Deloitte Research

Relationship Portfolio FOR THE PUBLIC SECTOR

A Strategic Approach to Partnering in Turbulent Times

A Public Sector Viewpoint by Deloitte Research

Turbulence in the public sector management environment is causing governments around the world to divest themselves of many traditional functions and migrate them to the private sector. The common mode of thinking is that executives want to focus on their core competencies and use partners to fill in the gaps. While this is a sensible first response to the forces of e-Government, by itself it fails to account for the broader challenges that both a dynamic organization and a dynamic marketplace of providers present.

To help government executives round out their perspective, we offer a new model of intelligent partnering for modern, turbulent times: *The Relationship Portfolio*. Traditional partnering approaches are growing obsolete, given governments' desire to operate more efficiently as the nature of service delivery is changing and technology is evolving at an unprecedented rate. Relationship Portfolio gives executives a more complete strategic framework to build from core competencies and manage partners in a way that generates optimum value today and greater options for value in the long-term.

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Turbulent Times Demand a Better Partnering Strategy

These are turbulent times for public sector management. Across the globe and at every level of government, executives are faced with an unprecedented amount of upheaval to their established routines. Budgets are cut and reset, projects are cancelled while others are started and legislatures seem more active than ever in responding to political, social and economic crises.

With so much change happening every day, it's almost unfair that government executives still have a central responsibility to ensure that their organizations provide the highest level of service possible to external and internal customers. That means being equipped with the competencies to deliver: The best people, the best business processes, the best technology. It also means that governments need a modern system to acquire and manage them.

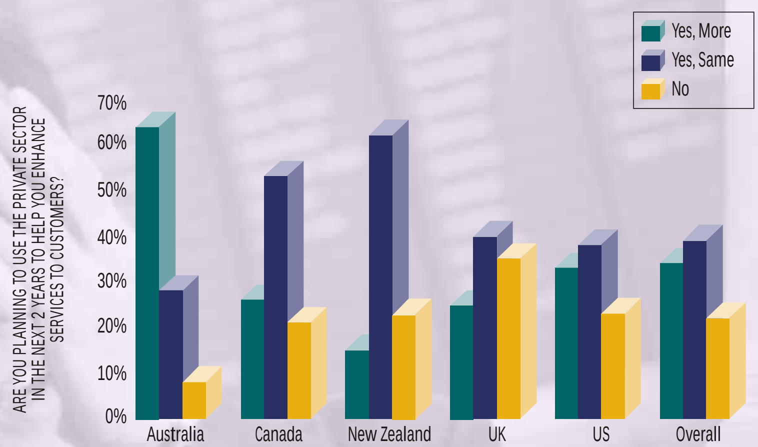
Today, executives know that they don't have all of the money or people to create and nurture all of the competencies they need, so their basic instinct is to retain their core competencies and migrate the rest to private sector partners, either through limited contracting, outsourcing or privatization. The trend is global and appears to be continuing upward. Consider the rise of outsourcing alone: GartnerGroup estimates that 80 percent of US governments will increase outsourcing for the near future.[2] In Europe, central and local governments combined are projected to have increased expenditures on operations- and IT-outsourcing by 43 percent from 1998 through 2003;[3] and in Australia, the public sector accounts for more than 40 percent of the nationwide $2.5 billion outsourcing market, which is projected to grow to over $5 billion by 2004.[4]

Myth	Reality
The traditional approach to partnering will help governments maintain high service levels today and in the future. *Because getting the job done today is all that matters, governments only need to determine their "core competencies," then divest themselves of the rest.*	**Turbulence in the public sector managerial environment makes the traditional approach to partnering obsolete.** *Partnering will still be a vital managerial option, but it is just one **tactic**. Governments need a more complete **strategy** for generating maximum value from their partners and their core competencies.*

Impact

With a Relationship Portfolio[1] approach helping them to link partnering with strategy, governments will achieve the flexibility to cope with uncertainty in a fast changing environment. The result will be an organization that always has the competencies to provide world-class customer service.

FIGURE 1: PARTNERING ON THE RISE: MORE GOVERNMENTS ARE LOOKING TO THE PRIVATE SECTOR FOR HELP



Source: Deloitte Research

More private sector involvement means more relationships. Think of all the different partners governments employ at any given time: Systems integrators, process outsourcers, strategy advisors, human resource providers. Most have different skills, different costs and different competitive capacities. Moreover, the relationships are at different stages of maturity, paralleling the start dates of new projects. In short, governments have a portfolio; a portfolio of relationships composed of partner competencies that should be synergistic with their own internal competencies.

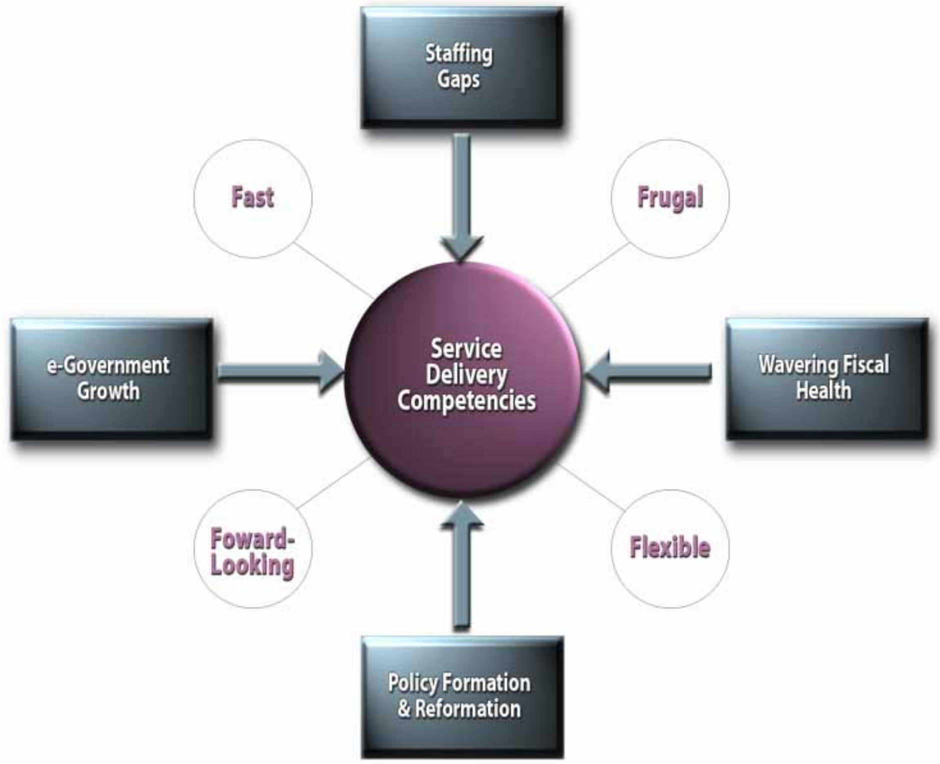
Like financial investors, executives need to maximize the value of these holdings. That means putting the right partners to the right uses at the right times. How? A partnering strategy must be able meet the following challenges unique to today's public sector environment:

- **e-Government Growth**: This tidal wave will only get bigger, and faster. No era has produced more rapid evolution of technologies, nor caused more disruption to establish business processes. Portals, wireless devices, networks and enterprise applications have the same variation as the vendors who plan, build and operate them. Governments need to acquire and deploy these technologies fast when the time is right and, overlooked in conventional thinking, jettison them with equal pace when they are no longer needed. That requires a partnering process able to keep the choice providers at arms length at all times.

