity, the Regional Partnership of Northern Virginia was formed in April 1997 to "work cooperatively to enhance the economic competitiveness of the region through the establishment of various strategies and programs intended to educate, train, and facilitate access for students and workers to support the high-technology business of the region." The board of the Partnership consists of educators, high-technology industry executives, government officials, and civic leaders from the Northern Virginia area.

One of the first activities of the Regional Partnership was to apply to the state of Virginia for a Regional Competitiveness grant to attack the shortage of 19,000 trained workers. In 1996, Virginia's General Assembly had created the Regional Competitiveness Program in which regions from all parts of the state could apply for funds to attack specific regional and economic development problems. Northern Virginia decided that the high-tech worker shortage was the problem they wished to attack. In the fall of 1997, the Partnership received a $2.4 million grant from the state to combat the shortage of technology employees.

The grant consisted of six key components:

- a regional job needs survey, analysis, and assessment to be conducted by George Mason University to update and refine the 1997 survey;
- the creation of a regional workforce development coordinating center to serve both those seeking new information technology jobs and new skills, as well as high-tech employers seeking workers to fill vacancies;
- workforce development education and training centers throughout the Northern Virginia area to provide the training and services necessary to address the needs of the high-technology workforce;
- creation of information technology-related career awareness programs in public schools, after the completion of an assessment of what types of career information and activities currently exist in schools;

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Public-Private Partnership At Work (continued from page 5)

- a school-business partnership program, to be funded totally from private sector funds, to provide technology career experiences to assist secondary-school students with career planning;
- summer technology programs for middle and high school students to allow them to learn about technology and career choices available in the technology field.

"We are implementing programs with both short- and long-term components," stated David A. Hunn, director of the Regional Workforce Development Coordinating Center of the Northern Virginia Regional Partnership. "While we want to quickly add new technology workers to the Northern Virginia workforce, we also realize that this a long-term problem and we must start working with elementary, middle school, and high school students now to increase the number of workers in the pipeline in the next five years."

The heart of the new program is the workforce development education and training activities. More than $1.6 million of the $2.4 million grant is devoted to supporting new high-tech training initiatives. A grant competition was held among training providers, which include two- and four-year colleges and universities, along with proprietary training institutions, in which they competed for funding of innovative, new workforce development programs. The grant announcements encouraged these educational organizations and training providers to work closely with business leaders to develop collaborative strategies to best meet industry workforce requirements. Over the last several months, six awards have been made:

- The Annandale campus of Northern Virginia Community College received a grant to develop a Technology Retraining Intercept Program (TRIP) that would retrain, in six months time, students with non-technical college degrees for positions as computer technology professionals. The program includes partnerships with 13 high-technology companies that will provide half-time paid internships, possibly leading to full-time employment.
- The Manassas campus of Northern Virginia Community College received a grant to create a Center for Advance Technology Training and Professional Services that will provide a 14-month associate degree for nearly 800 students in semiconductor engineering, biotechnology, and other computer programs.
- The Loudon campus of Northern Virginia Community College received a grant to launch the Fast Track Technology Training Program to provide students with high-end software skills in the shortest possible time through an intensive training curriculum and on-the-job experience. Students will attend class during evenings and weekends to allow them to continue in their current positions.
- The Division of Continuing Education and Workforce Development of the Alexandria campus of Northern Virginia Community College received a grant to launch a Technology Workforce Development Center to meet the training and placements needs of Alexandria workers. The Center will be collocated with the City of Alexandria's Office of Employment and Training and the Virginia Employment Commission.
- George Mason University, in partnership with Corporate Placements, Inc., received a grant to train and certify transitioning military personnel and facilitate their placement in information technology jobs in Northern Virginia. The university will deliver certificate programs in the software-engineering fields and network disciplines most in demand by industry partners.
- The Northern Virginia Campus of Virginia Polytechnic Institute and State University, Mitretek Systems, Inc., and the Fairfax Department of Family Services received a grant to provide 14-week training to public assistance recipients to prepare them for low-end technology positions related to the Year 2000 problem.

"The six programs are projected to enroll over 1,800 students on an annual basis," stated Hunn. "It is our plan that we will start producing 400 trainees per month by the end of the first year. We plan to get to 700 trainees per month. As additional training programs are funded by the Partnership, I am hopeful that we might be able to ultimately exceed the 700 number."

While the Northern Virginia workforce shortage has not yet been reduced, action has been taken to attack the shortage – both in the short term and long term. The case study reveals an effective partnership between the public and private sectors. Instead of working against each other as they sometimes do, they came together to attack a given problem jointly and to develop a specific course of action. The private sector provided leadership in raising the issue with public sector leaders in the state who responded cooperatively in developing and providing funding for new programs. These programs are now being implemented through creative business-university partnerships.