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May 2000

Entrepreneurial Government:

Bureaucrats as Businesspeople

Anne Laurent
Associate Editor
Government Executive
Washington, D.C.

The PricewaterhouseCoopers Endowment for
The Business of Government

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About The Endowment

Through grants for Research, Thought Leadership Forums, and the SES Leadership Program, The PricewaterhouseCoopers Endowment for The Business of Government stimulates research and facilitates discussion on new approaches to improving the effectiveness of government at the federal, state, local, and international levels.

Founded in 1998 by PricewaterhouseCoopers, The Endowment is one of the ways that PricewaterhouseCoopers seeks to advance knowledge on how to improve public sector effectiveness. The PricewaterhouseCoopers Endowment focuses on the future of the operation and management of the public sector.

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Foreword

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On behalf of The PricewaterhouseCoopers Endowment for The Business of Government, we are pleased to present this report by Anne Laurent entitled "Entrepreneurial Government: Bureaucrats as Businesspeople."

In the past decade, there have been many dramatic changes in the way government operates. One of these changes has been the creation of businesslike government modeled after the private sector. In this report, Laurent describes how to launch a government "business." She also discusses the arguments for and against entrepreneurial government.

This report calls attention to the growing number of businesslike enterprises that have emerged within government and highlights entrepreneurs' creative responses to bringing about a change in government culture. We hope that the lessons learned from these case studies of entrepreneurial activities will help future government entrepreneurs shape their own organizations.

Paul Lawrence
Partner, PricewaterhouseCoopers
Co-Chair, Endowment Advisory Board
paul.lawrence@us.pwcglobal.com

Ian Littman
Partner, PricewaterhouseCoopers
Co-Chair, Endowment Advisory Board
ian.littman@us.pwcglobal.com

Executive Summary

The federal government has become a business incubator, nurturing a dazzling variety of small businesses within its own agencies. Entrepreneurial organizations have flourished since the Clinton administration came to power in the early 1990s with its goal of remaking government in the image of business. "Intrapreneurs" — employees creating businesses within their agencies — found myriad ways to answer the call for businesslike government. The resulting "government businesses" have taken varying shapes depending on their parent departments and the laws and regulations covering them, among other factors.

The proliferation of entrepreneurial organizations may augur the future role and shape of government. At a time when Americans aren't sure whether they prefer their government to be large or small, activist or passive, slow or fast, egalitarian or efficient, entrepreneurship offers an alternative organizing principle that could bridge the past and the future. Entrepreneurial organizations offer a way for bureaucratic organizations to adopt the techniques, technologies, and efficiencies of business while still functioning within the public sector.

This report examines a dozen government businesses offering services ranging from payroll processing to timber measurement. The study delineates the hurdles such enterprises must overcome. Entrepreneurs often are not welcome in federal agencies because they threaten the status quo. Yet the threats they pose also goad agencies to improve operations. For example, entrepreneurial organizations:

- Often rely on funds not directly controlled by Congress, freeing them to a degree from legislative oversight.
- Work for entities other than their parent organizations and agencies, releasing them from total dependence on and control by less innovative and more risk-averse headquarters officials and enabling them to reduce the prices they charge their home organizations.
- Bring managers face-to-face with the true costs of accomplishing projects, forcing them to acknowledge inefficiencies and reorder priorities.
- Raise questions about the best mix of full-time, regular employees; government businesses; and private sector contractors.
- Demand better service and follow rules inventively, thereby pushing the agencies and organizations that house them to become more responsive and innovative.
- Market their services and compete, thereby compelling other organizations — inside and outside government — to improve their offerings and prices, or lose customers.
- Are beholden primarily to customers for survival and therefore threaten the control of managers of functional silos, such as human resources, acquisition, and financial management.

"Entrepreneurial Government" extracts from the divergent types and experiences of federal businesses some secrets of success. Common characteristics of successful government businesses include:

- An event or circumstance, such as downsizing or a threat of closure, that demonstrates the futility of status quo operations and the need to change.
- A knack for finding unmet needs, underserved customers, or unexploited specialties, and for occupying those business niches.
- Strong, savvy, well-placed leaders and champions to enact the business vision, provide protection, advocate within the parent agency, license experimentation, and build useful connections and support.
- Cost consciousness and a bottom-line orientation.
- The ability to build and maintain financial reserves and to rely upon effective, reliable accounting systems.
- Unswerving customer focus.
- The ability to apply information technology to improve productivity and keep staffing levels low.
- Openness to partners.
- Creativity in dealing with fluctuating workloads.
- Marketing ability.
- Willingness to take risks and to make mistakes.

Inculcating these characteristics, attitudes, and abilities more broadly throughout the federal government undoubtedly will increase the chances for success of entrepreneurs in the future.

This study also seeks to illuminate the legal, regulatory, and cultural reforms in which entrepreneurship has flourished. The convergence of the National Performance Review's calls for businesslike government; reformed acquisition practices, especially for information technology; and downsizing and budget tightening have created an environment in which daring and innovative internal entrepreneurs feel, if not encouraged, at least enabled to creatively implement rules and take risks.

Finally, the report considers some of the most powerful arguments against entrepreneurial government: that it draws agencies' attention toward pecuniary concerns and away from fulfilling the mandates of Congress, and that it creates improper and unfair government-sponsored competition with the private sector. While acknowledging these contentions and those who advance them, this study finds that they are unlikely to halt the movement toward a more "business-permeable" government, whether it resembles the entrepreneurial enterprises of today or takes some other, as yet unimagined, form.

Introduction*

Unbeknownst to most American taxpayers and to many federal employees, the government is growing its own businesses. Entrepreneurial outposts are taking root inside federal agencies in the fertile soil of management reform, new purchasing rules, downsizing, and performance pressure. Government's business people are shaking off the shackles of limited congressional appropriations and staving off job threats using money they earn selling services within their own and other agencies.

As in the early days of American capitalism, success in this new bureaucratic business world often goes to the entrepreneur who gets there first. Some craft new contracts to provide computer equipment and services that every agency wants. Others benchmark against the best private-sector administrative service providers. A few are selling their personal expertise. But no matter how they operate, government's business people are ahead of the pack in taking advantage of fast-paced changes in regulations, laws, and government culture.

These pioneers are hacking their way out of the stodgy, stovepiped, red-tape-entangled bureaucracy to create new businesses good enough to win work that might otherwise have gone to private-sector firms. They are bureaucrats turned canny entrepreneurs, walking a tightrope between the Industrial Age federal monolith and the lean, fast, and flexible Information Age government of the new millennium.

Government entrepreneurs are bridging the gap between the past and future roles and structures of government. The continual birth and evolution of entrepreneurial federal entities is attended by great consternation about whether government can become businesslike and about whether it should. Opponents argue that anything entrepreneurial belongs in the private sector and that pecuniary interests will distract government from its true goal: carrying out the directives of Congress and thereby the will of the American people.

Despite these concerns, a growing number of new forms of businesslike enterprise are springing up each year. The phenomenon has received little attention and the conditions creating it even less. This study describes those conditions and some entrepreneurs' creative responses to them. This first comprehensive look at the variety of entrepreneurial activities within the federal government may also provide some guidance and cautions for would-be entrepreneurs.

* *This report relies heavily on research and reporting done originally for* Government Executive *magazine. The author thanks* Government Executive *President and Editor Timothy Clark for his support and encouragement. My deepest appreciation to Lauren R. Taylor and Susan Fourney, who provided invaluable editing and moral support. Special thanks to Michael Serlin for his insights and for his story, "The Company Goes Commercial," (*Government Executive*, August 1999), which is the basis of the CIA anecdotes in this report. Thanks also to Katy Saldarini for her groundbreaking reporting for* GovExec.com *on the controversy surrounding the General Services Administration's decision to close its warehouses and to Brian Friel for his discovery of the Gov.Works.gov trademark battle.*

Background

Plenty of business opportunities exist inside government today. For example:

- Some organizations are following the cross-servicing model created by the 1932 Economy Act, which permits agencies whose services are operating at less than full capacity to perform reimbursable work for other agencies.
- Six agencies are operating franchises — fee-for-service administrative service centers — under the 1994 Government Management Reform Act (GMRA). A handful of others have won permission to operate franchises through special legislation.
- Procurement offices that suffered deep staff cuts under Vice President Al Gore's National Performance Review are staying alive by crafting broad contracts for popular products and then making other agencies pay to use those purchasing agreements.
- A growing number of Forest Service employees are becoming one-man and one-woman businesses, selling their expertise within their home region and beyond.

Starting in the early 1990s, reinvention spotlighted fee-for-service operations and improved conditions for them to proliferate. The National Performance Review (NPR) — now known as the National Partnership for Reinventing Government — gave businesslike government a kick-start in 1993 with its first report, "From Red Tape to Results: Creating a Government that Works Better & Costs Less." In addition to recommending elimination of 252,000 federal jobs, the report suggested that organizations providing administrative support services compete with one another for clients across government. "Most federal managers must use [agency] monopolies to handle their printing, real estate, and support services," the NPR study found. "A monopoly's managers don't even know when they are providing poor service or failing to take advantage of new, cost-cutting technologies because they don't get signals from their customers. In contrast, competitive firms get instant feedback when their customers go elsewhere."

Citing a number of private firms' successes in competitively providing administrative services, the NPR advocated a similar approach in government. "Competition for services will inevitably lead to lower costs and higher quality," the NPR found. "No manager should be confined to an agency monopoly. Nor should agencies provide services in house unless the services can compete with those of other agencies and companies." The report called for every agency to have a revolving fund to collect fees for competitive services.

The report offered as a model the Treasury Department's Center for Applied Financial Management, a consulting business created in 1991 to help agencies meet Treasury's reporting standards. The center provides systems support, financial advice, education, and accounting operations assistance for a fee. The center's experience showed the limits on truly businesslike federal operations in the early 1990s. As an entity created under the Economy Act, the center couldn't reinvest the fees its customers paid — it had to break even and start over again every year — because the 1932 law precludes federal organizations from retaining fees beyond the end of the fiscal year in which they are collected. The center's first director, Michael Serlin, was frustrated by his inability to carry over funds and reinvest and told his staffers "to break even vigorously."

