Chapter 16

Shifting Control Away From the Top and Center

The Spirit of the Forest

Americans know about the National Forest Service through its fire-prevention mascot, Smokey the Bear. Smokey is a septuagenarian, and the service is even older. Teddy Roosevelt and Gifford Pinchot, the governor of Pennsylvania, invented it at the turn of the century to promote forest conservation and to supply clean water and timber products. Pinchot became its first chief. Nearly a century later. Forest Service officials still post his short list of common sense rules for managing the organization.

By the mid-1980s. Congress had expanded the service's original mandate to include protection of wildlife and wilderness and provision of recreational opportunities to the public. The agency controlled more than 191 million acres of federal land—holdings as big as all of Texas and Louisiana combined. It employed more than 40,000 people. Most of them worked in ranger districts, subdivisions of the system's more than 150 forests. Each forest had a supervisor who reported to one of nine regional offices, which reported to the national office in Washington. It took more than $2 billion a year to run the organization.

And it took a few more rules than Pinchot had laid out—a 17-foot-high stack of them. That's what a deputy in the national office, F. Dale Robertson, found when he gathered all the books of rules, regulations, procedures, and policies. Each rule had a proud author—in the Congress or the Washington office or the regional offices or a forest supervisor's office. But no one had

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ever considered the cumulative effect of the regulations on the organization. When a consulting firm assessed the Forest Service's condition in 1985, it found little of which Robertson and his colleagues could be proud. Pinchot's innovative, pathbreaking organization had vanished. A stodgy, rule-bound bureaucracy had grown up in its place.

The problems extended all the way down to the ranger districts. Employees had learned to "follow the book," says Floyd "Butch" Marita, a 30-year veteran who ran the Eastern Region until early 1996. "They were manual-driven, not much into risk taking. It was a mind-your-own-business mentality. Everyone waited for someone else—at the top—to make the decisions."

The result was enormous inefficiency. If a rancher needed a special-use permit to graze cattle on Forest Service land, for instance, it could take as long as three months to get approval. The rancher asked the district ranger. The ranger sent a written request to the forest supervisor. The supervisor sent it to the regional office. There, the staffer in charge of such matters wrote a recommendation. That went to the regional forester. When he signed off, the district ranger finally got his approval.

If a ranger had to respond quickly to an emergency—a destructive rampage by wild hogs, for instance—he first had to ask the forest supervisor for money. Even if the request was for just a few thousand dollars, to change a single line item in the forest's annual budget, the supervisor had to go up through the chain of command to get approval. The supervisor had to ask the regional office for "reprogramming authority." The regional office asked the Washington office, which asked the Office of Management and Budget, which asked the congressional appropriations committees. Once approved, the decision worked its way back down the chain.

Standard operating procedure was to kick every decision upstairs and then wait for orders. This concentrated decision-making authority in the iron fists of a few top managers—regional foresters and Washington office staff. It bred "hierarchical, ego-driven, dictatorial leadership," says Larry Payne, a seasoned forester in the national office. "The first regional foresters I ever met—one wouldn't speak to me; I was a nobody. The next two would scare you to death; you would quake in your boots even seeing them come near you."

The rigid hierarchy existed for a reason. "The process was designed to ensure minimum error and limited judgment by the district ranger," explains Marita. It sent an unmistakable message to Forest Service employees: "Don't embarrass the outfit. Don't make any mistakes or we're going to shoot you."

But it meant employees took little initiative. "The forest ranger had no authority to do anything," says Eric Morse, a longtime forest supervisor. So they stopped caring about the quality of their work; they just did what they

were told. They learned to live with a slow, unresponsive organization. Top managers rarely noticed these problems; they were too busy making all the decisions.

No one worried much about the organization's overall performance until the mid-1980s, when Congress slashed its budget. At that point Max Peterson, then Forest Service chief, started wondering if getting rid of all the rules would increase productivity. He had his associate chief, Dale Robertson, order up a field test.

On the Mark Twain

The Mark Twain National Forest in southern Missouri is a patchwork of 1.5 million acres of Ozark foothills and plateaus—overlogged forests and wom-out farmlands when the federal government began buying it up in the 1930s. It is one of the largest forests in the Eastern Region, which stretches from Missouri to Minnesota and Maine. Its headquarters is in Rolla, Missouri, a small, bustling town.