- **Wavering fiscal health**: Governments' fiscal fortunes are generally tied to the health of their economies. When economies are strong, higher employment couples with increased consumer spending to produce more tax revenue and larger budgets. Likewise, when companies falter and consumers switch to more guarded consumption, as is happening right now, government budgets tighten. The peaks and troughs impact the latitude governments have in implementing projects and hence the degree to which they can utilize partners. So while the best economists can't predict when bad times will end and good times start, governments need the power to adjust partnerships according to their fiscal health and the process to ensure their partners provide the most value.

- **Staffing Gaps**: People are universally cited as the key enablers of successful service delivery, but governments constantly struggle to hire, train and retain staff across multiple departments. Linked to budget health, staffing levels and composition will vary over time. A smart partnering strategy, then, must let governments fully leverage the skills of their current people while making sure that the skills of partners are applied complementarily.

FIGURE 2: PRESSURES ON PERFORMANCE: GOVERNMENTS MUST PARTNER INTELLIGENTLY TO SUSTAIN COMPETENCIES DURING TURBULENT TIMES



Source: Deloitte Research

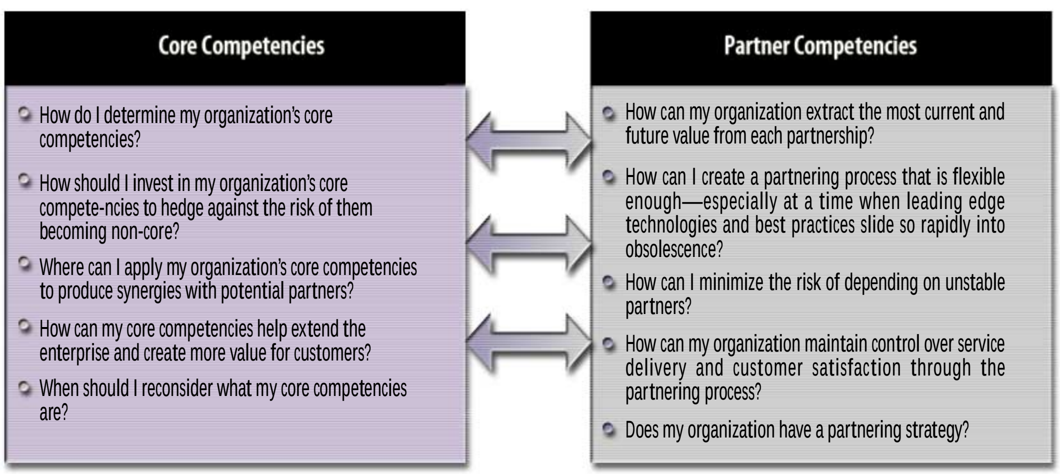
- **Policy formation and reformation**: Rules might be made to be broken, but in the public sector they are more susceptible to regular—and often drastic—changes affecting every aspect of service delivery from procurement to program execution to payment. Some of the most prominent include OMB Circular A-76 of the US Federal Government (calling for more competition between public and private sector), the recently revamped Private Financing Initiative in Europe (authorizing ministries, public institutions and local governments to delegate the supply of services to private firms, regardless of originating country), and the New Partnership for Africa's Development in South Africa (a massive economic development initiative that will require diverse partners). Governments need a partnering strategy that is forward-looking to prepare them for quick shifts in policy and not lock them into arrangements predicated on the false belief that today's rules will always apply.

Turbulent Times Demand a Better Partnering Strategy

As governments transfer more functions that traditionally belonged in the purview of the public sector enterprise (construction, utilities and facilities management are two of the earliest examples; transaction processing, call centers and portal development and administration are more recent), the partnering process must be managed intelligently to generate maximum value (current *and* future) from their core competencies in concert with their multitude of partners. Why is this important? Consider the key questions that governments need to ask as a prelude to successful partnering (see Figure 3) :

We believe that the best way for governments to respond to modern pressures and equip themselves with the competencies to consistently deliver world-class customer service is to adopt a Relationship Portfolio (RP) approach; an approach that allows governments to be **fast** in acquiring competencies, **forward-looking** to tie partnering with strategic growth, **flexible** to adjust investments in the face of uncertainty, and most importantly **frugal** in extracting the maximum current and future value from their partners. In the following pages, we will describe why the current generic approach to partnering is inadequate for these turbulent times and detail the components of Relationship Portfolio using real examples of how governments are beginning to employ RP techniques.

FIGURE 3: SIMPLIFYING BY UNIFYING: GOVERNMENTS NEED A PARTNERING STRATEGY THAT CONNECTS THEIR COMPETENCIES WITH PARTNER COMPETENCIES



Source: Deloitte Research

A New Approach to Partnering is Needed

In simpler times, partnering decisions could be made effectively under relatively more stable conditions. Partner candidates were evaluated on the basis of their technology, human resources, and capital and the decisions boiled down to an (incomplete) net present value calculation: Whoever looked best today got the job. Now, several forces are destabilizing the traditional approach, rendering it less likely to provide governments with the lasting value they seek in creating cultures capable of making smart, nimble changes on the fly.

1. Accelerating technology change is outpacing government acquisition

At the start of the new millennium, e-Government's rapid rise to global prominence coincides with an unprecedented acceleration of technological evolution. Where, not long ago, mainframe systems gave way to client/server architecture, portals, wireless devices and remote application hosting are now the new vanguard of innovation. Just as each new generation of technology appears more quickly, its predecessors fall more rapidly into obsolescence. Thus, governments locked into drawn-out procurement cycles and inflexible partnering agreements stand to lose when it comes to having sound options for the future.

2. Outsourcing can fracture services which demand integration

At one time, all government functions—from strategic planning to service delivery channels and even technology infrastructure—could be thought of as series of value chains which government owned and operated exclusively. In this respect, government was a both vertically and horizontally integrated organization. However, when governments began to outsource links of the value chains to the private sector, they affirmed that, while vital to fulfillment, those links could be removed, or modularized, from government's direct operational responsibility without harming performance.

But since a major platform of e-Government is the integration of customer and operational data throughout the enterprise, modularization can actually create inefficiencies by disrupting the flow of information between value chain links. This is especially prevalent in areas such as social services and law and justice, where governments are seeking to integrate customer services across different program areas. Governments will need to ensure that all steps in service delivery, from idea conception through execution, are integrated and managed accordingly by their partner networks.