Because of his work on the center, Serlin was tapped as one of the earliest NPR participants focusing on financial management. His and others' frustration with reimbursable organizations' inability to carry over funds and engagements from year to year led them to help push through the Government Management Reform Act in 1994. Until the NPR focused on competitive services as a reinvention tool and GMRA set standards for it, "cross-servicing was very haphazard and not self-sustaining," Serlin says. The law provided pilot testing for a new breed of fee-for-service enterprises called "franchises."

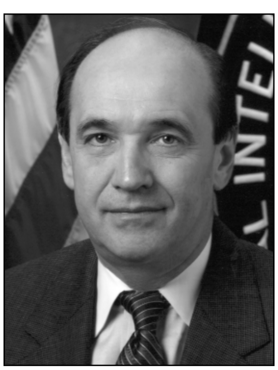
GMRA permitted agencies to create working capital funds under which franchises not only could use income from customers to finance current operations, but also could accumulate up to 4 percent of earnings annually for major capital investments and management improvements. Franchises also could carry over funds from year to year. They were to be competitive and to support themselves entirely from fees, unlike cross-servicing operations, which were set up under other authorities and sometimes rely on subsidies from appropriated funds to shore them up when costs exceed income. Six agencies now are running GMRA franchises: the Environmental Protection Agency and the Departments of Health and Human Services, Commerce, Veterans Affairs, Treasury, and Interior. Congress separately granted the Central Intelligence Agency (CIA) and the Department of Transportation permission to establish franchise-like operations.

As the NPR was exhorting administrative service organizations to compete and GMRA was establishing the new franchise business model, other reimbursable services were spreading and improving their operations. PricewaterhouseCoopers conducted a survey for the Treasury Department Chief Financial Officers Council and found in April 1999 more than 300 cross-servicing agreements throughout government operating under the Economy Act and non-franchise working capital funds. Pressure to downsize administrative functions and make them competitive has produced a number of entrepreneurial responses, particularly among acquisition organizations, which have used acquisition reforms to build fee-for-service buying businesses that help their agency customers purchase needed technology quickly and effectively while enabling acquisition offices to remain open.

Entrepreneurs: Case Studies

Company Business: The Central Intelligence Agency

The CIA is breaking its legendary silence about internal matters in order to spread news of its franchising success. The "company" won its franchise authority through the 1998 Intelligence Authorization Act, though its Directorate of Administration had been charging internal customers since 1994. As is common among federal agencies, the directorate had little idea of its costs, and its customers were accustomed to receiving its services without charge. Before the directorate began billing, demand was high for shipping, financial management, armoring vehicles, and other services the directorate provided. But downsizing had whittled away staff even as demand grew, and the directorate was increasingly unable to provide timely, efficient service. In 1996, newly appointed directorate chief Richard Calder hired a consulting firm to develop an accurate cost accounting system. He also forced administrative operations to benchmark against their private-sector counterparts, come up with business plans, and gain the approval of the newly created Business Transformation Office on the road to becoming franchise members.



Richard Calder
Central Intelligence Agency

Four enterprises make up the CIA franchise: the Central Warehouse transportation and storage facility; the telephone service; the Transportation Service Center motor pool and package delivery services; and a software development center. The Central Warehouse began franchising as part of its struggle to win back disgruntled agency customers. Increasingly, CIA directorates were turning to Federal Express and United Parcel Service instead of the warehouse for priority deliveries. As part of its marketing and sales strategy, the warehouse ran an in-house public relations campaign with the slogan "Doing Business Like Business." Success has allowed the warehouse to give back to its customers funds that were appropriated to it by Congress. Now that customers are responsible for paying warehouse fees out of their own budgets, they have prioritized and reduced their demands for warehouse services. That, in turn, allowed the warehouse to consolidate expensive overseas shipments and save $6 million in the first year of operations.

The CIA's franchise businesses also have begun winning non-CIA customers, such as the National Imagery and Mapping Service for the warehouse and the Agency for International Development for the Transportation Service Center. Adding external customers allows the franchises to spread their costs among more customers, decreasing per-unit costs for all.

Cross-Servicing Creativity: The National Finance Center

The Agriculture Department's National Finance Center (NFC) is a classic example of pre-franchise cross-servicing. Since 1983, it has been providing payroll processing for other agencies on a reimbursable basis. The NFC currently handles payroll for more than 450,000 federal employees at 126 agencies. It also keeps the records for the 2.3-million-member Thrift Savings Plan — the federal government's 401(k).

The NFC's recent history is a roller coaster of successful expansion followed by retrenchment ordered by an anxious parent agency and then a cautious return to growth. In addition, its payroll operations have been buffeted by the ripple effects of downsizing in human resources (HR) offices since 1993. Through all of the changes, the center has exhibited the resilience and resourcefulness that are hallmarks of small businesses, but uncommon among bureaucratic organizations.

For example, the center is weathering rapid change in government human resources operations not by hunkering down, but by cooking up a new form of contracting with software manufacturers. Short-staffed HR offices are installing enterprise software systems to move large portions of personnel processing online. NFC is being forced to alter its own software in order to exchange data with the fast, new online systems.

Between 1993 and April 1999, reinvention cost the executive branch more than 340,000 jobs, many of them in administrative fields — human resources, procurement, finance and the like. Human resources offices were targeted for a 50 percent staff cut by the end of fiscal 1999. The number of personnel specialists dropped 21 percent between 1993 and 1997. Some offices have lost as much as 40 percent of their workforce since 1992. These cutbacks are forcing HR officials to find ways to let managers and employees obtain and manage more HR information directly, without HR staffers' help. To accomplish this, agencies are purchasing enterprise software systems that allow managers to process personnel actions from their desktop computers and that permit employees to enter address and insurance plan changes, and charitable contributions by phone or computer. Enterprise software also allows agency managers to keep closer track of training and staff costs agencywide and to make better strategic decisions about when to add staff, eliminate jobs, or consider outsourcing.

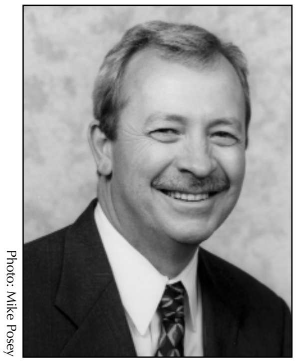


Photo: Mike Posey

John Ortego
National Finance Center, Department of Agriculture

The move to these strategic systems is forcing business adjustments at the NFC. The large center's mainframe-based payroll systems can't keep up with the seamless, online, real-time world of enterprise software. As a result, customers have become restless for better service. In response, NFC Director John Ortego has embarked on a risky quest to convince an enterprise software firm — the leaders in government are PeopleSoft, Oracle, and SAP — to front the money for a new, commercial, state-of-the-art system. In return, the firm would get a fee for each person successfully paid using the new system.

Ortego's "share-in-success" venture is a classically entrepreneurial response to reinvention-induced business pressure. "If they share in the risk, they should make a handsome profit," says Ortego of his prospective software partner. "If it doesn't work, they get nothing." What's more, even if it flops, the approach won't saddle NFC, its agency customers, or taxpayers with the cost of a large, failed computer system. "I [will have] suffered a major defeat, but I [will not have] asked my client to pay for that defeat," says Ortego.

Procurement Pioneers: The Technology Buyers

That Ortego should choose an innovative purchasing technique to help his business catch up and keep up with rapid HR technology changes should come as no surprise. The explosive evolution of information technology (IT) in the 1990s has blown open the formerly closed-in, tightly controlled, rule-bound world of federal acquisition. Information technology advances set off a statutory and regulatory big bang that has spun off a new, fast-paced, performance-focused government IT marketplace and a constellation of daring, flexible-buying businesses.

In the late 1980s, the federal government awoke from decades of dominating the IT market to discover it was no longer the biggest buyer in the store. Private industry was replacing costly employees with computers. Agencies under downsizing and streamlining pressure from NPR also were turning to technology for relief. With more flexible, faster buying processes, corporations were able to keep up with accelerating IT upgrades and innovation. Snared in cumbersome, time-consuming purchasing rules left over from another era, government fell behind. Frustrated by contract after contract that took years to complete and left users with outdated machines, agencies prevailed on lawmakers to loosen procurement laws. At the same time, the NPR was targeting procurement offices for staffing cuts.

The 1994 Federal Acquisition Streamlining Act (FASA) was the first break in the logjam. The law was intended primarily to speed up small purchases in order to reduce workload in procurement shops destined for downsizing. But a few lines in the new law encouraged agencies with an ongoing need for certain goods or services to negotiate long-running task- and delivery-order contracts instead of holding lengthy and complicated full and open competitions for every purchase. Further, in order to ensure competition, the law directed agencies to award these contracts to more than one company and have them bid against each other for every order. For IT buyers, FASA was a godsend, enabling them to speed the purchasing cycle once an indefinite-delivery, indefinite-quantity (IDIQ) contract was in place.

FASA's innovations, while welcome, couldn't keep up with the IT demand. Government still was squandering vast sums on huge, complicated systems that quickly exceeded their budgets and schedules and then failed to deliver. To check the hemorrhaging funds and forestall failures, Congress and President Clinton put in place the 1996 Information Technology Management Reform Act (ITMRA), later renamed the Clinger-Cohen Act in honor of co-sponsors former Rep. William Clinger of Pennsylvania and former Sen. William Cohen of Maine. Clinger-Cohen created a new IT acquisition model that included careful strategic decision-making before purchases are made and judicious modular procurement to guarantee that each element of a big system that is installed delivers value even if the entire package doesn't ultimately get built. Clinger-Cohen also replaced the 1965 Brooks Act, which had made the General Services Administration (GSA) the gatekeeper for agencies that wanted to open their IDIQ contracts for use governmentwide. The freedom brought by Clinger-Cohen fired the imaginations of a handful of IT procurement entrepreneurs.

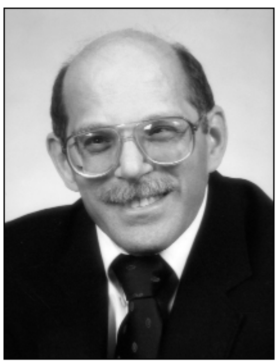
Manny DeVera
Federal Technology Service, General Services Administration

These acquisition trailblazers saw that the combination of FASA's multiple-award IDIQ authority and the end of the Brooks Act meant they could put together long-term governmentwide acquisition contracts (GWACs) with top vendors of sought-after IT products. Once the multiple-award contracts were in place, the agencies that had created them could let other agencies pay to use them rather than negotiate their own. "FASA said we encourage multiple awards and streamlining, and it opened things up," says Emmanuel "Manny" DeVera, who pioneered some of the most envelope-pushing GWACs for the National Institutes of Health's Information Technology Acquisition and Assessment Center (NITAAC). "[Clinger-Cohen] ended the Brooks Act. It was the combination [of it and FASA] that made the opportunity to get into business."