That's where Forest Supervisor Eric Morse was in 1985 when he got a call from the regional forester in Milwaukee. "He says, 'You're a pilot,' " Morse recalls. "No one knew what that was." A while later details arrived: from faraway Washington, Peterson and Robertson had developed a pilot program freeing the Mark Twain Forest, two other forests, and a research station from many Forest Service rules. Their plan allowed these organizations to shift money around without seeking reprogramming authority. It removed their personnel ceilings. It let them keep money they saved through efficiency and spend it on other priorities. And it encouraged them to request waivers to rules that got in their way.

The moment of truth came in a St. Louis conference room. Robertson had invited pilot leaders to St. Louis to ask a committee of Washington staffers for the waivers they needed. Morse wanted about 50 waivers. "It was hotter than hell," Morse remembers. "We sat down there and started going around the room offering proposals."

Right away there were problems. "They were saying no to everything," recalls Morse. "Absolutely we cannot do that." Robertson stopped the meeting and asked the pilot participants to leave. "For two hours we waited out in the hallway," says Morse. "We didn't know what to do." They don't know exactly what Robertson said. But when the meeting started again, says Morse, "Everything was approved— absolutely everything. And there was enthusiasm. We walked out of there with four different ways of approaching budget and spending."

Morse felt unleashed. "We were free to operate any way we wanted," he says. There were only two conditions: they had to operate in accordance with

the law, and they had to meet the performance expectations specified in their forest-management plan.

Morse's instinct was to push the freedom down to his lowest level employees, the nearly 300 workers toiling in forest districts. But, again, barriers emerged—in Rolla this time. Headquarters officials clung to their power. "Our staff officers had a terrible time," he remembers. "Their role as staff officers was control of the money, control of the districts through policy and review." It turned out, much to everyone's surprise, that the forest's own bureaucracy—not Washington—had created nearly three-quarters of the rules that tied their employees' hands. "We had more authority to do things than we knew we did," says Morse.

He stripped his headquarters staff of their power. "We took all that away from them, all of the money away," he says. "It took some pain on their part to begin trying on a new role." He threw out the rule books and—with his staff—drafted a slim handbook to replace them. It emphasized that employees were expected to solve problems and make decisions, not simply comply with rules.

Morse gave each district its own budget and the same flexibility he had received from Washington. He encouraged district rangers—the system's supervisors—to help their employees organize into self-managed teams. He let district teams select their own rangers. And he told the rangers to stop asking him for permission to do what they wanted to do.

All this took some getting used to. When ranger Art Wirtz transferred into the forest, he couldn't believe the freedom he was given. "This is the first district I've ever been on where I've felt empowered to do my job, and there wasn't somebody watching over my shoulder," he says. Two months after starting, Wirtz tested Morse's new system. He called up Morse to find out what his boss thought about a small matter. The conversation took an unexpected turn:

> Wirtz: *What do you think?*
> Morse: *What the hell you callin' me for? You feel like you can make that decision?*
> Wirtz: *Yeah.*
> Morse: *You think you looked at everything about it?*
> Wirtz: *Yeah.*
> Morse: *Call me on something you really need.*

That was enough for Wirtz. "From that point on," he says, "I was empowered."

And it wasn't just Art Wirtz; most employees enjoyed their new freedom.

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When Wirtz arrived at his new job, the 15 employees he was brought in to supervise told him they had selected him. The team "was so proud that they got to select Art as their ranger," says Morse. "My God, whether he was good or bad, he was going to succeed!" Some team members teased Wirtz: Did he want to see the selection criteria they had used?

Wirtz's team set the district's priorities and its members' work assignments. Before long, Wirtz was working on project teams directed by his subordinates. "This unit has absolutely flattened the hierarchy," says Morse. "It said, 'We have a common job to do,' and then organized itself to do it."

Employees across the Mark Twain Forest used their new power to achieve results no orders could ever have produced.

Forest Ranger Donald "Pepper" Martin and his team decided to use $25,000 of their budget to upgrade the Pinewoods Recreational Facility near Poplar Bluff, for example. They had completed other projects under budget and stashed the savings in "the Big Bucket," Morse's nickname for the lump-sum budget. The team could do what it wanted with the money, even award bonuses to team members. All it had to do was vote.