3. The market of providers is unstable

As much as governments would like stability in their partners, e-Business market corrections are forcing firms all over the world into a whirlpool of mergers, acquisitions, divestitures, and bankruptcies. Today, more than in years past, there is a high risk that a partner currently under contract will lose its competitive advantage and be unable to perform to expectations in the near future—a contingency that could cost governments millions in re-procurements and abandoned projects. And while no companies are entirely immune, hardest hit are the stand-alone niche firms, particularly small application service providers (ASPs) that rely on self-defeating business models (witness US portal ASP GovWorks filing for bankruptcy in January, 2001). In fact, GartnerGroup estimates that in the retail sector, only 20 out of the existing 480 ASPs would survive through 2004.[6]

In addition, current approaches to partnering generally only address one facet of partnering decisions and consider only one task at hand. For example, there are many excellent, comprehensive guides written about how to create public-private partnerships (one of the best is "Public-Private Partnerships: A Canadian Guide" by the Canadian Federal Government), but focus nearly exclusively on tactics without addressing the strategic value or role of partnering to an entire organization's business goals in a turbulent environment. Likewise, current approaches consider neither the total value of all partnerships nor the value of internal competencies as they relate to each other. Instead, both are left as *de facto* sums: that if governments do the best job they can determining which projects require partnerships and then selecting the appropriate partner(s) on an individual basis, then they will have maximized partnership value on the whole. This is a rigid, linear approach that fails to account for the dynamic nature of modern government and the modern provider market.

Relationship Portfolio Meets the Needs of the Dynamic Enterprise

As strategic relationships become more critical for transforming the enterprise in order to provide world-class customer service, governments must take a more structured approach to managing their many key relationships. Accordingly, we offer the Relationship Portfolio (RP) approach, a new model that provides a strategic approach to partnering. By helping governments focus on an enterprise-wide level (as opposed to the usual program- or service-level view), RP helps governments realize the most from their partner network.

Granted, if it stopped here, RP could be just another word for outsourcing, but it goes considerably farther, not merely in responding to passing *ad hoc* needs, but in building a portfolio of relationships—relationships that can deliver value today and tomorrow, whatever the future may hold. The RP approach considers the full array of government's many partnerships, addressing today's needs and looking to the future value of relationships. We call it intelligent partnering; it is partnering that is "foresightful" and "anticipatory," both in building relationships and in nurturing partners before they're needed.

FIGURE 4: TRADITIONAL PARTNERING VS. INTELLIGENT PARTNERING

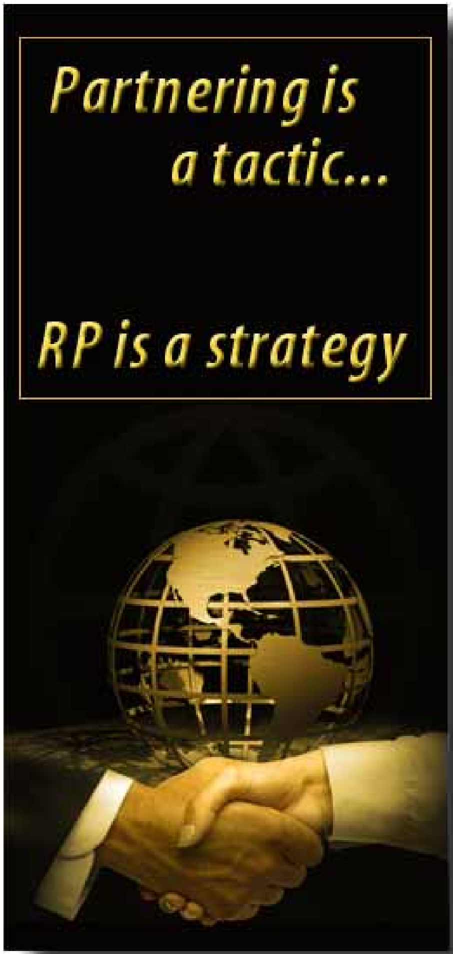
Traditional Approaches	Relationship Portfolio Approach
Short-term fix	Long-term solution
Current value only	Current value and option value
Partnerships for end products or services	Relationships for competencies
View of partnerships as zero-sum games	View of relationships as value-creating propositions
Independent partnerships	Interdependent relationships
Partnerships managed individually	Relationships coordinated as a portfolio
Inconsistently defined metrics, milestones and processes	Consistently defined metrics, milestones and processes

Source: Deloitte Research

Naturally, competition in the private sector is good for government in many ways, especially in creating a variety of products, services and providers available at different prices. But in today's complex public sector environment where cost is becoming less of a concern than quality,[7] governments cannot afford to limit their partnering strategy to a neatly packaged dichotomy of "we do this, someone else does that." With the Relationship Portfolio, governments have the kinetic strategy to transform their enterprises and realize four critical business benefits:

- **FAST: Equip the enterprise with the competencies to get the job done**
  Governments have plenty of jobs that need to get done today. If they don't have the competencies to do it themselves, they need to acquire competencies quickly from arms-length partners. Gone are the days when tedious and time-consuming RFPs were sufficient for the slow-moving enterprise. RP governments combine speedy procurement with best-value judgments to get the partners they need working as fast as possible.

- **FORWARD-LOOKING: Build an organizational ability to link partnering with strategy**
  When an organization begins to think of itself in terms of unbundled competencies, managers can begin to understand how those capabilities are used throughout the organization—and how they can be combined even more effectively with the skills of an array of partners. The result is not just a change in the composition of the organization and its vision of itself, but an ability to think more strategically—especially about the future.



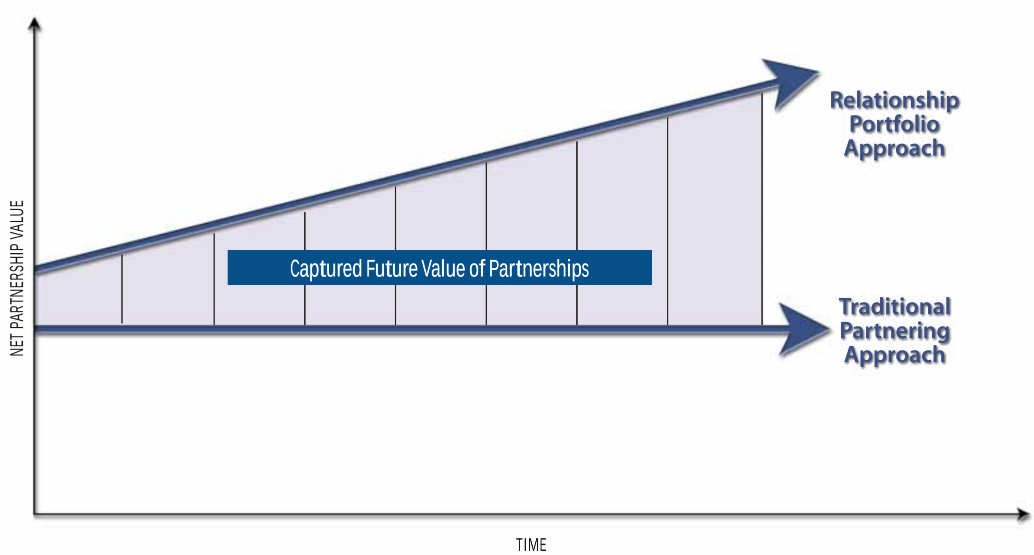
- **FLEXIBLE: Cope with a fast-changing environment**

  By developing a portfolio of relationships—each in various stages of development, and each addressing different links in the value chain—the organization can remain flexible in how integrated or modular its value chain truly is. Equally important, as expectations evolve, the organization can further integrate its value chain or outsource certain capabilities—yet without committing itself irreversibly to a particular course. The result is true flexibility—all in all, a new world of options married to strategic thinking and a far more kinetic organization.