Pushing the System

And DeVera needed business. By the mid-1990s, NIH's central acquisition office had nearly lost the loyalty of the agency's 25 institutes. "I saw it was time to push the system a little bit to get it moving faster so the scientists could get what they wanted," DeVera recalls. He hoped the fee-for-service NITAAC could create governmentwide IT contracts that were so economical, fast and easy to use that they would lure other agencies and then bring NIH's own institutes back to NITAAC. By buying through an existing contract, even after paying the sponsoring agency a fee, agencies save considerable amounts of time and money they otherwise would invest in conducting full and open competition among contractors for every IT purchase.

"The money is in charging the agencies for using GWACs," says DeVera. "The agencies save money by buying off your contract for a fee. We showed we could get better prices and easier and faster purchases with an IDIQ called the Electronic Computer Store [a computer equipment contract negotiated in 1995]," DeVera says. "Once it became popular, the institutes started using it. The NIH business has come back to NITAAC now," adds DeVera, who left NIH in September 1998 to become director of GSA's new IT Solutions Regional Center.



Richard Lieber
Transportation Administrative Services Center, Department of Transportation

DeVera wasn't alone in recognizing the opening created by technology's rapid evolution, acquisition reform, and downsizing. In 1996, the Transportation Department bundled 10 lines of administrative services into a franchise — the Transportation Administrative Services Center (TASC). Richard Lieber heads the center's acquisition business line. "When we became fee-for-service, it was a huge paradigm shift," Lieber says. "Now we're all focused on customer service and a fair price." Lieber's challenge was to maintain customer service as he was losing staff to downsizing. He decided to promote Transportation's new IT contract in order to reduce his dwindling staff's workload while catering to agencies hungry for technology.

The contract, known as ITOP (Information Technology Omnibus Procurement), had been let in May 1996, as TASC was being formed. "We can issue task orders within six to eight weeks where ordinarily it took a year to let a contract," Lieber says. Through February 1999, agencies, including the Transportation, Defense, Justice, and Energy Departments, and others, made 250 orders worth $851 million using ITOP. Fees vary from 1 percent to 2.75 percent depending on the level of involvement by the ITOP special projects office, resulting in income of about $20 million on the 250 orders.

Free Enterprise: The Forest Service

Al Gore's NPR logically chose administrative services — such as those offered by the CIA's Administration Directorate, NFC, and acquisition shops — as the most likely candidates for entrepreneurship and competition inside the federal government. In the early 1990s, they were monopolistic, not customer-focused, and could be benchmarked against similar services in the private sector, which also offered competing services. But in just the last year, a group of imaginative Forest Service employees have begun pushing the NPR's vision to its limits. Instead of transforming administrative organizations into competitive fee-for-service operations, the Forest Service is allowing individual employees to become itinerant small-business people selling core Forest Service functions, as well as administrative services, throughout California's 18 national forests in the Pacific Southwest Region (Region 5) — and sometimes beyond.

Staff cuts and flat budgets through the 1990s left the Forest Service increasingly short of the skills needed for safeguarding and harvesting trees, granting grazing rights, and providing recreation facilities for visitors. But instead of trying to make ends meet by putting longtime, highly skilled employees out of their jobs, hiring private firms to fill in, or simply by doing less, forests in California are turning employees loose to open their own businesses to accomplish needed tasks.

As federal agencies follow industry's lead by shedding all but their inherently governmental functions, the Forest Service enterprises offer a new model for accomplishing that core work. The enterprise experiment is bringing to fruition the predictions of management theorists that "full-time, forever" employment will fade and be replaced by armies of floating, flexible freelancers hopping from one enticing project to the next. "In the years ahead, organizations will no longer have a permanent workforce or even a temporary workforce; instead they will have what I call a 'situational workforce,'" said Office of Personnel Management Director Janice Lachance in an October 1999 speech. "Work will be done by a blend of core employees in cross-functional teams and by temporary employees, consultants, and contractors, when necessary," she told the International Personnel Management Association's federal section conference in Washington. "Full-time, lifelong jobs and job descriptions are already disappearing and instead, employees are increasingly being called upon to be generalists — omnivores in the new world order, with the tools to survive and flourish at many tasks and in many different environments."

"Infusing Innovation"

The idea of itinerant internal enterprises washed into the Forest Service on a wave of reinvention. It arose independently but simultaneously in the agency's Washington, D.C., headquarters and in Region 5. The term "enterprise" first appears in "Excellence in Administration," a report published by Region 5 in October 1994. The report envisions administrative work in the region being "provided in an entrepreneurial and choice-based manner" by five operations teams. "These teams will compete with each other for sufficient work to justify their salaries. If a customer (forest business unit) is unsatisfied with service, that unit may have its administrative processing performed by another team," according to the report.

Two months later, in December 1994, Forest Service headquarters staffers published "Reinvention of the Forest Service: The Changes Begin," which also included a vision of competitive, self-supporting businesses within the agency. "We are moving away from large staff organizations toward a model in which units that use their budgets to care for land and serve people can purchase the services they need from internal enterprises," the reinventors wrote. "The result will be an evolving and self-correcting system governed by market forces rather than hierarchical decision-making."

The growing consensus on some form of enterprising gave a solid focus to Forest Service reinvention chief David Radloff, who was new to his job in 1995. He created a team to further develop the notion. "The real idea was that reinvention in general, and enterprises in particular, were a way of infusing innovation and excitement and spirit into an organization that had gotten kind of stodgy and had driven the entrepreneurial spirit out of people," Radloff says. In California, Mike Duffy, then Region 5 financial management director, was looking for a way to streamline administrative services. He brought together the group that came up with the idea of competing administrative teams and named them "enterprises." Cross-fertilization was provided by Pacific Southwest Regional Forester Lynn Sprague and John Phipps, forest supervisor of Region 5's El Dorado National Forest, whom Radloff calls "one of the most fearless innovative thinkers in the agency." The two men sat on Radloff's team and were key players in Duffy's search for excellence in administrative organizations. Duffy and Radloff also were acquainted.

David Radloff
Forest Service, Department of Agriculture

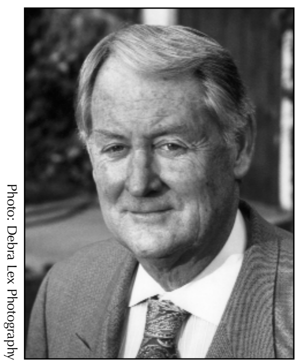


Photo: Debra Lex Photography

Mike Duffy
Forest Service, Department of Agriculture

Says Radloff, "My team was still talking mostly in the abstract about enterprising, and I was coming to think that we just needed to find a place to try it. Region 5 came up just at the right time. We needed a place as large as a region because we needed to have a big enough market to find enough people to try the approach and enough managers willing to buy their services."

In 1996, Duffy spoke with Radloff's team about Region 5's enterprising idea. "Two months later, I was in Washington briefing Radloff and Doug Farbrother of Vice President Gore's National Performance Review staff, and a month later we became a reinvention laboratory," Duffy recalls. Reinvention laboratories are innovative organizations or activities established under NPR guidance to test or prototype new ways of doing business and share their lessons across government.

Breaking Into Business

Four years later, there are 18 enterprises operating in Region 5. Most began with one employee and already have grown to hire others. Their services range from trail planning and assessing trees for their timber yield, to billing the state for federal firefighting assistance and handling workers' compensation claims. Enterprises are fully self-supporting, using the fees they charge forest managers. They must cover all the overhead costs they incur wherever their offices are housed as well as their salaries and benefits. To prevent forest supervisors from altering enterprisers' work priorities and to guard the businesses from downsizing, Duffy arranged for them all to report to him at the reinvention lab.

The lab also runs a bank for the enterprises, doing all their bookkeeping, providing advice and counsel, and even creating a form of workers' compensation insurance for enterprisers, who could lose their businesses if they were injured or ill and unable to work. To pay for the banking, advisory, and other services, the lab charges each enterprise a $5,000 licensing fee plus 1 percent of revenues. Enterprise backers convinced the Forest Service general counsel to allow the reinvention lab to use the agency's working capital fund for enterprise banking. The lab keeps careful track of its money in the fund and how much belongs to each enterprise. "As a result, the enterprises have very good accounting information — they know what funds are available, what have come in, what's still out, and where their money is going," Radloff says. "They are learning a level of financial management most Forest Service managers don't have."

The enterprises have set off a cascade of cost-consciousness throughout Region 5, a real boon to the Forest Service, which is under perpetual fire from Congress for poor financial management. Enterprisers are deeply aware of costs since they must bring in enough money to cover them. They often negotiate hard with other agency organizations for price cuts or service improvements. That bargaining, in turn, prods those operations to get a better handle on their own costs. Forest managers blanch at enterprisers' fees — often their first encounter with the true hourly cost of labor in government. But once the shock wears off, they become conscious of the high cost of full-time employees and begin considering better ways to use them. The majority of the enterprises started business in August 1998. Most more than covered their first-year costs.

The enterprisers and their supporters acknowledge that getting into business has been an uphill climb. "It has taken a lot of leadership and care [to create enterprises] because the agency's immune system is so strong," Radloff says. "People have learned to work to the position description, and enterprises don't fit that. Their goal is to bring in innovation and enthusiasm and flexibility. They do threaten people and that's how the immune system gets triggered. Some employees fear losing their jobs through this, but it's more likely to create jobs because enterprises can be profit centers. They also fear loss of control and power, so we're going slow, keeping them small and unthreatening, and building a support system."

The Challenge of Running Entrepreneurial Organizations

Getting Started

Growing carefully, flying under the radar, and spending lots of time allaying fears are hallmarks of savvy government businesses. Entrepreneurial operations are threatening to the governmental status quo for many reasons. Among them:

- They use funds not directly controlled by Congress.
- They do work for entities other than their parent organizations and agencies.
- They bring managers face-to-face with the true costs of accomplishing projects, forcing them to acknowledge inefficiencies and reorder priorities.
- They raise questions about the best mix of full-time, regular employees; government businesses; and private sector contractors.
- By demanding better service and by following rules inventively, they push the agencies and organizations in which they live to become more innovative and responsive to customers.
- By marketing their services and competing, they compel other organizations — inside and outside government — to improve their offerings and prices, or lose customers.
- Because they are beholden primarily to customers for survival, they threaten the control of the managers of functional silos, such as human resources, acquisition, and financial management.