"We took those dollars and plunked them into a project that we really wanted to do," says Martin. They purchased lumber, cement, and pier floats and built a floating wooden pier, concrete sidewalks, two 20-car parking lots, barrier-free restrooms, and a 125-person shelter at the 34-acre lake. None of the work had been approved by the old chain of command.

Budget savings and new projects sprouted like well-nourished seedlings. At Mark Twain and the three other pilot sites, productivity grew an average of 18 percent in the first two years. And in the Mark Twain Forest, the improvement kept going. The staff did more and more with less and less: by 1995 it was operating with 12 percent fewer employees than it had in 1986, while continuing to meet performance targets that were getting tougher.

This was only possible, insists Morse, because "the people who know how best to do the work"—the employees—had been given the authority to make decisions. A 1991 assessment by a private firm, SEC, Inc., backed him up. "The Forest is meeting most of its targets . . . with a less than planned level of funding," it said. "This is a tribute to the dedication and effort of [Twain] personnel. It may also reflect the benefits associated with changes the Forest has been able to implement as a result of ... being designated a 'Pilot Forest.'"

Another Bureaucracy Catches the Bug

Thanks to its impressive early results, the Mark Twain experiment spread like a potent virus up the chain of command. At the regional office in Milwaukee, it found a willing host in Butch Marita.

Marita was a lifer who had never bought in to the system's bureaucracy. Within a few weeks of signing up in the late 1950s, he was in trouble. "I go to work for the Forest Service and, holy mackerel, I find this bureaucratic process," says Marita. "I spent three years as an angry young man. The ranger was mad at me because I would challenge these stupid systems." Negative entries grew in his personnel file. His wife and friends warned him that he'd lose his job if he kept it up. So he changed. "I modified my behavior, but never lost my passion to change things."

Three decades later, after running two forests and taking the obligatory tour in the Washington office, Marita got his big chance. In late 1986 he was appointed to run the Eastern Region, also known as Region 9. He took over an entrenched bureaucracy with 300 employees, which controlled 15 national forests. "It was a traditional regional office—very conservative," says Marita. "The staff was comfortable, not very energetic, prone to be safe, prone to not experiment." It was a "massive control mechanism" set up to tell the forests what to do.

When he arrived, Marita found that he was expected to read and sign every outbound letter. Each night he took home, read, and signed up to 20 letters. He quickly concluded that this had the perverse effect of letting staffers off the hook for what they wrote. "If you don't sign the letter, you don't really care too much about it," he explains. "If you sign it, by God, you're accountable, and that has a very distinct impact on you." So he changed the rule: with a few exceptions, the person who wrote the letter had to sign it.

At Robertson's prompting, Marita went on to change almost everything else about the regional office. He issued a 14-point vision statement that called for the regional office to serve, not control, employees in the forests. He took the unprecedented step of sharing his own power with the two like-minded deputies he brought in. Together, they formed a leadership troika. "All three of us had equal authority, power, and responsibility," says Larry Payne, one of the deputies. "It had never been done in the Forest Service before."

The shared leadership shocked the Washington office. "They asked, what is that?" says James Jordan, the other deputy. "There's only one regional forester. Where does the buck stop over there?" But Robertson, now the Forest Service chief, protected the Milwaukee troika.

Marita took his top staffers to visit every forest in the region, where he personally delivered his message of empowerment. At each stop they

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swapped bureaucratic horror stories with the workers. Then, Marita says, he urged the workers to take control of their forests.

> *We'd have a symbolic handing off [of control] to the forest supervisor. . . We said, "It's now handed off to you, you in this forest. We're going to come back a year from now. We want to know what you've done."*

Marita quickly dismantled the regional office's control mechanisms. He eliminated more than half of the office's top administrative positions and made everyone work in teams. As positions needed to be filled, he hired only people he thought were committed to his management approach. He ended the regional office's control over the forests' hiring, budgeting, and purchasing. He gave every forest a Big Bucket budget just like the Mark Twain had. He scrapped the old regional office inspection tours of forests; instead, he or a deputy would visit and ask the employees, "How can the regional office do a better job of helping you?"

When Marita asked employees for suggestions about how to improve the region, they responded with more than 12,000 ideas in four years—50 times the number generated in the previous four years. The region implemented about 70 percent of the new suggestions. Suggestions led the region to adopt flextime work schedules, to let workers select supervisors, to give district rangers the authority to approve special-use permits (which cut average processing time from two weeks to one day), and to let employees make routine purchases directly from retailers rather than use the organization's procurement processes. When the national Forest Service adopted this purchasing innovation, it saved $500,000 a year.

