A Deloitte Research Public Sector Viewpoint

The Keys to Smart Enterprise Transformation for the Public Sector

Deloitte Research
The driving theme for public sector executives in 2003 will be smart enterprise transformation. Globally, governments have recognized the need to change the way they organize and operate to deliver the highest quality service to internal and external customers. Moreover, they see the imperative to approach the challenges from an enterprise-wide perspective—that opportunities for real economic gains exist within and between all departments and across multiple functions. Now is the time to transform and the investments should be substantial.

Yet, following the collapse of the dot.com phenomenon in 2001, numerous high-priced technology projects that failed to deliver on promises and wavering economic health, governments are also wary of the future. They need assurances that what and how they spend will allow them to take full advantage of the best the new economy has to offer. Achieving the promised gains in service efficiency and effectiveness will require increasing attention to enterprise transformation and will affect every major aspect of the organization—strategy, organizational structure, human resources and technology.

Here, we summarize the key issues public sector executives must address to make their transformation efforts smart and successful.

![Figure 1: Framework for Smart Enterprise Transformation in the Public Sector](source: Deloitte Research)
1. Better strategic thinking—

**Stay focused and flexible for quick wins**

Most governments have a vision of where they want to be tomorrow. They see the promises of improved customer service, more efficient business processes and lower costs of operation waiting at the finish line of technology and reengineering projects that often take years to complete. Too often, however, governments find disappointment in the form of massive cost overruns, project failure and generally unmet expectations. These are common occurrences in online services, ERP and electronic procurement initiatives. It’s not that long-term planning is now inappropriate—just that economies, labor pools, technologies and the policy environment are so volatile that governments must significantly shorten their planning horizons to stay on top of the earth shifting rapidly beneath them.

The strategic focus needs to be on establishing a series of short, discrete tasks that have a high probability of resulting in victories for the organization; victories defined by measurable benefits accruing to customers and governments. In e-Government, for example, the best candidates are found in converting paper-based processes to electronic processes with related development of public key infrastructure (PKI). Amid all the hype, IT managers are finding these projects to be the easiest to implement and most rewarding in terms of immediately identifiable payback.

With a strategy that stresses value and a structure to increase speed, governments can build portfolios of wins that maximize the returns on both economic and political investments. At the same time, governments must be more flexible to cope with modern business circumstances that change on a moment’s notice. Budget shortfalls, security breaches and technical breakthroughs are just a few examples of disruptions to the status quo that can dramatically affect performance. Governments must be ready to confront and resolve hardships as well as to capitalize on fast-forming opportunities.

2. Grow e-Government from the inside —

**Use the “E” in ERP**

The explosion of the e-Government movement created a view of government not as a loose collection of departments, but as a singular enterprise with interrelated functions. It’s not surprising then, that most e-Government spending (about 2/3, according to Gartner) will be on technologies that integrate data from obsolete, disparate systems in pursuit of greater efficiency. This is where Enterprise Resource Planning (ERP) packages take center stage. The challenge for governments using ERP is to leverage its growing capabilities to achieve the best economies of scope in pursuit of effective technical and operational integration.

Historically, three problems limited the growth potential of ERP: The packages were very expensive; they were complex to implement and; they only served
human resources, finance and payroll functions. Today, however, is a different story. Competition among the major providers (SAP, PeopleSoft, J.D. Edwards, Lawson, Oracle) has driven prices down to where, in concert with improved implementation methodologies, governments can expect a higher return on their investments. Many governments that reported initial trouble with adopting ERP are now touting its power and business benefits while looking ahead to new uses.

But ERP’s most attractive new feature is the wider range of capabilities available to the public sector, such as portal administration, customer/supplier relationship management, tax and revenue management, application hosting, knowledge management, e-procurement and plant/materials management. The modularity of the packages allows governments to build out from a core platform without the excess cost of performing multiple and difficult down-stream data conversions. As ERP’s value proposition grows, the battle between the packages and customized solutions will intensify, thus forcing governments to more rigorously analyze business goals in relation to technical possibilities.

3. E-procurement economics really matter — Achieve maximum return from customer/supplier participation

Once pegged to be the break-out e-Government application, e-procurement has stalled out of the gate. In fact, years after e-procurement’s introduction, Forrester and the Institute of Public Finance estimate that only about 26 percent of both U.S. state governments and U.K local authorities purchase any kind of materials over the Internet. The benefits seem clear enough; those who use it report reductions in purchasing costs and prices of goods and increases in productivity resulting from streamlined processes. What’s stopping more governments today from getting on the e-procurement bandwagon is a combination of funding restrictions, proper internal controls and current purchasing structures ill-equipped to capture potential gains from an integrated buy/sell system.

Each of these issues confronts early adopters as well as laggards to some degree and must be overcome as part of any enterprise transformation effort. The most pressing challenge, however, will come post-implementation—securing a sufficient level of participation by government buyers and industrial suppliers to produce substantial economic returns. Much like governments with leading portals are finding out now, many e-procurement leaders are reeling from a lack of barnstorming participation, often citing reluctance by employees to trust electronic catalogues and by sellers either to pick up transaction fees or use an electronic process for which they are not technically abled.