Because they threaten power centers ranging from department headquarters and Congress to federal unions and contractors, government businesses need strong, savvy leaders and well-placed champions to nurture and protect them. For example, without a firm endorsement from Region 5's top official — then Regional Forester Lynn Sprague — the enterprise experiment never would have been launched. "The regional leadership met quite a few times to discuss it, with a lukewarm to cool response," Radloff says. "At one point, Lynn Sprague said, 'I've decided we're going to give this a try. We're going to go slow and put systems in place to support it. Managers don't have to support it, but you can't sabotage it.' That was the leadership support needed."

David Sutfin
Gov.Works, Department of the Interior

The staff of Gov.Works, a fee-for-service acquisition business within the Minerals Management Service (MMS), credits MMS' leaders for creating an environment in which entrepreneurs could flourish and take risks. "We're very lucky to have senior managers open to change and experimentation and making the workplace better," says David Sutfin, chief of the MMS procurement operations branch that has become Gov.Works.


Photo: Liz Lynch

Bob Brown
Minerals Management Service, Department of the Interior

MMS was created about 15 years ago to manage the resources of the Outer Continental Shelf and to collect royalties from oil and gas exploration. The agency considers itself a profit center for the government, returning to the treasury $5 billion to $6 billion a year over its operating budget. MMS is an ideal business incubator: It's a relatively new organization, has close relations with private sector companies, and is strongly focused on customer service. "We're nimble because we're small and young and customer-oriented," says Bob Brown, MMS associate director for administration and budget. "We don't have a massive history with involved procedures. Because of that, we are able to staff up with people who are unencumbered by hidebound rules."

Leaders of government businesses not only must be open to change and nontraditional approaches, they must be evangelists for them. The CIA franchise's Calder, like many entrepreneurial leaders, regularly proselytizes among the managers of his enterprises as well as potential customers, preaching the need for change in administrative practices, the power of competition, and the lessons of progress. He doesn't shy from sharing bad news, as well. Calder has sponsored at least one "town meeting" among his entrepreneurial flock during which a leader of one of the franchise businesses outlined the mistakes she made starting out.

Champions and Coaches
The birth of the Forest Service's enterprises was attended by a number of champions. Agency reinvention chief Radloff enlisted NPR support through Farbrother. NPR support eased creation of a reinvention lab to shield the fledgling enterprises. "Radloff and Farbrother said the lab [would] give us license to do stuff and get us through the bureaucratic maze," Duffy says. "Being a lab has given us status within the organization. We're viewed as something that's not going to go away very quickly. What we wanted and got was encouragement, advice, leads on people to talk to and assistance when needed — a support system."

Duffy became the Region 5 reinvention lab's chief scientist, supporting the enterprise experiment by catalyzing useful connections throughout the agency and brewing up the business approach. He put together a laboratory staff and an enterprise steering committee, figured out financing, won the union's cooperation, sold the idea to regional managers, and campaigned for their cooperation.

Operators of buying businesses also credit others with protecting and assisting their operations. ITOP's Lieber says much of the support that allowed him to experiment in creating his fee-for-service contracting model came from George Fields, director of the Transportation Administrative Service Center, which includes ITOP. TASC sells data management, acquisition, HR, learning and development, facilities and space management, security, and a variety of other services. Of Lieber's acquisition business, Fields says, "I'm merely the coach. There are times when the business case has to be played out before the leadership of the department and of the administration. That's my job. If [Lieber] is on the line executing, someone has to make sure they understand what the benefits are."

ITOP was one of the last GWACs to be authorized by GSA under its Brooks Act authority. When it became clear that ITOP would meet in two and a half years the $1.13 billion sales limit GSA had intended to last for seven years, Fields had to convince officials at Transportation and the Office of Management and Budget that a second contract was needed. "There was a legitimate argument [against it]. There is such a proliferation of GWACs, [was] there a need to continue this one? I had to make the case for the relevance of ITOP — in other words, why we needed [OMB's blessing] to provide the service across government and what harm would come to agencies if we were not able to." Fields was successful. ITOP II, a $10 billion multi-agency pact, was awarded in January 1999 and includes 34 prime contracts with 25 companies.

Getting the Numbers Right
Private sector businesses are made or broken on how well they can match the prices of their goods

and services with customers' desire for them. It's no different in government. What is different is that government organizations rarely have experience determining the cost of what they do, let alone the demand for it or an appropriate price. The decision to charge for services and live on fees inevitably sets off a cultural revolution in an entrepreneurial government enterprise and its parent organization and often among its customers. Indeed, cost-consciousness is the key to creating the lean, flexible, customer-focused and performance-based government that Congress and the Clinton administration profess to want.

Only when agencies must account for the results their operations achieve and the costs of accomplishing them will they truly be forced to respond to their customers, internal or external. "A lot of what drives the [traditional bureaucratic government] system is the appropriations process...that's why it is so difficult to bring change, because the behavior drivers don't change," says Joseph Coffee, who is known as an expert in federal agency culture for his 1993 dissertation, "Organization Culture Change in Federal Agencies." Coffee and others agree that entrepreneurial enterprises, with their focus on a true financial bottom line, can fundamentally reshape government's culture. After all, cost accounting is the first and most basic skill entrepreneurial organizations must learn. To stop relying on appropriations and become self-sufficient, they must have full and detailed information about all their costs. To become competitive, they must figure out how to cover those costs while at the same time not pricing themselves out of the market. This kind of common business sense often is unfamiliar to would-be entrepreneurs working in the federal system.

Shocked Into Success

Staffers at the General Services Administration's Federal Supply Service (FSS) were shocked into business success when they were forced to benchmark against private-sector firms and become a fee-for-service operation. FSS negotiates and oversees governmentwide contracts covering 4 million items — ranging from test tubes to inner tubes — offered by more than 6,300 companies to every agency in government. Using the size of the government as leverage, FSS's 432 employees negotiate below-market prices on most items and services. Today, the GSA schedules, as the contracts are called, are booming. Sales are up nearly 100 percent, from $4 billion in 1995 to $7.7 billion in 1998, and they topped $10 billion in 1999. Behind the boom in sales is a revolution in business brought on by near catastrophe in 1995.

Photo: Liz Lynch

Sue McIver
Federal Supply Service, General Services Administration

That year, the Clinton administration targeted GSA as an example of bureaucracy gone bad. To save itself from elimination, GSA underwent a top-to-bottom business review that subjected every business line, including FSS, to rigorous comparison with private-sector counterparts. Lines that couldn't compare were closed. FSS was forced to shape up from being a slow, rigid operation offering limited quantities of low-quality goods at mediocre prices to a lean, fast, hungry, customer-oriented, hard-bargaining buying shop. FSS has transformed itself into a fee-based enterprise and that, says Sue McIver, director of FSS's services acquisition center, has made all the difference. "The 60 people [on my staff] have a very different perspective of their role than they did five to 10 years ago," McIver says of her staff. "I have a financial manager who pulls together data and presents it in town hall meetings so people can see the revenue and costs their products are creating. It's been fascinating to watch people taking ownership."

For example, when one of McIver's teams recently had to give up a successful management-consulting contract to a faltering sister center, McIver's team suffered some heartburn about how they would cover their costs before they ramped up a set of new contracts. "We try not to have them be nervous about not bringing in revenue," McIver says. "We're not going to put a schedule in place and cover $100 million in costs in [the first] year." Nevertheless, that anxiety about making ends meet has helped to power the transformation of FSS.

Billable Hours

When Forest Service enterprisers open their businesses, they go through a learning process similar to that of McIver's staff. Enterprisers learn quickly how few hours are billable in an average federal employee's working year and how hard it is to convince managers to pay the true cost of those billable hours. The fees enterprises must charge to cover their costs "take the breath away from a manager," Radloff says. "Enterprisers are calculating prices based on true costs, salary, and fringes (retirement, future use of annual leave, insurance). You have [to account for] annual leave, sick leave, training, and meetings, so you quickly find that the number of billable hours is smaller than 2,080 [the average annual hours of a full-time federal employee], and enterprisers have to recover all their costs during those shortened hours."

"When I do marketing, I ask them what total percentage of time they think the typical employee puts in in effective project hours. Some say 80 percent," says Kelly Fike, owner of Streamline, an environmental analysis and training enterprise. "Billable hours are more like 45 percent. I'm dealing with career government bureaucrats, and nothing ever brings them face to face with full costs."

Once they're won over to using enterprisers, forest managers more carefully weigh the cost of full-time employees. "We look at the cost differences between maintaining a full-time employee and paying an enterprise," says Margaret Boland, deputy supervisor of the Los Padres National Forest. "We're in a high-cost area, so adding people is [expensive] for us. Enterprises are much more cost-effective for a one-time kind of thing."

As they come to appreciate the true value of a dollar, enterprisers also become more careful and canny spenders. Several have moved to new offices when offered lower rent. They also are demanding better, faster service from support organizations within the agency. For example, to challenge human resources staffers to become more responsive and creative in working with the enterprises, the reinvention lab held a competition for its business among HR offices in the region. Enterprisers already are pushing the winning office to become more businesslike. Jeni Bradley, owner of Recreation Solutions, a trail planning and consulting enterprise, has asked for a price schedule for special services. "If they say it's going to cost an extra $500 to get a job classification within 30 days, we'll say fine," she says. "If I can hire quickly to win a $100,000 project, $500 is not going to mean anything to me."

The Price Is Right

Like Bradley, other federal entrepreneurs constantly are looking for ways to shave their costs to keep their prices at or below what the market will bear. For example, competition drove Lieber's ITOP price-setting policy from the start. "I looked at what the competition was charging and I said, 'I can't charge more than that,' " he says. Lieber kept costs, and therefore prices, low in creative ways. For example, he hired contract employees, rather than full-time federal workers, to administer task and delivery orders under the GWAC. "I couldn't hire federal employees because the whole idea is that since I'm now a business, I need the flexibility to expand and contract based on the level of business," Lieber explains.

