

'State of the Public Enterprise'

A Scouting Report

George K Beard
Senior Instructor & Principal
Executive Leadership Institute
Hatfield School of Government
Portland State University

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Today's Presentation

We will explore the some strategic issues public enterprises ...

- Not to bum you out
- But to provide a scouting report
- And condition you for the tough challenges ahead

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Today's Presentation

During this session we'll consider and discuss ...

- Four converging drivers that threaten the capacity and vitality of public enterprises
- What it means to your customers
- What it may mean to you

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The Gathering Storm

Converging drivers

1. Fiscal crisis of monumental proportions;

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Converging drivers

1. Fiscal crisis of monumental proportions;
2. Workforce challenges;

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Converging drivers

1. Fiscal crisis of monumental proportions;
2. Workforce challenges;
3. New genus of consumer-conditioned citizens; and,

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Converging drivers

1. Fiscal crisis of monumental proportions;
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3. New genus of consumer-conditioned citizens; and,
4. Aging business model and service platform

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Converging drivers

- 1. Fiscal crisis of monumental proportions;**
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Fiscal Crisis

- Proposition 13
- Deferred maintenance
- Unfunded mandates
- Good intentions; bad policy
- Bloated benefits

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Fiscal Crisis – Proposition 13

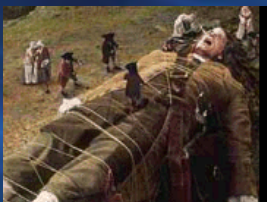
- Property tax initiatives (1978 – today)
- “Government *is* the Problem”
- The Price of Government (see Peter Hutchinson and David Osborne)

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Fiscal Crisis – Proposition 13

- 25-years of Lilliputian tax limitation measures



Gulliver's Travels by Jonathan Swift

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Fiscal Crisis – Deferred Maintenance

- Deferred maintenance = increased safety hazards, poor service to the public, inefficient operations, and, eventually, higher costs in the future
- Competes for funding with other government programs; robs present-day needs to pay for past-commitments

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Fiscal Crisis – Deferred Maintenance

- Things that need maintenance:
 - Airports, roads and bridges
 - Schools and libraries
 - Hospitals and clinics
 - Sewers and treatment plants
 - Communication systems
 - Prisons, parks, public office buildings

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Fiscal Crisis – Deferred Maintenance

- Price tag is untallied and unimaginable
- Converging and aggregating
- Like having to personally replace the roof of your house, sidewalks, furnace, and major appliances all at once

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Fiscal Crisis – Unfunded Mandates

- No Child Left Behind
- Occupational Safety and Health Act
- Family and Medical Leave Act
- Americans with Disabilities Act
- EPA's Superfund
- Costs to states – 4-8% of their general fund budgets

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Fiscal Crisis – Good Intentions; Bad Policy

- The Prescription Drug Bill
 - a case study in political pandering ... an arms race between both political parties to see which could give away more the fastest
 - now estimated to cost \$1.2 trillion, dwarfing Bush's original proposal by 60% ... and it just took effect in about 36 months ago!

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Fiscal Crisis – Good Intentions; Bad Policy

- President Bush's plan to make most of his tax cuts permanent
 - Would increase the national debt by \$4.1 trillion over the next 10 years
 - Ballooning the national debt 60%

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Fiscal Crisis – Good Intentions; Bad Policy

- Mandatory Sentencing Guidelines
- Three Strikes You're Out
- In America today, we rob our schools to pay for prisons (per capita annual cost of incarcerating state offenders roughly equal to a year's tuition at Johns Hopkins)

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Fiscal Crisis – Bloated Benefits

- Public pension funds are also in trouble
- Of the 123 largest funds monitored by the Wilshire Group, 79 % are under funded
- Nine states have liabilities that exceed their annual budgets

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Fiscal Crisis – Bloated Benefits

- The total shortfall could be as high as \$1 trillion within seven years.
- With all other state, municipal, and county funds added in, the number could be \$2 trillion!

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Fiscal Crisis – Bloated Benefits

- The real time bomb is the cost of health care
- The cost of care associated with the graying of our population is simply eating government alive. Consider:
 - Rises 10% per year
 - Consumes 15% of GDP
 - Governments pay 45% of the bill

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Fiscal Crisis – Bloated Benefits

- Rising costs driven by aging population
- Endless appetite for new hearts and knees, new drugs for cancer and heart disease and AIDS
- In America today, poverty wears diapers, 40M families lack healthcare, but seniors get hip replacements
- We pay for illness care rather than health care

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Fiscal Crisis – Bloated Benefits

- In 1985, Medicaid cost \$40 billion and consumed 11% of state budgets;
- Today it costs \$230 billion and consumes 20%.
- Health insurance for state employees and the non-Medicaid poor takes another 10%.