Managers up and down the line resisted Marita's initiative, unwilling to give up power. In his first year, he says, he replaced seven district rangers—10 percent of his frontline managers—because "they were generally authoritarian and control oriented."

When employees flooded the region's personnel director with more than 250 suggestions for improvements, he reacted defensively. So Marita took him along on the next round of visits to the forests.

> *We got up there on stage, and when I got a personnel question, I'd let him answer that. Then he could see it wasn't fabricated. He could see no one was going to kill him and everybody wanted to make it better. It turned him around.*

It proved much more difficult to turn around persistent opposition from the Washington office. Marita and Morse took Washington staffers on field

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visits in the region and gave them impressive performance data. But they still had trouble getting proposals through the national bureaucracy. Most of the time, Marita and his colleagues fought Washington to a draw. “With the results we’ve been producing, we have been fairly immune [to interference],” says Jordan.

But in 1993, the region lost the Big Bucket—its lump-sum budget mechanism. It died in a cross fire over fiscal control between Congress and the Forest Service chief. Key members of Congress had complained for some time that the entire Forest Service was too loose in tracking its budgets. Their concerns boiled into anger when they learned in 1991 that the service had diverted more than a third of the wilderness preservation budget they had substantially increased three years earlier—at the service’s request. They pressured Robertson to tighten up his budget controls. As he gradually complied, the Big Bucket disappeared.

This hurt Marita’s effort, but it didn’t change the fact that Region 9 was racking up impressive gains in efficiency. Because Marita had eliminated many of the control functions in the regional office, he gradually—voluntarily—cut the office staff and budget. By 1995, the regional office had 33 percent fewer employees and 20 percent less budget than in 1989. It ate up only 7 percent of the region’s budget—far below the 12.6 percent average of the other regional offices. If Marita’s productivity levels were matched by the other eight regions, the Forest Service would save more than $54 million a year, according to regional staffer Karl Mettke. That’s almost enough money to operate four Mark Twain Forests.

“Just think what would happen if each unit in the service would turn their people loose,” muses Marita. He worries, however, that this will not happen. “The old structure in Washington is being assertive,” he told us, just before retiring in February 1996. “The bureaucracy wants to go back to controlling everything.”

The Control Strategy

> *If angels were to govern men, neither external nor internal controls on government would be necessary.*
> —James Madison

Beginning in the rolling hills of Missouri, Region 9’s reinventors blazed a path into an unfamiliar land in which the rules of organizational gravity seemed to be reversed. Decisions flowed *up* from the bottom of the organization rather than *down* from the top. Day-to-day control shifted from

administrators in Washington, Milwaukee, and Rolla to frontline workers in the forests, the people closest to the action. Supervisors became coaches; administrative staffers became servants. The top managers—the Maritas, Paynes, Jordans, and Morses—provided overall direction and guidance, but issued few orders or rules. And somehow, this bottom-up organization was far more efficient and effective than the traditional bureaucracy had been.

The Forest Service was a battleground for control. All of government is—perpetually. Politicians fight each other on a regular electoral schedule for the right to wield the power that flows from "the people." When they have it, they try mightily to impose their will on their institutional creations. Legislators appropriate detailed budgets and often set specific personnel levels. Executives select the top managers, who create within their institutions layers of managers, middle managers, and supervisors—the well-known "chain of command." Legislators and executives set up the central agencies that tell managers exactly what they can and cannot do and then check for compliance.

The control strategy shifts both the *locus* and *form* of control in public systems and organizations. It pushes control down through the ranks, and sometimes out to the community. And it replaces the traditional bureaucratic system of controls with a new system built upon shared vision and values and explicit performance expectations. Marita and Morse shattered the chain of command, tore up the rule books, stopped issuing orders, eliminated many administrative positions, and ended inspections for compliance. They developed new methods to guide employees. Workers knew the organization's mission, objectives, and performance targets; with these in mind, *they* could decide how to use public funds, how to respond to customer requests or emergencies, and how to organize to get their work done.

"Our people should use common sense and their best judgment, and then go ahead," wrote Dale Robertson in a 1989 statement of management philosophy. In Region 9, it worked.