- **FRUGAL: Capture the future value of relationships**

  RP governments partner not merely with the "best of the breed" in the pursuit of advantage, but they maintain and actively cultivate a potentially large number of diverse relationships so they can deliver services effectively tomorrow as well. Why? Because through RP, they have relationships in various stages of fruition. In this sense, RP goes far beyond mere "long term partnering," all by recognizing the changing nature of the business environment. Thus governments that embrace the Relationship Portfolio concept are uniquely positioned to capture both present *and* future value.

FIGURE 5: THE VALUE PROPOSITION: RELATIONSHIP PORTFOLIO CAPTURES FUTURE VALUES OTHERWISE LOST IN TRADITIONAL PARTNERING APPROACH



Source: Deloitte Research

The Relationship Portfolio Approach for the Public Sector

In the new model of partnering, government focuses its strategy around core competencies (Stage 1), builds the portfolio of relationships needed to create viable, complete value chains (Stage 2), and manages its portfolio of relationships in order to innovate and stay flexible in the face of changing customer demands (Stage 3). These three elements of the RP approach are shown in Figure 6.

FIGURE 6: THE RELATIONSHIP PORTFOLIO APPROACH

- Unbundle Competencies

- Transcend Organizational Boundaries
- Meet Current/Future Needs
- View Relationships as a Portfolio

- Manage Interdependencies
- Allocate Resources
- Monitor Performance

Source: Deloitte Research

Before governments began partnering more with the private sector, almost all service delivery was under their exclusive domain. Now, governments recognize that there are some functions that either they cannot nurture sufficiently, or that are no longer essential to their role as public service providers. This opens the door to extensive private sector involvement. Government executives most commonly express this sentiment as 'wanting to focus on our core competencies,' or another way, according to Roger Fisher, manager of Australia's Department of Finance and Administration: "Our philosophy has been to partner when we identify an area of our business that someone else can do better than we can."[8]

This switch to a "competencies" focus marks a powerful change for governments. When the organization starts to think of itself in terms of competencies, managers can begin to understand how they should be used, not only throughout the agency, but across organizational boundaries. The result is a strategy based on world-class competencies—all with a clear understanding of what the organization can do itself. And, equally important, what it cannot do and must partner to provide.

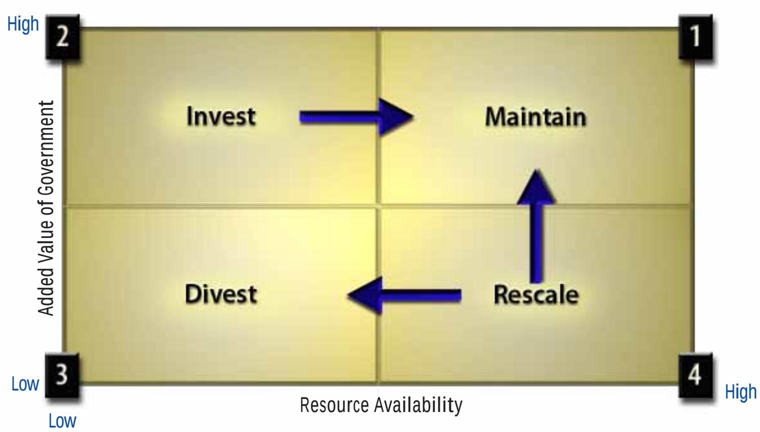
Unbundle Competencies

Mr. Fisher's perspective, one shared by many executives around the world, means that governments are beginning to think of themselves as organizations with unbundled competencies; i.e. specific strengths and weaknesses that determine where they should place themselves on service delivery value chains and where to reconfigure themselves with partners to improve service delivery.

For example, the State of Georgia's Technology Authority (US) is planning to outsource voice, data, two-way radio, wireless technology and support services such as billing and desktop management, but will retain overall management of related programmatic data. "It's not a core competency of state government to manage this communications infrastructure," says GTA's Michael Clark.[9] Defining core competencies, and deciding which should be kept in house and which should be removed to the private sector, is a decision unique to different governments (see Figure 7), but it allows them all to focus partnering priorities and resource investment most efficiently. It will also afford them more flexibility in adjusting investment according to future resource availability.

Just as governments have recently adopted an enterprise view of their customers, so too must they be able to take an enterprise view of their relationship partners. This will require governments to understand their own competencies, degree of dependence, and tolerance for risk. It will also require them to develop a set of business rules that will allow them to trade off benefits against risk.

FIGURE 7: WHAT DO YOU WANT TO DO BEST? DETERMINING CORE COMPETENCIES AND INVESTMENT PRIORITIES



NOTE: Based on their view of the public sector's role in service delivery and influenced by their unique mix of capital, human resources and technology, individual governments will determine what constitutes their core- and non-core competencies. This decision is the key starting point for governments to model how they will approach future partnering and investment. Core competencies for which they currently have sufficient resources to support should be maintained (1). If resources are not available, governments should adjust funding priorities to fuel the competencies they want to keep in-house (2). Non-core competencies with low resource availability are the best candidates to divest, transitioning them to outsourcing partners (3). If resources are still being applied (inefficiently) to non-core competencies, governments will need to decide if they want to divest the competencies or, hedging that the competencies should be kept in-house (maintained) in the future, reclassify them as core and rescale investment accordingly (4).

Source: Deloitte Research

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Build

Portfolio of Relationships

The whole axis of partnering has shifted from the acquisition of a product or service to one that emphasizes competencies. Why is this important? In the past, partnerships were established to resolve current problems such as budget shortfalls, or to provide services that are outside the capability of the organization. In contrast, the Relationship Portfolio approach is about focusing on the long-term, viewing relationships in terms of value-creating propositions, (creating benefits for both parties), and taking options on future innovations. Stage 2 requires governments to consider their current and future competency needs to build a portfolio of relationships.

Transcend the Organizational Boundary—Use Internal and External Competencies

A Relationship Portfolio government relies on the world-class competencies of its partners to complement its own. In addition, the government recognizes that its own competencies may have value to its partners.

For example, the United States Department of Labor (USDOL) is teaming up with Internet job market provider Monster.com to cross-promote employment opportunities in the public and private sector. The relationship will allow USDOL to augment its vast database of employment data, which in turn will help build on its already strong competency in labor market analysis.[11]

Meet Current and Future Competency Needs

Governments must assemble their portfolio of relationships to ensure a viable and complete value chain in the present while creating options for the future. In the short-term, a government with an RP strategy teams up with partners that can complement its competencies to produce leading-edge services. However, the strategy also allows the organization to keep a focus on the future, even as it builds a strong bottom line today.