Problems in handling fluctuating workload have dogged franchises, according to an April 1998 report to Congress from OMB, the six GMRA franchises, and the Chief Financial Officers Council Entrepreneurial Government Committee. "Organizations that operate without direct appropriated funds take risks beyond those required in an appropriated environment," the council observed. "Artificial [full-time equivalent] controls unnecessarily exacerbate the risk inherent in a non-appropriated environment." In many cases, downsizing in parent agencies has reduced franchise staffing, as well. According to the report, some franchises rely on technological productivity enhancements and cross-training to help their staffs handle workload ebb and flow. "In addition, a majority of the franchises turned to contracting...as an efficient short-term solution to resource limitations," the report says.

In addition to keeping a stable of contract employees, Lieber employs other strategies to keep ITOP prices competitive. He set a range of fees based on how much work customers were willing and able to do themselves. "I'm offering a couple levels of service," says Lieber. "The first would be that I would delegate contracting authority to the customer. That's a 1 percent fee [based on the amount of the order]. Then, if they come to my special project office, we'll help them do a statement of work and be the source selection office. For that joint effort it's 2 percent. If I write the statement of work and do more, it's 2.75 percent. The majority [pay] 2 percent."

Money Matters
Fee-for-service operations also invariably need a place to bank their fees. In addition, they need some method of building up reserves so they can pay bills that exceed available cash. Federal agencies are prohibited from incurring cash deficiencies. All the franchises and a number of other entrepreneurial organizations do their banking with working capital funds, which are allowed to maintain operating reserves. Franchises have the added advantage under GMRA of a retained earnings incentive. They can keep up to 4 percent of total revenues in order to buy capital equipment, put in place financial management and other support systems, and make management improvements. This ability to "make money" is an incentive to improve efficiency.

Gov.Works, the MMS acquisition-shop-for-hire, owes its success in large part to becoming part of the Interior Department's franchise and working capital fund. When the procurement shop decided to go fee-for-service in 1996, staffers didn't yet know that MMSs parent department had a franchise fund. Instead, the MMS procurement staff was considering offering their services under the much more restrictive Economy Act. That would have meant the funds they collected could not be retained beyond the end of a fiscal year and that potential Gov.Works customers would have to make burdensome Economy Act determinations that supplies or services could not be obtained as conveniently or economically from the private sector.

Brown, the MMS associate director for administration and budget, helped Gov.Works find its way into the franchise fund. "If Interior hadn't had a franchise fund, we would have had to look for a working capital fund to become part of or [we would have had to] get one through Congress," Brown says. "We could have done some work through the Economy Act, but generally the funds are transferred under an agreement that runs out at the end of the fiscal year. That's no good if you are providing a service that you can't cut off because you will lose your investment, or because it's impractical." Discovering the Interior Franchise Fund proved a lifesaver to MMS, allowing it to take on work over more than a single fiscal year, build reserves, and, someday soon, begin setting aside funds for future capital acquisitions. "So far, our revenues have more than covered our expenses," says Gov.Works Director Sutfin.

The Forest Service's Region 5 reinvention lab placed such a high value on getting under the agency's working capital fund umbrella that lab director Duffy brought in the fund's creator to help. "The Washington, D.C., director of financial management had retired and moved to California, so we picked him up as a re-employed annuitant," Duffy says. "He had set up the agency's working capital fund and helped us get our system up and running. Absent him, I'm not sure we could have done it."

The lab's enterprise bank set up an overlay accounting system to translate the data coming from the fund into separate accounts for each enterprise. "We do accrual accounting to match [each enterprise's] revenues with the expenses of a fiscal year," says Kathleen Wolcott, head of the enterprise bank. "It matches expenses to the period in which the revenue is earned whether or not the money has come in or the check has been written." In this way, enterprises and the bank can keep track of what's been billed, what money has come in, and what's on hand to cover costs. If an enterprise temporarily runs short of cash, the enterprise bank provides loans at 10 percent interest.

New Ways of Operating
In order to keep costs in line and even get a little ahead, many entrepreneurial operations are joining private sector businesses and government agencies in substituting information technology for staff or using IT to increase employees' productivity. GSA's FSS, for example, has a World Wide Web ordering tool, GSA Advantage, where more than 1,400 vendors list nearly 650,000 products and services. Many of the vendors accept orders using government purchase cards online. FSS also has created an electronic posting system giving vendors and buyers 24-hour access to new contracts and new companies on the schedules. These techno-tools

help take some of the ordering burden off FFS staff by enabling buyers and sellers to meet and deal more quickly and directly. Gov.Works took a "dot gov" moniker as its brand name to connote speed, efficiency, and ease of using its acquisition services and has created a Web site of the same name.

Government payroll businesses currently are competing with one another to offer and implement the most advanced software packages to enable customers to take advantage of HR enterprise resource programs. The most recent entrant in the payroll processing market is HRLINK$, part of the Veterans Affairs (VA) Department franchise. HRLINK$ is offering clients full installation and support for PeopleSoft's HR management system, as well as payroll processing services. PeopleSoft already has a presence in 70 percent of cabinet-level agencies, and is considered a leading contender for the rest of the federal HR market. The company's rapid advance has set other federal payroll processors scrambling.

For example, the Interior Department's National Business Center (NBC) has been cross-servicing payroll since 1979 and now handles pay for 180,000 employees, including all of Interior and the Social Security Administration's (SSA) 68,000 staffers. Last November, the center put the finishing touches on its Federal Personnel Payroll System (FPPS), developed in house, which offers some HR functions as well as payroll. But during the time Interior spent developing FPPS, commercial HR enterprise systems muscled into the federal market. "PeopleSoft has done a tremendous job getting into the federal market," says Dennis Locke, chief of NBC's applications management office. "SSA, our largest customer, is working with PeopleSoft, [and] though Interior is saying we are going to continue to use FPPS, SSA may not want to. We have proposed to the department and to SSA how we're going to move FPPS to an open systems architecture so we will be able to allow commercial products to work with FPPS." Now NBC has struck a deal with ERP software provider SAP. Under the contract, SAP will be able to federalize its software to compete with PeopleSoft, and NBC will be able to offer a cutting-edge, commercial, off-the-shelf product for its clients.

The hybrid HRLINK$ is the only cross-servicer selling and installing PeopleSoft's full payroll suite as well as providing HR services. The HRLINK$ Federal Franchising Service combines PeopleSoft and Andersen Consulting with the VA's Austin Automation and Financial Centers and its HR Shared Services Center in Topeka, Kansas. PeopleSoft, which prefers to develop software rather than install it, traditionally partners with systems integrators such as Andersen, which will handle installations for HRLINK$. VA's data and financial centers in Austin, Texas, will operate client agencies' PeopleSoft HR systems and handle payroll processing. VA's HR service center will do customers' HR administration. The VA gained its PeopleSoft experience by installing the company's HR management system departmentwide.

The partnership allows VA to ride PeopleSoft's popularity in the federal HR market while PeopleSoft and Andersen use the VA franchise as a stalking horse among finicky, skittish federal agencies. "Government organizations feel more comfortable broaching outsourcing with another government organization," says Stephen J. Rohleder, managing partner for Andersen's Americas Federal Government Practice. Letting VA head the partnership also lets the firms offer potential customers the ease of contracting with a federal franchise. "Federal agencies have a better understanding of government business processes, and the interagency contracting process is simpler and more efficient," according to an October 1998 research paper on the unusual alliance by GartnerGroup, a Stamford, Connecticut, technology research and advisory firm. In March 1999, HRLINK$ celebrated its first successful engagement: installation and operation of PeopleSoft's personnel system at the Federal Energy Regulatory Commission (FERC) in Washington. While the customer base is small — just 1,200 employees — the FERC deal is a big wake-up call for the other agencies providing payroll services.

Partners in Success

Innovative partnerships such as HRLINK$ are characteristic of successful Information Age companies. In *The Complexity Advantage: How the Science of Complexity Can Help Your Business Achieve Peak Performance* (Business Week Books, McGraw Hill, New York, 1999), Susanne Kelly and Mary Ann

Allison tout collaboration as one of their 14 steps for business success. “In our current environment of rapid change, networks of vendors, academics, and even competitors are out there learning new things far more rapidly than we will on our own,” they write. “We have to recognize the strength that exists in partnerships and to leverage it intelligently so that we can work effectively with each other.”

Savvy government business people are always on the lookout for mutually beneficial pairings. Another example is the share-in-success contract being crafted by Ortego, director of Agriculture’s National Finance Center, to help his enterprise catch up in the payroll market. If his vision succeeds, Ortego will convince an HR enterprise software firm to install a potentially market-dominating system for NFC and he won’t pay a dime for it upfront. Instead, the winning bidder will collect its fees, and possibly a great deal more, by taking a cut of what NFC receives per employee paid using the system. Ortego expects to generate wealth to share by saving money on a system that runs more efficiently — with less human intervention — and needs less maintenance than his current mainframe-based system. “There are definitely going to be labor efficiencies under the new system,” Ortego says. He hopes expanded business will help him avoid staffing cuts. Such benefits-sharing contracts reverse the usual arm’s length government-contractor relationship and bring vendors deeply into an agency’s operations. So deeply, in NFC’s case, that Ortego plans to offer the winning firm additional financial incentives to bring in new NFC payroll customers.

Federal entrepreneurs aren’t just partnering with private industry, though; they’re bringing people together on all levels. Both the NIH and Transportation Department GWACs, for example, are run by specialized contracting offices that join purchasing professionals with IT experts. “I’ve always said that if you get the technology and the procurement sides together, anything can be achieved,” says ITOP’s Lieber. “In reality, ITOP is an information resources management program housed in procurement.”

Only a year after most of the Forest Service enterprises began business, they already are finding ways to partner to increase their marketability. “One of the things happening now is alliances, partnerships, two enterprises getting together to take on a job,” says Region 5 reinvention lab director Duffy. “For example, Kelly Fike of Streamline [which does environmental analysis and team-building] recently teamed with ACT 2 [a writing and editing enterprise]. I think the enterprise [partnerships] are going to grow and probably do bigger and more complicated things.”

A Knack for Niches

Be they in government or in the private sector, fledgling businesses find the safety they need to grow strong by anchoring themselves in market niches. Finding the unmet need, the underserved clients, or the unexploited specialty has launched more than one successful first entrepreneurial foray. NIH’s DeVera, for example, struck gold by building a contract that offered the perfect combination of popular vendors and must-have computer technology. ITOP’s Lieber went DeVera one better by offering technology services on his contract. “There was a significant yearning in government to have a good, efficiently run IT services vehicle. We found a niche,” Lieber says. “We knew there was a market for IT services out there. What we didn’t really know was the extent.”