Trust Is a Key

Roger Douglas remembers encountering the absurdity of bureaucratic controls when he took over as New Zealand's minister of finance in 1984. One of his first tasks was to authorize a $300 expense payment to an air force officer stationed in Fiji. New to office, Douglas had national currency and fiscal crises on his hands. He didn't care about trivial expenditures thousands of miles away in Fiji. "I had no way on earth of knowing whether they were justified or otherwise," he writes. "The system was preposterous." But the rules said the minister's signature was required.

Those rules—and others like them—exist because someone decided that

government employees should not or could not be trusted to take responsibility for their own actions. Instead, someone had to make rules to tell workers what to do and how to do it, then set up compliance systems to make sure they didn't violate the rules. Thus government became a rule factory, with layers of managers and inspectors. The result has paralyzed and dehumanized public organizations.

"It was ridiculous," says David Couper of the system he inherited in the Madison, Wisconsin, Police Department. "We said we needed police officers who respect people's rights, are sensitive to people's feelings out there on the street. But we had an internal control mechanism which said [to officers] that you don't amount to anything, you're dumb, you're stupid, and if we catch you breaking the rules, we'll fire you or suspend you."

Government employees hate bureaucratic controls. Most would loudly echo the observation of Michael Masterson, a Madison police captain, that "the problem is, when you create rules and try to micro-manage the 5 percent, you catch the other 95 percent of the good." If families acted like government, when one of the toddlers wet his pants, the whole family would have to wear diapers.

In 1986, David Packard's Commission on Defense Management published a seminal critique of bureaucratic controls in government. It studied the management problems at the U.S. Department of Defense, one of the world's largest public bureaucracies, and concluded that "the nation's defense programs lose far more to inefficient procedures than to fraud and dishonesty. The truly costly problems are those of overcomplicated organization and rigid procedure, not avarice or connivance.

An early generation of reinventors—among them David Couper, Butch Marita, and General Bill Creech at the Tactical Air Command— decided that bureaucracy's restraint on human initiative would have to end. News from the private sector reinforced this belief; in 1982, Peters and Waterman's *In Search of Excellence* argued that excellent companies used shared vision, values, and goals, not bureaucratic rules, to achieve control.

Instead of seeking compliance with rules, these reinventors hoped to achieve commitment to organizational goals. Control from on high can't do that.

Instead of forcing problems up to the top of the organization, these reinventors wanted people with the greatest stake in solving the problem and the best local knowledge to make the decision. As Creech put it in his 1994 book: "The less the authority vested in those closest to the problem, the more the problem lingers and spreads."

Instead of distrusting workers, these reinventors assumed that people wanted to do well. They believed that people wanted control over their work lives. When employees had more control, they would be happier and—it didn't take a rocket scientist to figure this out—they would perform better.

"I get more results from people who are having fun," says Butch Marita. "I want people to enjoy their work."

Trust, but Verify—And Hold Accountable for Results

Sin is the other side of freedom's coin.
—Charles Handy

"You're letting the lunatics run the asylum." That's the charge Madison Police Captain Mike Masterson has heard the most—even from his own father, a retired police chief. "I began talking about employee empowerment," he recalls. "He just couldn't understand it. His response was, 'It sounds like you're letting the monkeys run the zoo.' " The implication is that when bureaucratic controls are removed, chaos and corruption will fill the vacuum. Elected officials fear that newly empowered employees will make mistakes, ignore basic requirements for fairness and equity and, even worse, take advantage of the relaxed vigilance to steal the people's money.

Advocates of the control strategy offer several responses. One is a belief in self-control: most employees *can* be trusted to control themselves, they argue. Most people are not crooks, so why treat all of them as if they're trying to rip off the taxpayers? Most people are not slackers, so why treat them as if we suspect they're doing as little work as they can get away with? Most people value the principles of due process, fairness, and equity, so why treat them as if they would readily trample these beliefs?

A second response is that bureaucratic controls have not been especially effective at limiting undesirable behavior. "Discretion does not ensure corruption, nor do rules guarantee its absence," note professors Martin Levin and Mary Bryna Sanger in *Making Government Work.*

A third response is that not all forms of control should vanish. Government should still conduct financial audits and investigations to uncover inappropriate and criminal behavior. Indeed, computer technology makes it far easier to monitor spending and detect fraud than it was just a generation ago.