One good example is the Commonwealth of Pennsylvania (US), which used an RP approach when it contracted with a partner to plan, build, and operate a federally mandated system for matching newly hired employees against a list of delinquent child support payers. The relationship was a natural fit. The agency had already done extensive work with the partner in building its IT system for state-wide child support enforcement. In essence, by keeping the partner close and being intimately knowledgeable about the partner's capabilities, Pennsylvania reserved an option on the partner during the child support enforcement project, and activated the option for the new-hire project.

View Relationships as a Portfolio

Once a government determines its core and non-core competencies, it gains a clear picture of both the relationship needs and the function of each relationship. The next step is to place the competencies in a context that also addresses current and future needs. To do so, governments should think along the following functional lines:

- **Exploit:** ***Leverage existing internal competencies toward value-producing ends***

  Example: Montgomery County, Maryland (US) wanted to maintain application and artistic control over its new web portal, eMontgomery, so it *exploited* its technical and managerial competencies and kept the responsibilities in house.

- **Access:** ***Incorporate partner companies' competencies toward value-producing ends***

  Example: The Central Government of Australia uses its Endorsed Supplier Arrangement (ESA) to *access* competencies in a way that draws the best of world-class partners and cuts procurement time and cost dramatically. The government sets criteria that prospective vendors must meet to be qualified as a partner in general IT and major office machines

(MOM). The Government then selects pre-qualified partners as needs arise. Vendors can submit applications and update their details online. Meanwhile, government buyers have online access to the vendor list via the GovOnline Solutions Exchange.

- **Build:** ***Improve or expand internal competencies***
  Example: Birmingham City Council (UK) wanted to *build* its competencies in customer service, but lacked the expertise either to plan for, or incorporate the necessary technology. With the assistance of a strategic planning partner, the Council created the blueprint for a revolutionary Corporate Contact Centre that will employ CRM technology to streamline customer inquiry resolution across multiple departments. In addition, the Council will outsource the management of the Centre's operation and software to a private sector partner.

- **Hedge:** ***Create options on competencies that may be needed to respond to unforeseeable threats and opportunities***
  Example: Liverpool City Council (UK) is outsourcing many information and communications technology services to BritishTelecom (BT). Part of the arrangement has Council staff transferring over to BT, a common practice in outsourcing throughout the world. However, because the Council values its investment in the professional competencies of its people highly, it has taken a unique approach that allows it to *hedge* against future uncertainties of the deal. Staff members will operate under the daily management aegis of BT, but will remain employees of the Council. This way, they have the opportunity to learn new skills from a world-class firm, while the Council retains the future option value of its investment. (See the full case study on Liverpool for more details of its unique RP approach.)

Exploiting a Core Competency: *IT Management in the City of Tilburg*

The city of Tilburg in the Netherlands views the management of its IT infrastructure as a core responsibility not suited to outsourcing. To ensure high performance, the city created an independent management agency, the Internal Facilitating Service Unit (SIA), and charged it with overseeing the servers, applications, security and data management of all other government departments.

Borrowing a best practice from traditional outsourcing, SIA establishes service-level agreements with each department that, as the city is mindful of cost control, must be superior to those offered by the private sector.

Exploiting a Core Competency

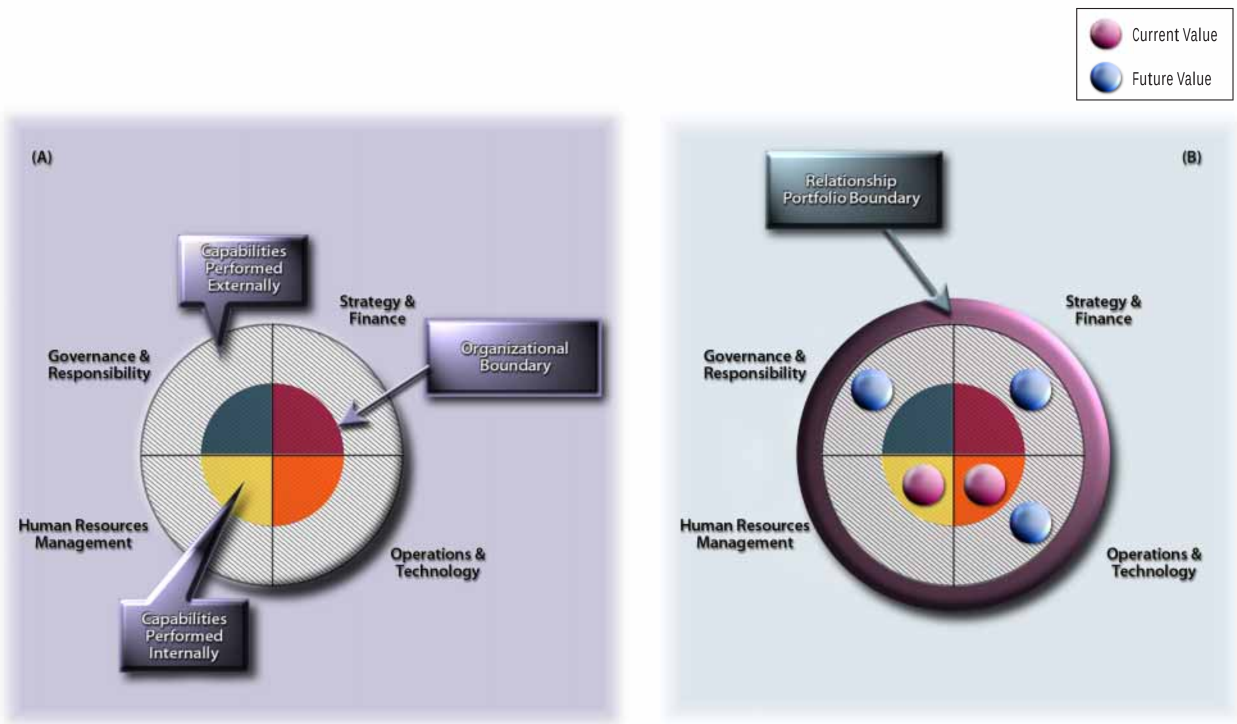
The evolution to a Relationship Portfolio from the organizational perspective is illustrated in Figure 8. Section (A) shows the four functional competency areas historically performed within governments. In an RP government, these activities can fall within or outside of traditional government boundaries, as shown in section (B).

With the overarching goal of executing its strategy successfully, the RP government must ensure that its portfolio of relationships has appropriate coverage in each of the four functions. If it does, then it will have the flexibility to outsource services to achieve higher operational activities - or to create new services and drive innovation. The terms of individual relationships, such as duration, can also vary according to desired outcomes.

To assemble a sound portfolio, governments need a stable of partners that will grant them optimum current and future value as well as a process for acquiring and retaining them efficiently.

