

The Business of Government

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by Paul Lawrence



In his new book, *Management Challenges for the 21st Century*, Peter Drucker makes several interesting points about the need to improve the productivity of knowledge workers — points that

have significant implications for continued reform of the government procurement process in the next century.

Drucker argues that one of the most important contributions of management in the 20th century was the fifty-fold increase in the productivity of industrial workers in that century. One of the most valuable assets of the 20th-century company was its production equipment and capability. Looking ahead to the 21st century, Drucker argues that the challenge facing management is to increase the productivity of knowledge work and the knowledge worker. Drucker writes that the most valuable asset of a 21st-century institution, whether business or government, will be its knowledge workers and their productivity.

The Drucker argument can be applied to the world of procurement. It can easily be asserted that the United States won World War II because of the nation's industrial capability and productivity. During World War II and the subsequent Cold War, the U.S. federal government became expert at buying "things," ranging from airplanes to paper clips. In the decade of the 1990s, the federal government worked successfully to streamline this process, making it easier and more cost efficient to purchase such "things."

The Office of Federal Procurement Policy (OFPP), initially under the leadership of Steve Kelman, and more recently Deidre Lee, has been instrumental in improving the procurement process. The process has been streamlined, the rules are clearer, and buying is easier and faster to deploy. In other words, procurement in government has become a dramatically improved transaction.

Transaction buying is perfectly fine for purchasing commodities or goods. During the 20th century, the system worked well because the government was predominantly buying industrially produced products. If Drucker is right about the 21st century and the rise of knowledge work, however, the current governmental procurement system might not work as well.

The current procurement process is still primarily based on the concept of the government "specifying" the product (that is how the infamous term "specs" arose) and the contractor "delivering" that product. End of transaction. Product inspected. Check written. Deal done. On to the next transaction. Although the contractor can bid again on another transaction, and perhaps lower cost or improve the product on the basis of experience gained in the prior contract, learning is clearly not part of the deal.

In *Management Challenges for the 21st Century*, Drucker argues that several factors determine knowledge-worker productivity:

- The ability to ask and answer the key question, "What is the task?" In industrial work, the task is always a given. For industrial work, the key question is "How should the work be done?" and in the case of transaction procurements, the government knows "the what" and tells contractors "the how." Knowledge work doesn't work that way.
- To enhance productivity, knowledge workers have to manage themselves and have autonomy, with constant innovation as part of their work. Knowledge workers frequently need to go off in a direction different than the one in which they started. Procurement systems traditionally have frowned upon "change of work" requests, a key ingredient of knowledge work.
- Productivity of the knowledge worker is not — at least not primarily — a matter of the quantity of the output. Quality, argues Drucker, is equally as important. Procurement officers have traditionally excelled at "counting" the products produced as a result of a transaction. Assessing quality has been less important.
- Knowledge-worker productivity requires that the knowledge worker be seen and treated as an *asset* rather than as a *cost*. Again, this is a significantly different model than the current procurement model.

It is unlikely that the current procurement model can be incrementally changed to better "buy" knowledge work. A dramatically new and different model is needed. The challenge facing all of society, argues Drucker, is to begin work to improve the productivity of knowledge workers.

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On the Frontier

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transactions affecting schools; participation in OSFA programs; and implementing all Y2K systems conversions. OSFA is taking several steps to achieve improved delivery. As an example, it is creating new positive experiences in service delivery by pursuing a business partnership initiative with the Guaranty Agency Debt Management Committee. In another example, it is developing the infrastructure to support lender electronic billing submissions. Other ways to accomplish improved delivery include introducing new electronic products and services that move the OSFA toward the Project EASI vision. Project EASI (Easy Access for Students and Institutions) is a collaborative effort to use cutting-edge technology and business processes to dramatically transform the administration of student financial aid, and improve customer access to information and funding for education beyond high school.

As for reducing delivery costs, improved delivery success indicators include maintaining a minimum loan default recovery rate (10 percent or less); designing a financial management system that supports OSFA management, process, and legislative mandates; achieving clean opinions on financial statement audits; establishing a baseline for overall costs associated with student aid delivery; maintaining a cohort default rate at 10 percent or below; using performance-based contracts on all major new awards; and offering incentives for high performance by OSFA partners.

Success indicators related to transforming OSFA into a PBO include collaborating with partners (schools and financial institutions); developing a human resources and organizational plan with the help of OSFA employees; testing all major new products with users prior to release; delivering a five-year performance plan for the PBO; formulating a PBO budget plan; determining industry best practices in processes, systems, and organizations; establishing customer service improvements; and completing a modernization blueprint for all major PBO processes and systems.

Woods sees the PBO's success as predicated on OSFA's ability to quickly transform into an organization that thinks and acts like a traditional business. He greatly enjoyed his tenure at NPR. "We had the best minds of business and industry available to us. We learned from them and solicited their advice. It prepared me with management best practices from a Who's Who of American business," states Woods. Also, Woods' mix of experience in both the public and private sectors prepared him well for the challenges he faces. "My experience from my days as the CEO of a private sector

company with a good track record really helps. I'm also very lucky that the OSFA has seasoned managers and staff who understand the details of the business, and partners who can help us in planning and implementing our decisions. This way, we can work together to achieve success."

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It is possible to outline some characteristics of a procurement system that would be geared to "buying" knowledge work. A new model might include:

- Improved mechanisms for government to start, expand, alter, or stop work;
- The ability to "purchase" knowledge in smaller, more incremental pieces;
- The opportunity to engage in true problem definition (or what Drucker calls "task defining");
- Innovative ways to give contractors "credit" for "learning while doing"; and
- Increased accountability for contractor performance, including performance-based contracting.

While the above list is not a fully designed procurement system for the purchase of knowledge work, it does provide some ideas as to what such a procurement system might look like. It is my hope that the government and the professional services community will begin to work together to create a new procurement model.

In the words of Peter Drucker, "Knowledge-worker productivity is the biggest of the 21st century management challenges. In the developed countries it is their first survival requirement. In no other way can the developed countries hope to maintain themselves, let alone to maintain their leadership and their standards of living." Let work on a new model begin. ■

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