But the most important answer is accountability. As we've said, the control strategy changes the *locus* of control—where decision-making power lies. But it also changes the *form* of control, from prescriptive rules to shared vision and values and accountability for performance. In a decontrolled environment, people become accountable for the results they and their organizations produce, not for following rules. *The control strategy only works* *when an organization's people are clear about and committed to its mission and goals and accountable for what they achieve.*

Thus, the control strategy can be depicted as a five-step exercise:

1. Get clear on the mission and values of the organization, and get buy-in from employees.

2. Determine the results you want.

3. Trust people with the decision-making power and resources to produce those results.

4. Verify whether or not they are producing the results.

5. Hold them accountable for how well they do in producing the results.

In *In Search of Excellence*, Peters and Waterman called this approach a "loose-tight" system. It is loose on rules and regulations and tight on vision, values, and goals.

Rather than controlling what people do, reinventors try to influence what people want to accomplish. They help them understand and embrace the organization's goals and values. Until this happens, empowerment may lead half your teams to march off boldly in different directions, while the other half remain paralyzed, unsure of what to do with their new freedom.

They also have to get employees to care about achieving the organization's goals. When this happens, leaders obtain far greater command over results than they would by using bureaucratic controls. This is a crucial change, says Bill Creech.

> *Many people believe that decentralization means loss of control. That's simply not true. You improve control if you look at control as the control of events and not of people. Then, the more people you have controlling the events—the more people you have that care about controlling the events, the more people you have proactively working to create favorable events—the more control you have within the organization, by definition....*
>
> *I am convinced that I had far more control of TAC on the day I left than the day I took over, despite the massive decentralization. Actually we had the control. TAC ran far better because more people were exercising control, including people at the lowest levels. Decentralization, empowerment, and ownership created great improvement in our control of events, products, and outcomes. That, in the final analysis, is what organizational control is all about.*

When employees don't know or care about their organization's objectives, you have trouble. As Creech puts it, "The fewer the people who care whether it goes right or wrong, the greater the certainty it will go wrong."

Once people care about reaching the organization's goals, you have to make sure that they are accountable. *The buck should stop with whoever has the control.* Power has its price; accountability must accompany authority and responsibility. Everyone should be clear about who has the authority, and there should be no way for them to shift the responsibility by pointing up, down, or sideways.

Finally, *those in control should face consequences for their performance.* Shifting control is not enough to guarantee better performance. As officials in Phoenix put it, when given autonomy, "Sometimes the good get better and the not so good stay about the same." Without incentives for performance, the "not so good" have no reason to improve. To be effective, marry the control strategy to the consequences strategy. A powerful metatool you can use to do this is the flexible performance framework, discussed in chapter 4.

Graham Scott, one of those who invented New Zealand's version of the flexible performance framework, makes this point well:

> *A system which gives a lot of freedoms to managers without strengthening their accountabilities is inferior to both the traditional bureaucratic model and the empowerment models exemplified by New Zealand and being used in a number of countries. No political system would tolerate the results for long. At each step in the evolution from centralism to decentralism there should be a balance between the freedoms granted and the accountabilities imposed. This can be thought of as a ladder in which each step balances freedom and accountability and maintains the functionality of a management system. The system will not work if people are held to account for things they cannot control, or if they are given freedom without clear expectations of performance.*

General Creech's former organization provides a good example of how to combine the control and consequences strategies in a large, highly decentralized entity. The 150,000-person Air Combat Command is organized around more than 500 autonomous squadrons. Each one has measurable performance standards. ACC managers and employees can study the latest information on how the units performed. To General Michael Loh, the quality performance measures (QPMs) are the organization's bottom line:

They are the indicators of whether or not we can produce combat capability, which is our mission. I don't tell them how to do it. But if they're not producing those QPMs, if they're not delivering, then we're going to do something about it.

Three Approaches to Shifting Control

The first approach reinventors use applies the control strategy at two levels: governing systems and administrative systems. We call it *organizational empowerment* because it empowers organizations by eliminating many of the rules and other controls that central administrative agencies, legislatures, executives, and higher levels of government impose on them. One example is the "Big Bucket" budget that temporarily freed the Forest Service's Region 9 from the constraints of line-item budgeting.