> "We have a firm policy of outsourcing government IT projects which on the one hand relieve Government's capacity constraint and on the other hand help promote our IT industry. We have pledged to outsource at least 2/3 of new IT projects. In 2000, we outsourced $1.22 billion of work out of a total of $1.46 billion (or more than 80%). We will also proceed to outsource application maintenance work. Government's core competencies will remain on steering, coordinating and monitoring implementation. Actual implementation work can be left to an external service provider."
>
> *Alan Siu, Deputy Secretary, Hong Kong Information Technology & Broadcasting Bureau*

FIGURE 8: THE EVOLUTION TO A RELATIONSHIP PORTFOLIO GOVERNMENT



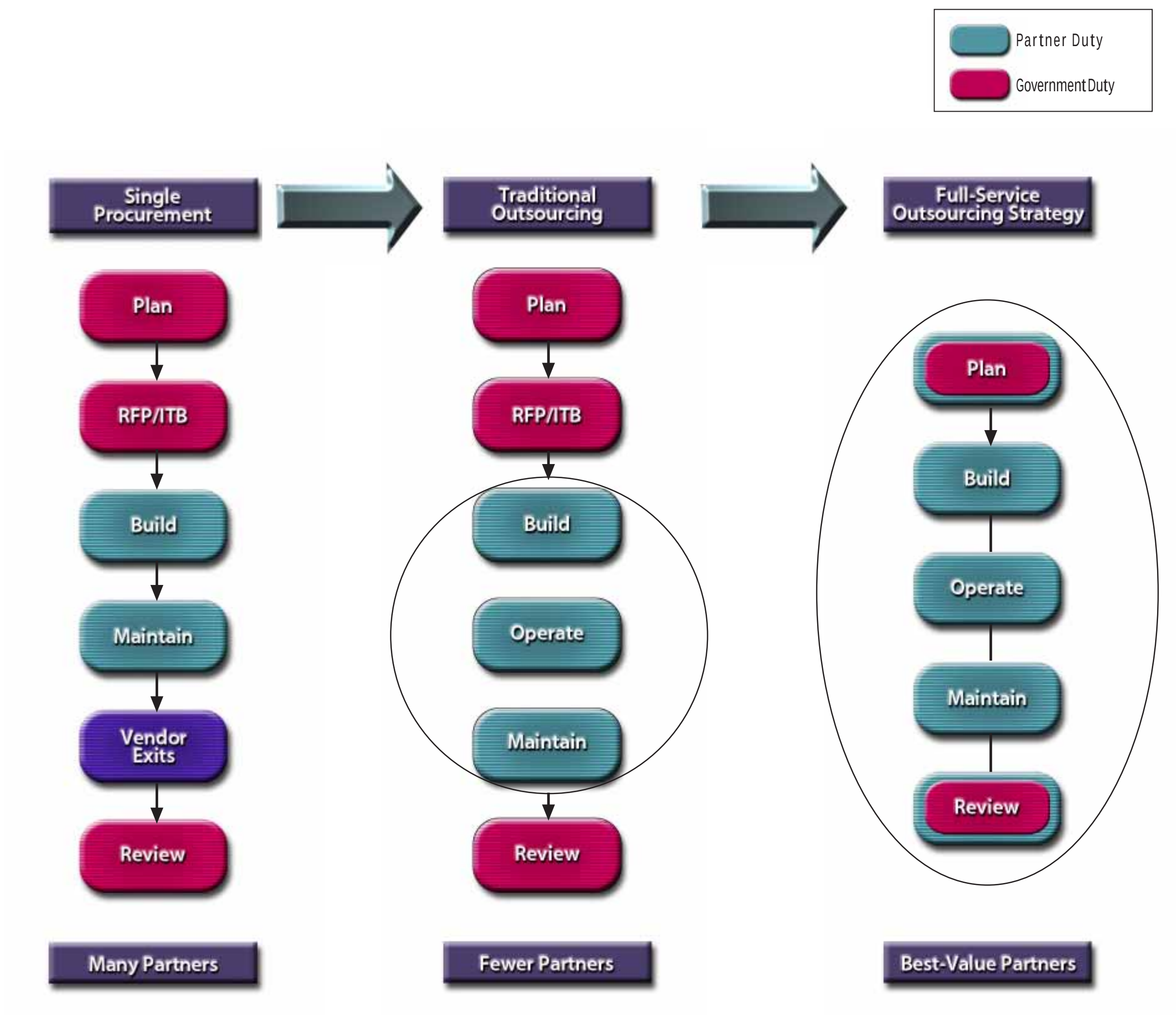
Source: Deloitte Research

Choosing Valuable Partners

In a vibrant and global market of suppliers, partnering—particularly outsourcing—is a practical and affordable choice for governments. The issue is how to pick those partners more intelligently, especially as customer-centrism increasingly pressures governments to integrate services. To realize this goal—and especially to accommodate fast-changing future needs—governments need partners that can bring a broader range of competencies to the table quickly. Key characteristics to look for include:

- **Full service ability:** Partners that have the world-class experience to plan, build and—critical for outsourcing—operate both technology- and human resources-intensive services (see Figure 9);
- **Relationships:** partners that have relationships with other world-class companies to complement their own best-of-breed competencies;
- **Financially viable:** partners that are stable enough to weather the storms of market volatility without sacrificing service levels;
- **Willingness to invest and/or accept risk:** Partners that take an active stake in government to improve each other's competencies.

FIGURE 9: EXPANDING VALUE: USING FULL-SERVICE PARTNERS TO INTEGRATE VALUE CHAINS AND ACHIEVE BETTER ECONOMIC PAYOFFS



Source: Research

Once a government has reached a definition of its core competencies, the relationship needs (that is, how it intends to service non-core competencies), and the nature and function of these relationships will become clear. Still, as a strategic response to the rapid changes in the network economy, RP does not mean governments should seek only large, full-service partners for its portfolio.

On the contrary, there are many unique situations that could call for specialized providers; such partners should be included. In Hong Kong's case, Deputy Secretary Alan Siu says: "In some cases, we would prefer a one-stop service, and deal with a single contractor or operator which, of course, can engage other partners or sub-contractors. In other cases, the Government may engage more than one business partner in order to enhance competition…and to provide more diversified services. For example, [we have] multiple service providers in the Digital Map project of the Lands Department."

But if governments wish to outsource more complex services and achieve the greatest economies of scale through integration, they will need full-service partners to take prominent positions within their portfolios.[12] Liverpool City Council in the UK is a prime example of a government engaging in large-scale outsourcing while using RP principles to capture short- and long-term option value in its partnership—all without sacrificing organizational control.

Liverpool City Council's outdated technology would not allow it to comply with the UK push for 100 percent of services to be online by 2005. At the same time, Liverpool could not afford the necessary upgrades. Further complicating matters, the outsourcing regulations of the Compulsory Competitive Tendering system developed during the 1980's were highly prescriptive and inflexible, allowing little scope when assessing service delivery options. In response, the city used RP thinking to:

- Create a much more fluid partnering arrangement;
- Select a consortium of technology providers—all led by UK mogul BritishTelecom's BT Ignite Business Solutions (BT)

Partnership Components

According to Councillor Chris Newby and executive director David McElhinney, the Government's 2005 target for placing 100 percent of public services on line "was viewed as a singular opportunity [for Liverpool] to finally shed its legacy IT systems and implement an integrated standardised platform which will accommodate next-generation technologies." The strategy was partnering intelligently with the private sector, both to meet the current costs of IT migration and to ensure that Liverpool would stay current with future technology. The result is as follows:

- A ten-year strategic partnership between Liverpool and a consortium lead by BT;
- The creation of a joint venture company in which the city council holds a 19 percent stake;
- Provisions allowing council staff to work for the joint-venture company while remaining city employees - in effect, cross-training;
- Options to cancel the partnership if specific performance standards are not met.