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Fiscal Crisis – “Blank Check” Financing

- Congress appropriated \$61B in days following Hurricane Katrina
- Costs currently estimated at \$150B and rising
- Should the City of New Orleans be rebuilt as it was?
- Where will the revenue come from to pay for it?

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The Bush debt contribution: \$36T

- *What's a trillion dollars?*
- *A trillion is a million million dollars.*
- *If you laid one dollar bills end to end, you could make a chain that stretches from earth to the moon and back again 200 times before you ran out of dollar bills!*

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The Bush debt contribution: \$36T

- *One trillion dollars would stretch nearly from the earth to the sun.*
- *It would take a military jet flying at the speed of sound, reeling out a roll of dollar bills behind it, 14 years before it reeled out one trillion dollar bills.*

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Fiscal Crisis – Bottom Line

- By 2030, the entire federal budget will be consumed by Social Security, Medicare, Medicaid obligations, and debt service.
- State and local budgets are **unsustainable** and, the practice of “thinning of the soup” is bound to continue--which will only compound the problem of eroding citizen confidence (we pay too much and get too little ...)
- Our children set up to be the *Debtor Generation*
- Climate is defensive and resistant to change

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Fiscal Crisis – Bottom Line

- **Monies to invest in the nation's future needs are cannibalized** by excessive and irresponsible past commitments
- Toss in the revenue erosion that could result from globalization-driven job losses
- Situation is further exacerbated by the large numbers and temperamental demands of the Baby Boomers coming into retirement
- (Have a nice day!)

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END OF PART I

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Converging drivers

1. Fiscal crisis of monumental proportions;
- 2. Daunting demographics;**
3. New genus of consumer-conditioned citizens; and,
4. Aging business model and service platform

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Workforce Challenges

Today's emerging workforce trends are unlike any we have seen

- Shrinking
- Changing
- Lacking in requisite skills
- Disengaged

Source: Deloitte Consulting

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Workforce Challenges

Workforce lacks requisite skills

- Estimated that 60% of future jobs will require training that only 20 % of the current workforce possesses.
- Today, 85 % of jobs require education beyond high school, compared to 61 % in 1991.

Source: Deloitte Consulting

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Workforce Challenges

Workforce lacks requisite skills

- Only 72 % of Caucasian high school students – and just over 50% of African-American and Latino students – graduate from high school.
- Only 32 % of white high school students – and less than 20 % of African-American and Latino students – have the qualifications necessary to continue their education at the college level.

Source: Deloitte Consulting

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Workforce Challenges

Many industries will suffer

- In many industries, more than 40% of managers are eligible to retire in next few years.
- In the United States, jobs for registered nurses will grow 23% by 2008. By 2012, the shortfall is expected to exceed 1 million ... while the Baby Boom generation queues up for Medicare!

Source: Deloitte Consulting

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Workforce Challenges

Many industries will suffer

- NASA has projected 2 million science and engineering workers will retire by 2010 – yet only 198,000 students to fill vacancies.
- In the United States, only 5 percent of the college-age population earns a science and engineering degree (42 percent in China).

Source: Deloitte Consulting

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Workforce Challenges

The public sector picture is troubling

- At the federal level, more employees in their 60s than in their 20s!
- Nearly 50% of all federal workers eligible to retire within next four years, including almost 70% of supervisors/managers.
- At state and local level, nearly half of the workforce eligible to retire by 2010.

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Workforce Challenges

The public sector picture is troubling

- Key people are leaving
- Examples:
 - Half of the nation's air traffic controllers heading for retirement by 2012 as they hit the mandatory retirement age of 56
 - Scientists and engineers who are over 60 at NASA outnumber those under 30 nearly 3:1

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Workforce Challenges

The public sector picture is troubling

- Past hiring freezes and downsizing means the reservoir of future leaders, managers, and critical technical staff is getting thin.
- Where will the replacement talent come from?

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Workforce Challenges

View from the States

- More than 25 states will experience huge employee turnover in the next decade.
- The hardest hit will be our neighbor to the north, the state of Washington.
- 64% percent of Washington's workforce is eligible to retire in the next 10 years.
- Maine, Tennessee, Michigan and Pennsylvania are right behind.