The next logical step is to apply the control strategy at the organizational, process, and people levels. The second approach, *employee empowerment*, does this by reducing or eliminating hierarchical management controls within organizations and pushing authority down to frontline employees. Reinventors replace authoritarian controls with employee self-control and commitment to the organization's direction and goals.

These two approaches should, whenever possible, be used in combination. Freeing organizations from overbearing central controls produces far better results when top managers pass their new power down to their employees. Similarly, when an organization empowers its employees, it will reach a point where administrative system controls impede further progress. Employees may become frustrated and cynical, because their hands are still tied on the big issues—budget, personnel, and procurement.

The third approach is far more radical, and often far more difficult than the first two. But its impact is often far more profound, because it shifts the bureaucracy's power out into the community. Reinventors use *community empowerment* to hand control to neighborhoods, public-housing tenants, parents of schoolchildren, and other communities.

Organizational Empowerment

A rule is a screw that can only be tightened.
—Ben G. Watts, Florida secretary of transportation

As the Mark Twain National Forest and Region 9 started experimenting with a "Big Bucket" budget, reinventors in Australia applied a similar idea to their *entire federal government.*

For years the Australian Department of Finance had zealously controlled

the budgets of federal agencies. To stay on top of spending, it forced departments to use line-item budgets. These broke down administrative or operating expenses into 20 or more lines—one each for salaries, travel, equipment, supplies, computer services, rent, and so on. To increase a line or to transfer funds between lines, departments needed permission from the finance agency.

Studies dating back to 1976 had blamed the government's unsatisfactory performance in part on bureaucratic controls such as this. They found that managers in the 160,000-employee Australian Public Service focused primarily on complying with rules and following specified procedures, rather than on producing results and improving performance.

In 1988 reinventors ended the use of these financial fetters. They rolled the line items up into a single amount for each agency, known as a "running costs" budget. (As in the U.K., running costs are operating costs; they do not include funds that go to beneficiaries, such as benefit checks, vouchers, and grants, or funds passed on to other organizations or governments.) Then they told agency managers to use the funds as they saw fit to accomplish their organizations' objectives. To create further flexibility, they allowed departments to carry forward into the next fiscal year up to 3 percent of their running costs. They even let agencies borrow against future costs to invest in increasing productivity. At the same time, they told finance officials to become consultants to the agencies, to help them improve—rather than dictating—their finances.

Australian reinventors also shifted a great deal of control over purchasing and personnel practices to line agencies. Departments gained responsibility for recruiting, appointments, probation, retirement, discipline, transfers, and promotions, as well as greater discretion to determine their own procurement processes.

For the first time, line agencies were in charge of managing their own resources. "We've come an enormously long way," says Derek Volker, secretary of the Department of Employment, Education, and Training. "There's a lot more autonomy and independence and power for departments to be run their own way, really to determine their own futures in whether they succeed or fail." He could have added that for the first time agencies were also clearly responsible for producing results. With the taste of freedom came a dose of accountability, in the form of performance targets and in-depth, periodic evaluations.

This has become an international trend. The United Kingdom, New Zealand, and Canada have also "eliminated detailed central control of departments' operating expenditures and staffing levels and provided departments more authority to manage their resources within overall budget ceilings," the U.S. General Accounting Office reported in 1995. "[They] encouraged top department management to extend as much flexibility as possible to their line managers. [They] also began to simplify personnel rules and transfer control of human resource management functions, such as hiring, position classification, promotion, and pay, from central personnel agencies to departments and from departments to line managers." In the U.S., Vice President Gore's National Performance Review has recommended similar changes. The administration has responded with internal reforms, but so far Congress has passed only procurement reform.

There are many ways to free public organizations from the stifling controls of administrative and governing systems. In Australia and New Zealand, decentralizers took on the entire system at once, rapidly liberating all organizations. In Edmonton, Alberta, School Superintendent Michael Strembitsky did the same. He shifted administrative control to his 200 public schools and gave them roughly 85 percent of the district's money to spend as they decided. New Zealand and the United Kingdom did much the same for *all* their schools.

Other tools for organizational empowerment focus on liberating some, but not all, agencies. When they cannot transform entire administrative systems, reinventors pick their spots, much as the Forest Service did when it created its four pilots. In fact, these pilots were predecessors of the 200 "reinvention laboratories" the National Performance Review has unleashed. These agencies, designated by their departments, are encouraged to experiment with new methods and to apply for waivers when rules stand in their way. In Great Britain and the U.S., increasing numbers of grant-maintained and charter schools have been allowed to operate outside most system controls that public schools face. The U.K.'s Next Steps initiative, detailed in chapter 1, offers another example: it allowed central agencies to let go gradually, as each executive agency committed to a performance contract and then proved itself able to perform.