Benefits

In providing world-class citizen-centric services, Liverpool's partnership with the BT consortium positions the city for several major benefits:

- BT will provide a range of services over the contract period, including information & communications technology, revenues & benefits, Council Tax, Human Resources, Payroll and Liverpool Direct (the council's call center);
- In the first three years of the partnership, BT will invest £30 million in new technology, with £55 million being invested in information and communications technology over the length of the contract period;
- A jointly established business center will bring the added benefits of job creation and urban regeneration.

Liverpool offers a strong example of the Relationship Portfolio approach at work—in this case, by using one large partner as a conduit to a host of other partners. As a model of long-term partnership, it is flexible enough to accommodate change. It offers human resources so staff can continue to develop skills without the risk of Liverpool losing them. And it offers broader benefits such as urban regeneration and the acquisition of best practices.

"*When we chose BT as partners, we did not just sign up to a 'one-size-fits-all' deal, but adopted an arrangement focused on our particular needs.*"

--Chris Newby and David McElhinney

A significant opportunity to capture value lies not just in managing the individual relationships, but also in managing the set of relationships as a portfolio. Doing so successfully means taking any interdependencies among strategic relationships seriously, allocating resources strategically, reviewing performance regularly, and acting as necessary.

It is important to recognize that the partners within a portfolio have interdependencies, meaning that the relationships formed can significantly affect the rest of the portfolio. In particular, it is conceivable that a government might have relationships with direct competitors but may require them to work together on a particular project.

For example, the Commonwealth of Kentucky's Strategic Alliance Service (US) pre-qualifies a select set of vendors, many of which are competitors, with different competencies and allows them to partner in order to provide unique solutions to the government (see case study for a full description of Kentucky's RP approach).

RP governments should also be cognizant of the fact that their partners may have Relationship Portfolios of their own, not only providing access and opportunities but also containing interdependencies and potential conflicts. In other words, governments must consider how existing relationships impact the strategic options available to them.

> "MOD (Ministry of Defense) now recognises that, since long term relationships with certain suppliers are inevitable (especially in equipment support), these should be conducted in a co-operative manner wherever possible. Taut contracting and public accountability remain essential. But we must develop real relationships to deliver mutually beneficial outcomes. The Defence Procurement Agency and the Defence Logistic Organisation will be at the fore-front of our efforts to transform our relations in the support area."
>
> *John Spellar, MP, UK Minister of State for the Armed Forces, March 2000*

Strategically Allocate Resources to Relationships

In a Relationship Portfolio, "allocation" refers to the provision of resources to each relationship. In the optimal view, a government should invest management time and resources in a way that corresponds directly to the relationship's value to the government.

To ensure proper allocation of resources, the strategic value of each relationship must be understood. It is easy to recognize both the costs and benefits of relationships that exploit or access current competencies. However, the time and money spent on relationships that build new competencies internally or hedge against uncertainty should be recognized for the option values they bring to the organization. Also, by laying out the competencies or strategic opportunities that partners can supply precisely, RP governments have a better idea of what to invest in the relationship. Such knowledge helps governments provide services more effectively.

Monitor Portfolio Performance

As with financial portfolio management, RP management involves reviewing the performance of the individual holdings, as well as the performance and diversification of the portfolio as a whole. In addition to conducting periodic reviews, the RP manager must review the performance of the relationships when a trigger event occurs. For example, relationships would be re-examined when they fail to deliver, when strategic or tactical objectives change, or when a given competency could yield more when recombined with another competency realized through an alternative relationship or set of relationships. Australia's Endorsed Supplier Arrangement lets the government continually ensure the quality of its relationship portfolio by conducting regular reviews of endorsed partners with the option of removing preferred status.

By contrast, some initially complex relationships may become simpler as conditions change. In any case, a government using the RP approach should regularly assess and clarify business decisions about the true nature and current value of every relationship. This is a central feature of the portfolio of relationships created by the Commonwealth of Kentucky (US), an early innovator of the RP approach.

"In a best-of-breed approach, where the government outsources specific services to the providers offering the best value, the government has the advantage of ensuring top-quality services in every area. This strategy, however, requires strong relationship management skills and very clear descriptions of service boundaries and service level specifications (metrics)."

Peter Bendor-Samuel,
CEO of the Outsourcing Center

Allocating Resources to Build Competencies: *e-Michigan*

To become a world leader in e-Government service delivery, the State of Michigan created an entirely new organizational entity, e-Michigan, dedicated to planning, building and operating its enterprise-wide portal.

Michigan could have outsourced the entire function, but wanted to build on its existing strong technical competency while accessing complementary skills from the private sector. The state then set up seven divisions within e-Michigan and allocated state employees from several agencies to work side-by-side with employees from the primary partner. Both share visioning responsibilities while the state takes the lead in content development and portal deployment and the partner takes the lead in program management and change leadership.

Allocating state resources affirms Michigan's commitment to making the relationship generate value both today and for the future. With this structure, e-Michigan will be better able to drive and coordinate innovation throughout the state, fulfill customer needs and retain the leadership expertise of its current employees.

http://www.state.mi.us/migov/e-michigan/index.asp

Allocating Resources to Build Competencies

The Commonwealth of Kentucky required a better system than its traditional, cumbersome Request for Proposal (RFP) process—especially if it was to drive the technology priorities and the stronger vendor relations objectives of its government-wide reengineering initiative EMPOWER Kentucky. The result embodies Relationship Portfolio thinking at work in the Strategic Alliance Services (SAS) that allows Kentucky to manage its relationships for maximum current and future value. For example:

- The partners are all in different ways competitors with each other, yet have all agreed to work together if the Commonwealth sees fit;
- The allocation of partners is such that the Commonwealth has diversified its portfolio to cover the entire spectrum of IT capabilities;
- The contract length affords Kentucky the opportunity to evaluate partner performance over enough time to acquire real metrics and make more informed decisions about adjusting the portfolio's composition.

Specific Partnership Components Under SAS

- IT vendors submit their qualifications to the Commonwealth's Office of the Chief Information Officer;
- The Office selects 5 full-service providers and 10 niche providers based on their expertise in project management, system design/development/enhancement/implementation and management;
- Contracts are awarded for 3-year periods with two options for 1-year renewals. When IT projects arise, the Commonwealth only has to choose from the pre-qualified list.

Added Benefits

SAS provides a number of other benefits that greatly enhance Kentucky's ability to meet its current and future IT needs

- A long-term, yet flexible relationship between the Commonwealth and industry-leading IT service providers—providers that have extensive experience, expertise, and resources to address the agency's business problems;
- A procurement process that integrates "best practices" and "best of the industry" to meet Commonwealth service delivery and business needs;
- A procurement process that is much less prescriptive than the traditional RFP process. Instead of merely responding to rigid technical requirements, the new process allows vendors the freedom to propose creative solutions for agency business needs;
- Opportunities to engage providers in a variety of funding and risk sharing approaches;
- Niches and partnerships/subcontracts that allow access to expertise in an agency's service category within an adequate response time.