We believe that e-procurement is ultimately worth the investment, but governments need a realistic economic model in place before beginning or advancing investment. Here, it will be critical to identify costs and gains at various levels of buyer/seller participation and for various types of products and services. A calculated step approach to e-procurement will help governments right-size expectations, pinpoint barriers and avoid costly disappointments down stream.
Today, governments around the world are divesting themselves of more and more traditional functions and migrating them to the private sector via outsourcing and public/private partnerships (PPP). In Australia alone, the public sector accounts for more than 40 percent of the nationwide $2.5 billion outsourcing market, which is projected to grow to over $5 billion by 2004. The common mode of thinking is that executives want to focus on their core competencies and use partners to fill in the gaps. While this is a sensible first response to various current pressures such as staffing shortages and budget shortfalls, governments need to think more strategically about outsourcing for a dynamic organization.

The standard approach to both outsourcing and PPP is a simple current value calculation —“What can you do for me today?”— that is too linear in ignoring future market conditions. If we’ve learned anything from recent years, it’s that change is happening faster than ever and today’s rules probably won’t apply tomorrow. Technologies are evolving at a blistering pace and vendors are changing their competitive advantages with more start-ups, mergers and bankruptcies. The bottom line is that governments stand to lose significant value if they approach partnering decisions without an eye to the future and engage the wrong partners.

The key is for governments to incorporate more risk-hedging and flexibility into both outsourcing and PPP relationships. That means developing the ability to pick up and drop partners with greater speed, closely monitoring short-term performance to better manage contracts and creating a process for keeping the best partners always at arm’s length. Key characteristics of choice partners to work with include:

- **FULL SERVICE ABILITY:** Partners that have the world-class experience to plan, build and operate both technology- and human resources-intensive services
- **RELATIONSHIPS:** Partners that have relationships with other world-class companies to complement their own best-of-breed competencies;
- **FINANCIALLY VIABLE:** Partners that are stable enough to weather the storms of market volatility without sacrificing service levels;
- **WILLINGNESS TO INVEST AND/OR ACCEPT RISK:** Partners that take an active stake in government to improve each other’s competencies.

“We do not engage in partnerships just because it is a “buzzword.” A successful public-private partnership, it seems to me, has to show how private sector participation contributes to the public good. If we can’t show benefits to the public good resulting from private sector participation, then the partnership is not really successful.”

—The Honourable Lucienne Robillard, President of the Treasury Board and Minister Responsible for Infrastructure, to The Canadian Council for Public-Private Partnerships on February 23, 2001.
5. Organize for Results —  
**Use Project Management Offices to drive critical initiatives throughout the enterprise**

Government policies and initiatives are growing more complicated. Implementing enterprise-wide e-Government, business process reengineering and performance improvement are all big-ticket projects with much customer value at stake. Moreover, executives are under an intense spotlight—the delivery spotlight—where they are expected not just to deliver on manifesto promises, but to effect real, tangible change. If they cannot, quick parallels are quite often drawn with other sectors and how they deliver projects. Critics and customers do not care that governments must deliver the most complex and the most difficult of initiatives under trying conditions. The solution is a different approach to organizational design.

The governments currently thriving in this enterprise-conscious arena are creating centralized program management offices (PMOs) that house project oversight, technology planning, development and administration all under one roof. They feature a combination of dedicated staff and employees drawn from multiple departments to evaluate and coordinate all initiatives, thereby ensuring that all enterprise needs are addressed. While the natural inclination is to install governance mechanisms closest to where the action is, such as department-level CIOs, today’s environment really demands a shift away from decentralization to get the most out of precious time and funds. As governments seek more integration of customer and operational data across departments and functions, PMOs are the best platforms to foster uniformity in enterprise-wide policies and standards; plus, they build in the highest degree of accountability for project results.

In the information age, PMOs provide the organizational structure to nurture mission-critical projects and apply business information throughout the enterprise to value-producing ends. The State of Michigan’s PMO in the US is the trendsetter for the movement, realizing accelerated speed-to-completion of major IT projects and business benefits for customers and the State alike. We are already seeing a growing number of governments implement PMOs in different global regions and expect the trend to grow as word of their success spreads.

6. Nurture core competencies —  
**Become the employer of choice**

In the course of smart business transformation, technology, funding and business processes are only part of the picture; the “secret sauce” in making change happen and performance improve is people. Effective people strategies should no longer be the domain of the human resources department, but core to the agenda of the executive level. For years, governments have struggled to attract and retain the right employees against the lure of private sector salaries, but now they are faced with a new set of challenges in labor mobility and individual values.
Today employees are more itinerant than ever and the desire to experience the new and different is high on their personal agendas. Employee loyalty has disappeared and people are not afraid to move from job to job, city to city or even country to country if it satisfies their goals. Personal values are increasingly the major factor in the decision-making process—especially with issues around work/life balance, maternity/paternity benefits and training and professional development.