Source: Stateline.org

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Workforce Challenges

Consequences

- Talent competition among public enterprise
- Loss of institutional memory at the very time public support is eroding and as budget decrementalism continues
- Additional stress on state pension systems and health insurance costs

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Workforce Challenges

Consequences

- Acute shortages of state healthcare workers, legal professionals, natural scientists, engineers, educators and managers
- But ... possible opportunity for renewal for those public enterprises opportunistic to attract top talent. Fast track opportunities for young public managers ...

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Workforce Challenges

"Inaction will make the problem worse, not better. This is a permanent problem, not a temporary one."

Kotlikoff and Burns, [The Coming Generational Storm : What You Need to Know about America's Economic Future](#)

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Workforce Challenges

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Converging drivers

1. Fiscal crisis of monumental proportions;
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3. **New genus of consumer-conditioned citizens;** and,
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The New Consumer-Conditioned Citizen

1. New Wired Majority
2. From Me Generation to the *i*-Generation
3. *Homo connectus* and *homo entertainus*
4. The rise of the e-Citizen; a different genus of citizens?

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Example: Teens and Technology

- Nearly nine in ten teens wired.
- Teens are technology rich and enveloped by a wired world
- Technologies attributes: personal, fast, portable, embedded, powerful, multi-media based, affordable, convenient, ubiquitous, wireless, multi-purpose, integrated, interactive.

Source: Lenhart, A. Madden, M., Hitlin, P., *Teens and Technology: Youth are Leading the Transition to a Fully Wired and Mobile Nation*. Washington, DC: Pew Internet & American Life Project, July 27, 2005.

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Teens and Technology

- Half of families with teens have broadband.
- 45% of teens have cell phones and 33% are texting.
- Email is still a fixture in teens' lives, but IM is preferred.
- Older girls are power communicators and information seekers.

Source: Lenhart, A. Madden, M., Hitlin, P., *Teens and Technology: Youth are Leading the Transition to a Fully Wired and Mobile Nation*. Washington, DC: Pew Internet & American Life Project, July 27, 2005.

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The Rise of the e-Citizen (2004 data)

- 42 million citizens researched a policy
- 23 million sent comments
- 14 million gathered info. to help them cast votes
- 13 million participated in organized lobbying campaigns

Source: Pew Internet and American Life Project

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New, Consumer-Conditioned Citizens: The Bottom Line

- Citizens online now the norm
- Government lags, exacerbating confidence problem
- The medium is the message
- Next generation citizens likely to be estranged from an out of touch government

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Converging drivers

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Business Models Matter

- *"Why Business Models Matter"*, Joan Magretta, HBR, May 2002.
- Business models describe, as a system, how the pieces of a business fit together.
- Effective business models address certain questions: Who is the customer? What underlying economic logic explains how we can deliver value to customers at an appropriate cost? Etc.

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Business Models Matter

1. Business model for government in many ways is its 'Operating System'
2. Unfortunately the 'Operating System' for government is several versions behind
 - Typically runs in batch mode
 - Programs loaded manually
 - Fragmented APIs
 - "Flat file behavior:
 - User unfriendly – CP/M (1980; 8-bit OS) in a Windows Vista world

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Business Models Matter

- Conventional, physical model of government evolved from the 19th century
- Perfected in the 1950s.
 - staff-intensive
 - place-based
 - forms-oriented
 - over-the-counter
 - inward-focused

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Public Sector Rorschach Test



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Government Business Models Considered

CONVENTIONAL

- Hierarchy
- Fixed
- Pyramid
- Span of Control
- Past
- Authority-Based
- Inside-Oriented
- Bordered
- Top-Down

TRANSFORMED

- Network
- Fluid
- Flat
- Span of Communication
- Future
- Relationship-Based
- Outside-Oriented
- Boundaryless
- Out-Bound

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Government Business Models Considered

CONVENTIONAL

- Over the Counter
- In Line
- 8:00-5:00
- Monday-Friday
- Agency-Centric
- On site
- Agencies
- Paper-based
- Isolated Service
- Dense

TRANSFORMED

- Over the Network
- Online
- Anytime
- Everyday
- Customer-Centric
- Anywhere
- Agents
- Data-based
- Integrated Service
- Lean

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Aging Business Model: Bottom Line

- The public service model is “overweight”
- Sluggish
- Self-serving
- Increasingly irrelevant
- Can't be sustained

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Aging Business Model: Bottom Line

- The public service model is “overweight”
- Sluggish
- Self-serving
- Increasingly irrelevant
- Can't be sustained
- Ill-prepared and ill-positioned to respond to future challenges

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Closing Thought

“Fortune favors a prepared mind”

Louis Pasteur

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