SAS also satisfies the functional lines of the relationship portfolio: it (1) *builds* competencies in allowing partners to use subcontractors with specialized skills; *(2) exploits* competencies by using Commonwealth staff in joint application development sessions with partners and; (3) *hedges* risk in defining one of the explicit partner responsibilities as assisting the Commonwealth with evaluating emerging technologies.

Where Kentucky once was forced to spell out micro details for static system requirements, now it understands that its needs are more complex and dynamic. Accordingly, it lets partners respond with creative solutions to business problems. That's another aspect of partnership—the dialog essential in a time of fast-breaking change.

See more details of EMPOWER Kentucky at http://www.state.ky.us/agencies/gov/empower/

Critical Success Factors for Implementing the RP Approach

As demonstrated in the previous sections, adopting a Relationship Portfolio approach requires little structural reconfiguration; instead, a shift in focus away from completing singular tasks to maximizing the current and future value of partnerships. It is a significant step forward in the evolution of applied strategic thinking that affords executives the perspective to account for a broader range of economic factors when making critical partnering decisions affecting their realm of responsibility. While RP thinking incorporates many of the leading-edge developments in partner acquisition and management, there are a few key areas which require new or renewed attention at each RP stage.

To implement the RP approach most effectively, governments should incorporate the following critical success factors into the partnering process (See Figure 10 for recommended tactics):

1. Link RP Strategy to the Budget Process

Using the RP approach, governments will have a much clearer picture of the priority and funding levels different operations and projects require. Not only does the approach apply to line managers submitting budgets, it also can be used by executives responsible for requesting budgets. When both parties view their organization in terms of core- and partner competencies, it will be easier to identify and communicate the true value of any initiative in addition to determining if, when, and how it should go forward.

2. Intensify Market Awareness

The more executives know about the market of providers, the better equipped they will be to eliminate questions about a provider's potential value to the organization. The speed with which new players enter a market and established players retool their offerings makes it imperative that executives stay atop of all industry developments. Who's hiring? Who's downsizing? Who's formed an alliance with whom? What new products and services are available? Which don't deliver? These questions do not necessitate executives enduring more sales calls, just a renewed focus on how provider activity relates to potential partnering needs.

3. Incorporate Option Value into Evaluation Criteria

In the past few years, governments have done a remarkable job of detailing scoring criteria for evaluating partners in procurements, including task-by-task competency, employee composition, fiscal solvency and many others. Governments should also evaluate the option value of each partner to possible related or future projects, using scores from other criteria. This will help governments boost net partnership value by keeping the most valued partners closest to the enterprise.

4. Increase Hedging in Risk Management

The volatility of provider markets, funding levels and even socio-political infrastructure has elevated risk levels to new heights. Governments need contracting terms that transfer the most amount of agreeable risk to partners while allowing them to alter terms as conditions change. These should also allow governments to add, drop, or otherwise modify partnerships with increasing speed and latitude.

5. Formalize Relationship Management

While the public sector has been adept at managing a number of relationships—mainly suppliers and sub-contractors—on a narrow, division-by-division basis, coordinating a Relationship Portfolio takes on a strategic role and requires a mechanism to control the flow of value between government and its partners. Like they've successfully done with executive-level CIOs, governments should either appoint a chief *relationship* officer (CRO) or redefine the role of the chief procurement officer to include the assessment of current and future partnership value at the division, department or enterprise level.

FIGURE 10: CRITICAL SUCCESS FACTORS FOR MAXIMIZING THE BENEFITS OF THE RP APPROACH

RP Stage	Critical Success Factors	Tactics
1 **Develop** Competency-Based Strategy	Link RP strategy to the budget process	▪ Audit current performance with RP principles ▪ Include RP principles on budget forms
2 **Build** Portfolio of Relationships	Intensify market awareness	▪ Establish centralized, Web-based clearinghouse of market data ▪ Review Investor Relations sites on public companies' web pages
	Incorporate option value into evaluation criteria	▪ Identify possible related- or future projects where candidates could be valuable ▪ Define basic metrics for option value
	Increase hedging in risk management	▪ Use performance-based payment ▪ Execute frequent performance reviews tied to contract length
3 **Manage** The Relationship Portfolio	Formalize relationship management	▪ Appoint Chief Relationship Officer ▪ Redefine roles of Chief Procurement Officers

CONCLUDING REMARKS

While governments do not operate in the same global competitive environment as the private sector, they are not immune to the far broader technological and policy shifts taking place as the network economy expands. Governments will have to operate in the same innovation and skills space frequented by other sectors of the economy, and therefore will need to adapt to a constantly changing environment.

The Relationship Portfolio offers the best approach, allowing a government to meet a variety of current and future strategic goals without locking it into unnecessarily rigid procedures. The model enables an organization to define its core competencies, shape its investment priorities, build a stable of valuable partners, and make better-informed partnering decisions to deliver on service mandates more efficiently and effectively. Over time, governments that adopt the RP approach will be not only more prepared for quick shifts in policy, but also strongly positioned to use turbulence in technology, funding, and the market of providers to their advantage.

ENDNOTES

[1] This strategy is based on the Deloitte Research report "The Relationship Portfolio: Intelligent Partnering in the New Global Economy." The original report was developed for and initially presented at the 2000 World Economic Forum in Davos, Switzerland, earning wide acclaim from executives around the world. Though the original report was created for private sector companies, it offers great value to the challenges of making e-Government initiatives a success. Here, we have adapted its key principles to the public sector in order to provide governments with a unique tool to help equip themselves with the competencies to continuously deliver high-quality customer service.

[2] "Outsourcing Succeeds." *Government Computer News*. January 2001.

[3] "Executive Guide to IT Outsourcing in Europe." INPUT. March 2000.

[4] "IS Outsourcing Market: Size, Growth, Opportunity, Trends and Drivers, 1999-2004. International Data Corporation. March 2000.

[5] "Georgia to outsource telecom." *civic.com*. May 2001.

[6] "Analyst Predicts Major Shakeout Among ASPs." *TechWeb*. August 2000.

[7] Comment by Adrian Moore, director of privatization and government reform for Reason Public Policy Institute (US) in "From Suppliers to Sophisticated Shoppers." *OutsourcingGovernment.com*. April 2001.

[8] "Extending Australia's Global Reach by Outsourcing." *OutsourcingGovernment.com*. April 2001.

[9] "Georgia to outsource telecom." *civic.com*. March 23, 2001.

[10] Interview with Don Farley, March 2001.

[11] "Labor Department To Share Data With Monster.Com." *Newsbytes*. June 20, 2001.

[12] There is also a decided economic advantage to using partners who can plan, build and operate systems or functions. Dr. John Allan of the Saskatchewan Institute of Public Policy (Canada) wrote in "Public-Private Partnerships: A Review of Literature and Practice" (1999): "…if a private-sector partner is aware that they will be responsible for the design, building and operation of a project (a DBO project), features that contribute to the minimisation of operating costs will be designed and built into the structure. This may add to the construction and financing costs, but the resulting operating economies more than compensate for this."

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