While the latest global economic downturn has had an overall negative effect on labor markets, principally through redundancy and reduced benefits, the longer term outlook indicates that the demand for talent will continue to outstrip supply, even as economies recover. Unemployment remains relatively low and, combined with the complexities facing today’s government managers, the search for skills will be as tough as ever. Overall, the implication is that public sector organizations need to consider the how best to manage and motivate existing staff while incentivizing prospective employees to join an employer of choice. The pressures are indeed formidable, with demands coming for better services from citizens and politicians. For governments to elevate themselves to be employers of choice in this new age, they will need to:

- Offer attractive career ladders and professional development opportunities;
- Provide employees greater flexibility in work hours and location;
- Increase options for movement within and between departments;
- Expand marketing initiatives to reach targeted talent

7. Plan for uncertainty — Improve risk management

Risk is part of life—we learn to deal with it from an early age. From boarding a plane to crossing a road, risks surround all of us. For governments, minimizing risk exposure is more important than ever to project success, considering the stakes on the table and the uncertainty of the public sector environment. Executives are charged with undertaking increasingly diverse, complex and expensive initiatives such as e-Government and Homeland Security. The public and politicians alike demand high levels of performance and have equally high expectations of returns. There is little tolerance of errors and the hemorrhaging of public money on policy and service failures. And this has to be achieved against the backdrop of fewer resources.

Too often, government projects with high degrees of complexity and grand price tags fail to deliver promised results. The causes can be numerous, ranging from ill-conceived strategy to sudden cuts in funding to underperforming partners. To meet the demands of today’s environment, governments are taking as many risks in terms of purchasing decisions as the private sector. Historically, governments tend to be regarded as more trustworthy than the private sector—they are seen as reliable, as the protectors. But in recent years, due to greater education and less deference, this has largely collapsed and the public’s trust in
government can no longer be guaranteed. Still, as society has become more volatile, people look to government for assurance.

It’s a difficult balancing act. On the one hand governments have to expose themselves to risks in delivering on demands through the prism of today’s complex world, but on the other hand have to be seen as stable to maintain public and market confidences. In concert with shorter planning horizons, governments that develop sound risk identification frameworks can leverage uncertainty rather than run from it. Key focus areas include:

- Establishing realistic business cases for all initiatives
- Dedicating competent management staff with strict eyes on task completion
- Constructing relationships with project partners to distribute risk

8. Regenerating for results —

**Work for real economic development**

As economies prosper the visible benefits of growth, homes, leisure and cultural facilities and commercial developments frequently become concentrated in certain districts of cities. This phenomenon often results in areas becoming neglected and breeding grounds for poor housing, crime, high-unemployment or low-wage and low security job. It is a cycle that, if left unchecked, steadily worsens.

Governments frequently look to the private sector to stimulate local economies through jobs and investments. But the history from the 1980s shows that this is neither easy nor successful. In part the reason lies in skills. The market has neither the skills nor the aptitude to intervene to resolve socio-economic problems without material support from government. In fact, that is the job of government. While the public sector may not provide the solutions, they do have a valuable role in acting as a catalyst and providing the stimulus for economic development. Government is good at being able to leverage funding, providing the seedcorn investment and facilitating diverse organisations to find a common approach.

The private sector has far stronger abilities in fund-raising, business case development and project management - historically, these fall outside the skill base of the public sector. Regeneration initiatives frequently fall foul of time overruns and escalating costs. But more often than not we get a mismatch and roles become distorted. The result being little if any progress towards re-development.

Funding exists from governmental organisations and the private sector—the problem lies in making this money work. Drawing together the appropriate skills of both government and business is a critical issue. Both parties need to craft a strategy that fits the problem at hand: one that makes the tough decisions and provides the leadership and vision to see through the necessary economic restructuring. This is where the gap lies, recognising that it needs to be closed can be difficult, but doing so will make the investment work and realise benefits for cities and people.

“Effective management of a wide range of risks is essential both for the delivery of improved public services and for the achievement of the Government’s wider goals. Government is concerned with managing risks to the public (including public health, social, environmental and safety risks) and also risks to the delivery of specific objectives and programmes (including financial, operational and technological risks).”

— U.K. Prime Minister Tony Blair, announcing a review of government’s management of risk, July 2001

“In pursuing further structural change in the economy, it is crucial to determine the part better technology and innovation can play in improving New Zealand’s growth rate…Improving our long run growth prospects may require us to re-evaluate and challenge long-held views. It is important that we remain up with the latest thinking about economic growth and can respond to this with appropriate policies. This lies behind one of the key work programmes now underway in the Treasury.”

— Dr. Alan Bollard, Secretary to the New Zealand Treasury, in an address to the Japan- New Zealand Business Council 28th Annual Joint Meeting, November 2001
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ISBN 1-892384-12-8