Not to be outdone, DeVera, too, saw the market in IT services. Not long after ITOP was awarded, he raced into existence the Chief Information Officer Solutions and Partners (CIO-SP) contract based on IT management reforms. “I knew [the 1996 Clinger-Cohen Act] was coming and that it was based on IT solutions, not hardware and software,” DeVera recalls. “Our target market was CIOs and program managers. The real issue was to get something going that people would identify with the Clinger-Cohen Act.”

Specialization Sells

Gov.Works, the MMS acquisition business, has specialized in helping agencies with IT purchases. Gov.Works is betting that specialization will draw business to it and away from agency procurement shops that get bogged down buying everything from office products to IT services. “What Gov.Works sells is nothing that anybody else couldn’t sell,” says MMS budget chief Brown. “It’s the same contracts and the same systems as anybody can sell. [But Gov.Works also sells] responsiveness, sensitivity, and the ability to deliver. We get people willing to pay a fee to get that — program people who feel lost, displaced, and not supported." Gov.Works leader Sutfin frankly acknowledges that Gov.Works trades on the failures of other acquisition offices. "Program managers come to us because they are looking for an alternative," he says. "If you have to spend months getting through the acquisition process, you're losing money. We're able to do it faster than most."

Forest Service enterprisers are making a living out of specialization, parlaying their unique skills into small businesses. Tree measurement expert Merl Sturgeon was about to lose his job because his forest could no longer support an expensive employee with top-notch timber skills at a time when tree harvesting was declining. But among all 18 forests in Region 5, there was more than enough demand for Sturgeon's special skills. The answer was to free him from old-fashioned employment, set him loose as a small businessman, and let him work forest to forest capitalizing on his finely honed abilities.

The women who started Region 5's Compensation Resolution Brokers enterprise turned their expertise in handling workers' compensation claims into a thriving business. The large size of Region 5 and the fact that its heavy fire seasons produce lots of injuries each year mean demand for compensation claims processing talent is high. Region 5 spends $7.5 million a year in workers' compensation and medical benefits, the most in the Forest Service. In addition, before the enterprise began, each forest handled disability cases on its own, often catch-as-catch-can, allowing cases to languish for years before checking to see whether employees receiving compensation were fit to work again.

"We found that with the numbers of cases they had to handle, a lot of casework was falling through the cracks," says Geralyn Bolong, a resolution broker with the enterprise. "The five of us just handle [compensation cases] as opposed to other duties. We have a lot more energy and time so we're getting resolutions a lot faster." In their first year, the brokers have resolved eight cases, saving the Forest Service $244,000 in the short term and potentially more than $4 million over the full course of the eight employees' working lives.

Forest Service reinvention czar Radloff says specialized services give enterprises an edge that helps them overcome the perception that regular full-time employees are less expensive. "Enterprises are overcoming the barrier of built-in subsidized competition by being in specialty niches and by being available and willing to go where the work is and having a real customer service attitude," he says.

Advertising Anxiety

Entrepreneurial federal operations quickly learn that all the specialization in the world won't help if no one knows you're in business. Selling means advertising, but promotion and PR aren't the normal province of federal managers, and entrepreneurs have made notable marketing missteps. For example, NIH acquisition innovator DeVera gained notoriety for radio advertisements he placed at the end of fiscal 1996 to woo federal buyers and to take advantage of the newly enacted Clinger-Cohen IT reform law. The ads ended up running during the morning rush hour on "shock jock" Howard Stern's program. "I hired an advertising firm to [find] me the three most listened-to stations during a.m. drive time," DeVera recalls. "They didn't tell me what the [names of the] shows were. They did the ad, I listened to it, and they put it on the three shows. One happened to be Stern's."

Needless to say, running an ad amid Stern's antics brought DeVera a raft of criticism. The furor grew when *Federal Computer Week* ran a story about the ad placement a week later. Some say the firestorm stirred by the Stern show ad contributed to DeVera's ouster from the NITAAC directorship in November 1996. Despite the brickbats, DeVera says the ad worked. "A whole lot of government people listen to Stern," he says. In addition, "there was money made off [the ad] because of phone calls that came off the *Federal Computer Week* article about it," DeVera says. "It was outrage marketing. The whole notion of a government agency putting the ad on radio was a good idea."

Perhaps, but others have taken a different lesson from DeVera's experience. Three years after the Stern affair, Gov.Works decided it had reached the limits of word-of-mouth advertising and decided to engage a firm to craft a "customer awareness campaign." Gov.Works staffers were careful to seek endorsement from the leadership of their parent agency, MMS. "We sold the idea at several levels of the agency and had no negative reaction," says Sutfin. "We discussed the types [of media]. Radio and TV got a thumbs-down. We all know Manny [DeVera]."

Branding a New Business

"Advertising" and "marketing" are words still spoken in whispers among many entrepreneurial federal organizations. In the early days after GMRA was enacted, congressional staffers often warned franchise founders not to risk legislators' fragile support of businesslike government by appearing too aggressive in generating sales. "A staff director of a congressional committee told me unequivocally to be careful how we market," says Ernest Hardaway, vice president for national marketing and reinvention of government at the Health and Human Services Department Office of Federal Occupational Health franchise fund. "He indicated that something euphemistic like 'customer awareness' or 'education campaign' would be far more appropriate."

Fully aware of such concerns, Gov.Works took a careful approach to rev up sales. "We were concerned somebody might have a negative political take on it — should government be doing this type of thing?" says MMS budget chief Brown. But despite its trepidation, the acquisition enterprise gambled on advertising. "We knew [the name] MMS wasn't working. We had to create an identity," says Sutfin. Gov.Works hired Osborn & Barr, a $60 million St. Louis advertising firm known for its brand campaign for agricultural equipment manufacturer John Deere — "Nothing runs like a Deere." "It was amazing to me how well they understood the frustrations we were trying to piggyback on — [that] if you're a project manager, the last thing you want is to have somebody in the acquisition shop tell you why you can't do something," says Sutfin. "They already had the Gov.Works logo ready. We went out to buy an awareness program, but subsequently I realized we were buying a brand," Sutfin adds.

Osborn & Barr studied publications about government to learn federal program managers' problems and how a fee-for-service acquisition organization such as MMS's Gov. Works could help them. The firm also understood the sensitivities of working with an entrepreneurial governmental entity. "We knew there were some politics involved, that MMS could be seen as coming in and superseding the procurement offices of other agencies," says Mark Vogel, Osborn & Barr executive vice president for brand management. The firm placed ads in *Government Executive* magazine and *Federal Computer Week*. "We only put ads in publications aimed exclusively at the population we're trying to serve," says Brown. "Clearly it's aggressive, but we think it's honest."

Branding is bringing Gov.Works new business. "We've gotten a lot of calls and they've been productive calls," Sutfin says. In July, the value of contracts Gov.Works handled in fiscal 1999 had almost reached $74 million, the total for fiscal 1998, and Gov.Works finished 1999 at $98 million, with $20 million booked for fiscal 2000. Gov.Works charges fees ranging from 2 percent to 4 percent, and projected income for fiscal 1999 was about $2 million, up from $1.7 million in 1998 and $700,000 in 1997.

By early 2000, Gov.Works' brand had become so important to the new business that it was contemplating a lawsuit to protect it. Though Gov.Works has purchased the Internet address "govworks.gov," as a government entity it couldn't buy "govworks.com." Sure enough, about six months into the new branding campaign, Gov.Works found out that a New York-based Internet firm calling itself "gov.Works.com" was planning to offer assistance to federal, state and local governments that want to offer citizens service via the World Wide Web. Gov.Works began negotiating with the "dot.com," and in March was trying to decide whether to sue to prevent the start-up from violating its trademark or to sell the rights to the trademark it has built. The dispute marks the first time a government business has confronted a private business over the right to use a government-owned brand name. It won't be the last if entrepreneurial government continues making headway.

The Costs of Success

Other officials at cross-servicing units still flinch when asked how they market. "We prefer to approach the marketplace as an [accounting] or law firm approaches it," says NFC's Ortego. "We depend on our presence in the community." Ortego is candid about his understated approach. "I don't want to get under the skin of some congressman that I'm out marketing business away from the private sector."

Ortego has reason to worry. NFC's success in attracting customers almost put it out of business. In 1983, at the request of OMB, NFC expanded its data processing services to begin cross-servicing for other agencies. In the early 1990s, payroll-processing income from other agencies first exceeded that generated from the Department of Agriculture (USDA). Soon thereafter, Agriculture put a moratorium on NFC cross-servicing and the center took in no new customers until 1998.

The public explanation was that USDA wanted NFC to focus on redesigning its software to support Agriculture systems. Most observers agree that the real reason for the moratorium was that USDA headquarters wanted to rein in the exuberant business mentality of the New Orleans center. Under Director Clyde G. McShan III, NFC had prospered, adding 600 new employees and hauling in nearly $100 million a year largely by processing pay for 500,000 employees at USDA and other agencies. NFC won praise for expanding, and McShan wrote and spoke about possibly taking it out from under USDA control.

Soon after the moratorium was in place, McShan was demoted; he subsequently left Agriculture to become deputy chief financial officer at the Commerce Department. He has since left government. "It was a disagreement about expansion," McShan says of his demotion. It also was an opening for other federal payroll providers. "Since I left, NFC sat dormant for about five years or better," McShan says. "When I was there people knew we were open for business and were flocking to us." Today, NFC is rebuilding its reputation as a cross-servicing powerhouse under the leadership of Ortego, who has the full support of USDA Chief Financial Officer Sally Thompson. "One of the things the center does outstandingly well is payroll and payment processing," Thompson says. "I expect they would continue to expand the line."

Public-Private Competition

NFC's ups and downs, DeVera's ouster, and the self-censorship Gov.Works exercised vis-a-vis TV and radio advertising illustrate the limits of bureaucratic entrepreneurship. Prospering can be perilous if it arouses jealousy among those higher up in the hierarchy. Tooting your own horn can bring unwelcome attention from congressional and private sector opponents. Indeed, there is a strong current of criticism of entrepreneurial government among businesses and, consequently, on Capitol Hill.

Among the leading opponents has been the Professional Services Council (PSC), a national trade group representing professional and technical services contractors. “The public sector should not be trying to emulate the entrepreneurial behavior of the private sector by seeking to grow and expand into new products, services, or markets at its constituents’ expense,” according to “Rationalizing Public and Private Sector Roles,” a February 1998 PSC position paper. “Government’s entrepreneurial energies should be directed toward achieving excellence and greater efficiencies in performing inherently governmental functions, and developing and managing outsourcing programs that make the best use of private sector capabilities.”

PSC denounces franchising, cross-servicing, federally funded research centers, and a variety of other practices as forms of improper “public-private competition.” “Public-private competition fosters competition for resources rather than cooperation among government agencies, places the private sector in competition with its government clients, and raises questions about conflicts of interest for the government when governmental entities are potential future competitors on work the private sector currently performs,” the council maintains. Government’s entrepreneurial activities “shift [agencies’] energies away from fulfilling their own missions...solely to legitimize the existence of excess capacity,” according to a council report, “A New Model for Public-Private Competition,” published in August 1999.

The Clinton administration responds to such criticism by suggesting that barring federal organizations from competing for government work is unfair. G. Edward Deseve, then acting OMB deputy director for Management, detailed the administration’s position in March 1998 testimony before a Senate Governmental Affairs subcommittee. “As agencies seek lower costs and best value support service offerors, they will test and improve their in-house, contract and franchise (cross-servicing) support mix,” Deseve said. “Federal employees are some of our nation’s most highly trained and dedicated employees. They operate within a complex system of rules, regulations, and laws. They respond to a vast array of missions, public concerns, and operational requirements. They deserve, as does the private sector, the opportunity to compete for their jobs on a fair and level playing field.” Deseve also pointed out that March 1996 revisions to federal service contracting rules made certain interagency servicing arrangements available for bid by both federal and private operations.

What’s more, the recent experience of franchises and cross-servicing operations demonstrates that the private sector hardly is shut out of business won by federal enterprises. “Franchising is by no means a ‘government vs. private sector’ contest,” writes former Office of Federal Procurement Policy Administrator Alan Burman in the September 1999 issue of *Government Executive* magazine. “Governmentwide, nearly 80 percent of the revenues generated by franchises go to private companies who support their activities. In this way, franchising is doing what years of outsourcing proposals have failed to accomplish — making much greater use of the private sector to provide government administrative services.”

Business vs. Governance

Other critics of entrepreneurial government believe the notion that government can share characteristics with business is faulty. In “The Importance of Public Law: New and Old Paradigms of Government Management,” in the *Handbook of Public Law and Administration* (Jossey-Bass, 1997), Ronald Moe calls this “sector blurring” and denounces it. “This philosophy of replacing a public service ethic with a private sector, pecuniary-based ethic for managers is not without its risks,” Moe writes. It “replaces political accountability with economic accountability. In effect, the executive branch gets to define and reward its own success without direct accountability to Congress,” he contends.

What’s lost amid the NPR’s calls for internal government competition, customer service, and focus on the budgetary bottom line, writes Moe, is “that the primary purpose of government management is not to make manifest economic axioms but to implement laws passed by the people’s representatives in Congress.” Moe says that hewing to that traditional legal framework does not prevent agencies from innovation, as Vice President Gore argues. In fact, Moe writes, “given a straightforward, definable mission, an appropriate organizational structure, and funding in a manner that encourages economically efficient behavior, governmental institutions are remarkably creative instruments for achieving public purposes.”

Moe has a point. In fact, when their entrepreneurial efforts clash with "public purposes," businesslike agencies do get into trouble. GSA, which remade itself by benchmarking against private industry in the mid-1990s, recently ran smack up against such a conflict. In July, GSA announced it was closing its eight FSS warehouses in order to make ordering, shipping, and delivery of supplies to agencies vendor-direct, virtual, and more cost-effective.

Between 1988 and 1998, warehouse sales had fallen 15 percent, from $908 million to $772 million. Meanwhile, the FSS schedules, through which agencies order and receive goods directly from private vendors, have seen sales increase nearly 100 percent, from $4 billion in 1995 to $7.7 billion in 1998, and bested $10 billion in fiscal 1999. "Because [running the warehouses] involves high fixed costs, we have found ourselves in a catch-22 position of constantly having to raise our prices to break even," said FSS chief Frank Pugliese in July. "We will create new partnerships with the private sector and continue transitioning stock items to other sources, such as schedules."

As a business decision, closing the warehouses was a no-brainer, but the warehouses are more than just a business operation; they serve societal, and thereby political, purposes as well. For more than 50 years, GSA has been the primary distributor of the products made by agencies associated with National Industries for the Blind (NIB). NIB President James Gibbons says the closings would affect as many as 1,400 blind and disabled workers who produce warehouse products or work in customer service positions for contractors. The organization says products made by those workers make up one third of GSA's stock program, and 60 percent of NIB's distribution is through GSA. "The domino effect could jeopardize the whole program," Gibbons says, including large and small community agencies that provide rehabilitation, job training, and job placement for the blind. Both NIB and the organization that provides jobs for severely disabled people operate under the Javits Wagner O'Day (JWOD) program, created by Congress to ensure federal agencies buy goods from workers with disabilities.

At the same time GSA was awakening to the social consequences of closing its warehouses, the American Federation of Government Employees, which represents the warehouse workers, was filing a grievance against the action. The union charged that GSA failed in its obligation to bargain before making the decision that could put as many as 2,000 employees out of work. In September, an arbitrator agreed. In October, after promising increased marketing help for JWOD agencies, GSA reversed its decision and reopened discussions with the union. In this case, a federal acquisition law with a social purpose interrupted an entrepreneurial agency's attempt to further streamline government buying and improve its own bottom line. GSA is only the most recent example of the almost inevitable clash between entrepreneurial and law-enacting government. The conflict undoubtedly will play out in many forms as government evolves to its new size and shape for the Information Age.

Business-Permeable Government

It may be true that, in the long run, government will be pared back to an inherently governmental nub that is exponentially smaller than it is today. But in the short term, the future is likely to hold continual evolution of federal-private conglomerations and partnerships and new forms of entrepreneurship within government. Glimpses of a new, more business-permeable government can be seen in the proposed "share-in-success" payroll software contract being contemplated by NFC's John Ortego and in the vendor advisory councils supporting governmentwide IT contracts. They're also visible in the partnership of the Veterans Affairs Department, Andersen Consulting, and PeopleSoft in HRLINK$, as well as in Richard Lieber's use of contractors to help run ITOP.

Attempts to lobby, legislate, shame, or frighten these developments out of existence will founder, as do all efforts to hold back change. The better course may be to climb aboard and find ways to benefit from and guide them. The ride is sure to be wild, rapid, and unpredictable, but the likely long-term outcome is new business in government, more business for industry, and better business for taxpayers.

Those who doubt the inevitability of further entrepreneurial morphing by federal agencies should consider that two holders of the nation's deepest secrets, the CIA and National Reconnaissance Office (NRO), both became venture capitalists in

1999. In-Q-It is a $28 million nonprofit firm underwritten by the CIA with offices in Washington and Silicon Valley. It's designed to partner with developers of cutting-edge IT projects useful to the CIA that also have commercial applications. In October, NRO announced on its public website an internal venture fund providing $350,000 seed grants for non-agency projects that could develop into "revolutionary concepts." NRO's true aim, according to "Techno-Spooks," an Oct. 17 David Ignatius column in the *Washington Post*, is finding new ways to track terrorists. The CIA hopes to find more effective methods, including using the Internet, to mine the piles of data it collects worldwide.

Already the CIA's foray into cyberbusiness has been denounced in an op-ed in the *New York Times* as an unsound use of federal dollars that would be better spent contracting with Internet innovators. Nevertheless, if secretive and slow-to-change agencies such as the CIA and NRO can throw off their cloaks and enter the scramble for e-based initial public offerings, then entrepreneurial government no longer is a fad, it's a *fait accompli.*

Lessons Learned

Forms of federal entrepreneurship vary widely, but successful entrepreneurial organizations share a number of traits that developed as they first fought to create their businesses and then to run them. Organizations hoping to nurture entrepreneurship or create their own businesses would do well to take note of the lessons and characteristics of the pioneers.

1. **An event or circumstance that demonstrates the futility of status quo operations and the need to change.** Every single one of the entrepreneurial ventures described here came into being after its founders got a kick in the pants — an event or circumstance, such as downsizing, a threat of closure, a loss of confidence, or plummeting funding — that demonstrated the futility of the status quo and the need to change or die. Acquisition organizations were under severe pressure to speed up technology purchases while downsizing. The California forests were running out of funds to support some of their most experienced, but also most specialized, employees. The CIA administration directorate had too little staff to keep up adequate service standards and was losing customers to the private sector. Without such do-or-die conditions, entrepreneurial leaders would have had a much harder time making the case for change and nudging staffers into taking risks they otherwise might have been able to avoid.

2. **A knack for finding unmet needs, underserved customers, or unexploited specialties, and for occupying those business niches.** For example, Forest Service enterpriser Merl Sturgeon found he could support himself by plying his specialized timber skills across Region 5's forests even though a single forest couldn't afford him year-round. The women of Region 5's Compensation Resolution Brokers parlayed skills and connections honed for years into a business resolving workers' compensation cases that the Forest Service had allowed to languish. Government's buying businesses are clustered in one area of purchasing — information technology — because it is the fastest growing and changing segment of government acquisition. This cottage industry of internal acquisition businesses survives by feeding off of agencies' seemingly unquenchable appetite for IT equipment and services.

3. **Strong, savvy, well-placed leaders and champions.** Entrepreneurial organizations have little chance of establishing themselves unless they have strong, wise, well-placed leaders and champions to enact the business vision; run interference and keep opponents off guard; provide protection, advocate, and agitate throughout the parent agency; license experimentation and mistakes; and build useful connections and support structures. Forest Service enterprises owe their creation and survival to a cast of protectors including David Radloff at

Forest Service headquarters and Douglas Farbrother at the then-National Performance Review, along with Mike Duffy, Lynn Sprague, and John Phipps in Region 5. Each played a role in smoothing the way for the small businesses to come into being. Duffy and his reinvention lab are now clearing obstacles and building a support structure to allow the enterprises to flourish. Without George Fields, the chief of the Transportation Department's administrative services franchise, Richard Lieber's ITOP contract might never have been renewed. In every case, visionary leaders have created the space in which government businesses could grow. The confluence of reformed regulations and new business needs alone wasn't enough to sustain entrepreneurs in the skeptical, if not downright hostile, bureaucratic environment.

4. **Cost consciousness and a bottom-line orientation.** Government businesses must quickly develop a keen sense of cost-consciousness and a bottom-line orientation if they are to survive. Those that have done it almost immediately become hard bargainers with the organizations that provide them services, setting off a search for efficiencies throughout the parent operation. Many entrepreneurial organizations have found they can't afford full-time federal staff, turning instead to contract labor they can augment or diminish with surges and declines in workload. The customers of entrepreneurial organizations also are forced to grapple with costs as they try to find money to pay for services they once thought of as free and try to determine whether the prices they're paying are fair. Where competition is lively, as among government's buying businesses, agencies quickly become canny purchasers, moving from one contract to another or from contracts to the GSA schedules and back again in search of the best deals. Forest managers in California are becoming wiser users of their full-time regular employees now that they have discovered the true cost of federal labor by paying enterprisers' fees.

5. **The ability to build and maintain financial reserves and to rely upon effective, reliable accounting systems.** All the cost-consciousness in the world can't help entrepreneurial organizations if they have no way to bank their earnings. Just as the banking industry grew alongside capitalism, so working capital funds are proliferating as government becomes more businesslike. Government businesses simply cannot survive without the ability to build and maintain financial reserves and to rely upon effective, reliable accounting systems. In order to ensure the survival of its enterprises, the Region 5 reinvention lab not only won them use of the Forest Service working capital fund, it also is building them a bank. Already the bank keeps their books and offers them loans. Soon it will maintain their workers' compensation insurance, as well. Of course, just as in the private sector, these financial services come at a price, one that enterprisers must absorb through greater efficiency or pass along to their customers in higher prices. The need for accounting and banking services is growing as more and more cross-servicing organizations are becoming self-supporting, losing the margin of safety provided by occasional support from their parent agencies' appropriations.

6. **Unswerving customer focus.** Self-supporting organizations must charge prices that can be difficult for their customers to swallow. That's why these operations must have an unswerving focus on making whatever changes are necessary — as well as legal and appropriate — to win and keep customers. Both the CIA's administration and NIH's contracting shop, for example, were forced to become entrepreneurial because they were hemorrhaging customers. And when the directorate began charging for its services, its CIA customers balked at first. Likewise, Forest Service enterprisers find themselves forced to justify their fees by educating first-time customers about the relatively small portion of billable hours in an average Forest Service employee's day. The education usually is coupled with a sales pitch. Enterprisers are quick to explain that when managers hire enterprisers, they get 100 percent of their time as opposed to regular employees, who often are pulled off a project to attend meetings, answer calls, handle crises, or respond to e-mail, among other activities. What's more,

each of the entrepreneurial organizations described here has tailored its offerings in response to customers' desires. From ITOP's sliding fee scale based on customers' desired levels of participation in their task orders to NFC's efforts to obtain better software to interface with customers' ERPs, government businesses are attempting to meet, exceed, and even anticipate customers' needs.

7. **The ability to apply information technology to improve productivity and keep staffing levels low.** Many entrepreneurs are relying on technology both as a lure to attract business and a way to reduce their costs of doing business. As NFC's Ortego shops for a new software partner, he is both attempting to acquire cutting-edge ability to catch up with his customers' new systems and to reduce costs by replacing a legacy system that has heavy maintenance requirements with one that requires little human intervention. Wherever they can, entrepreneurs use technology to reduce their need for costly staff. In addition, a number of government entrepreneurs have fashioned businesses to feed agencies' insatiable IT appetites. The technology-buying businesses occupy the most active and innovative market within the larger world of government acquisition. The rapid evolution of innovative ways to purchase information technology matches the speed of change in the technology itself. To survive, IT-buying businesses must remain nimble, flexible, and innovative. The fact that the complexity of technology makes it challenging to purchase works in buying businesses' favor so long as they remain focused on selling the technology smarts that many agencies lack but desperately need.

8. **Openness to partners.** Successful entrepreneurs both in the private and public sectors rarely are loners. Instead they are skilled practitioners of the art of partnership. The Veterans Affairs Department is hoping to pry open the notoriously difficult federal payroll market by using two large and well-known private sector companies as a wedge. The two firms, in turn, are using the VA for leverage in reaching famously finicky federal customers. Gov.Works might never have gotten off the ground but for an early partnership with the Federal Systems Integration and Management Center (FEDSIM), a fee-for-service IT support operation within GSA's Federal Technology Service. FEDSIM uses Gov.Works to handle overflow contracting work and at one time accounted for 75 percent of Gov.Works' business. The percentage went down to a healthier 50 percent after FEDSIM, seeking to bolster its in-house contracting shop, issued a short-term policy requiring all FEDSIM staff to check first with the home office before using an outside contract shop. But early on, the FEDSIM partnership was crucial to Gov.Works' success.

9. **Creativity in dealing with fluctuating workloads.** From its FEDSIM slowdown, Gov.Works quickly learned that part of the secret of business success is creativity in dealing with fluctuating workloads. The work of national forests traditionally ebbs and flows with the seasons, so a number of the Forest Services enterprisers have had to diversify their services in order to maintain their incomes year-round. Fee-for-service operations have little choice but to accommodate to the cycles of business and work. Ironically, since many government businesses came into being in part to preserve their founders' jobs, they almost always end up hiring contractors for some jobs or using contract labor as a portion of their workforce. It's just too hard and too costly to use entirely federal staffs when work isn't steady, they've found. It's far more efficient to bring on contractors when they're needed and let them go when they aren't or to outsource whole projects or lines of work. Federal franchises have learned to creatively leverage the workload of other agencies. A good portion of the value added by franchises comes not in performing administrative work themselves, but in aggregating the demand of numerous small agencies unable on their own to provoke price-reducing competition for their business. Wielding the needs of a number of agencies, franchises are able to attract bidders and contract out work for lower prices than individual agencies could achieve. Nearly 80 percent of the revenues of federal franchises go to private firms.

10. **Marketing ability.** Many federal entrepreneurs have or develop a flair for promotion. They need it, of course, if they are to attract business

and bring in fees. Few are as brazen as Manny DeVera with his ads on radio shock jock Howard Stern's drive-time show, but some are getting braver. The trick, as demonstrated by Gov.Works' branding campaign, is to develop a feel for how far to go in advertising before the political sensibilities of legislators, sponsors, and customers are violated, and the ability to push the PR campaign right up to those limits. NFC's former chief Clyde McShan may have pushed too far by talking too soon about taking the center out from under the Agriculture Department's umbrella. Current Director John Ortego prefers a quieter approach to sales, which he likens it to the high-brow collegial networking of an accounting firm, reserving his flamboyance for the crafting of envelope-pushing acquisition strategies.

11. **Willingness to take risks and to make mistakes.** And it's just that willingness to take risks, if not in one area then in another, that marks every federal entrepreneur. From DeVera's bravado to Merl Sturgeon's dogged stick-to-itiveness to the Gov.Works' staff's drive to control their own destiny, government's business people all have shown themselves ready to dare greatly. Sometimes, like NFC under Clyde McShan, or DeVera at NIH, they lose and get punished. But, like all good entrepreneurs, government's business pioneers just lick their wounds and try again, each time a bit smarter, cagier, and more creative than before.

For Additional Information

Anne Laurent, *Government Executive*, "Tree Enterprise," November 1999 (electronic version: http://www.govexec.com/features/1199/1199s1.htm)

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About the Author

Anne Laurent is the Associate Editor of *Government Executive*, a national business magazine about the federal government. In addition, Ms. Laurent served as the lead writer of "The Manager's Edge," an executive guide to cutting-edge management challenges. She also is Project Director of the Government Performance Project.

Ms. Laurent has recently written several articles for *Government Executive* that relate to the topic of entrepreneurial government. These articles include "Premium on Performance," "Let Contractors Take the Risks," "Revamping Reinvention," and "Management Magicians." In addition, Ms. Laurent has been a speaker at numerous seminars including Eastern Management Development Center: Seminar for New Managers, Executive Development Seminar, and Brookings Institution Seminars: Emerging Issues in Public Management.

Ms. Laurent is a graduate of the University of Michigan (B.A.) and Johns Hopkins University School of Advanced International Studies (M.A.).

Key Contact Information

To contact the author:

Anne Laurent
Associate Editor
Government Executive Magazine
1501 M St., NW
Washington, D.C. 20005
(202) 739-8502
fax: (202) 739-8511

alaurent@govexec.com
http://www.govexec.com

To contact the organizations featured in this report:

Central Intelligence Agency
Office of Public Affairs
George Bush Center for Intelligence
Washington, D.C. 20505
(703) 482-7778

Department of Transportation
Richard Lieber
TASC
400 7th St. SW, Room 5601
Washington, D.C. 20590
(202) 366-4954
website: www.tasc.dot.gov/

Federal Supply Service, GSA
Sue McIver
1941 Jefferson Davis Highway
Arlington, VA 22202
(703) 305-7621
website: www.r6.gsa.gov/fss/

Federal Technology Service, GSA
Manny DeVera
Skyline II
5203 Leesburg Pike, 11th Floor
Falls Church, VA 22041-3401
(703) 605-9760

Forest Service, USDA
Mike Duffy
USDA Forest Service, Reinvention Lab
1323 Club Drive
Vallejo, CA 94592
(707) 562-8715
website: www.fs.fed.us/reinvention/enterprise

Forest Service, USDA
David Radloff
P.O. Box 96090
Washington, D.C. 20090
(202) 205-1369
website: www.fs.fed.us

Gov.Works
David Sutfin
381 Elden Street
Mail Stop 2500
Herdon, VA 20170
(703) 787-1354

Minerals Management Service
Bob Brown
1849 C Street NW
Washington, D.C. 20240
(202) 208-3220
website: www.mms.gov

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For additional information, contact:
Mark A. Abramson
Executive Director
The PricewaterhouseCoopers Endowment for
The Business of Government
1616 North Fort Myer Drive
Arlington, VA 22209

(703) 741-1077
fax: (703) 741-1076
e-mail: endowment@us.pwcglobal.com
website: endowment.pwcglobal.com

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