Convincing Elected Officials to Let Go

As we argued in chapter 3, most elected officials will only let go if they get something in return. The key is to negotiate a deal. Give elected officials more accountability for performance and many will in return give agencies more flexibility. This equation worked in Australia, the U.K., and New Zealand, because politicians were desperate for better results and reformers were committed to making public organizations accountable for results.

The same deal has been struck in many American governments. General Creech used it to pry loose the flexibility he needed. The Minnesota Department of Administration used it to win legislative support for internal enterprise management. Once it proved that it would shut down enterprise units that performed poorly, it won full legislative endorsement of its approach, which required enormous freedom for internal service units.

In Oregon, the Department of Transportation had a similar experience. The key "is building an envelope of credibility," says former director Don Forbes. At one point, the department launched a reengineering project it believed would save $15 million. Forbes asked his committee chairman to hold him accountable for producing those savings in a budget note—a rider attached to the budget. "That is so different from what most administrators do," Forbes says.

> *They don't give back $15 million. And they don't want budget notes. So this was a strong message to [legislators] that we wanted them to play the policy oversight role. It created a love-in, as one person put it.*

To strike a deal you will need performance data. Without it, it is difficult to prove anything; with it, you can usually defend your need for flexibility. This was the second key in the Oregon Department of Transportation. "One time in 1993 we were testifying about the [performance] benchmarks, and one of the legislators said, 'That's fine, but I was never part of that, and I don't relate to these benchmarks. If I went out to a maintenance shop, could they show me their measures?' " recalls Craig Holt, who ran the Office of Productivity Services.

> *We went that night and pulled up the measures and performance information for maintenance for their districts. We brought it in the next day. One senator said, "I don't understand this. " And the chair explained it to him, using the documents. For 30 minutes, they talked among themselves.*
>
> *Another representative said, "Now, if I were to go to maintenance people in my district, could they tell me their measures ? " I said yes. And before I got back to my office he called them, and they could explain what their measures were and how they used them, well enough to satisfy him.*
>
> *After that, a representative called a press conference and said, "DOT has set the standard of standards for managing in government."*

Holt sums it up this way: "They feel very good about us managing, so they've stepped out of management issues to focus on policy."

To further bolster the case for organizational autonomy, you can take elected officials to visit places such as Oregon's DOT and the Air Combat Command, to see for themselves how flexibility leads to higher performance.

Finally, if you cannot implement organizational empowerment systemwide, ask the politicians to let go in only a few places, where they trust the managers, as an experiment. In Florida, Governor Lawton Chiles persuaded legislators to let the Revenue and Labor Departments launch pilots that upended administrative controls, in part because lawmakers had faith in the two departments' directors. When those efforts succeeded, lawmakers gave greater autonomy to two additional agencies, including the state's largest.

Convincing Headquarters to Let Go

The Forest Service's Butch Marita fought battle after battle for control with the headquarters staff in Washington—until his retirement in February 1996. They just wouldn't give up the bureaucratic power they had built, he says. "They've worked a career to get where they are. They are the experts, the specialists that have the knowledge. Most of them wrote the regulations."

When General Bill Creech began to empower employees in the Tactical Air Command, he knew he'd have to fight with the Department of Defense's central office staffers—"the zealous champions of Centralism in Washington, who I was sure would swoop down on us with a vengeance when they got wind of what we were doing." He was right:

> *What we were doing was so out of step with the centralization catechism and the philosophy, that all the centralizers in Washington were constantly sniping. Every time I tried to change a regulation, it had to go up there for approval. They had to throw sand in my face. I got a lot of sniping from the Congress.*

As with legislators, the only reliable way to convince headquarters to give up power is to demonstrate results. Creech developed data on TAC's performance, proving that the centralized system he inherited was a failure: productivity was getting worse every year. His data also demonstrated that where he had decentralized, performance was improving dramatically. "They'd never seen numbers like that before," says Creech. Then he got key Defense Department managers to visit TAC bases and see the positive benefits of his employee-empowerment approach up close. When they saw the results, many converted.

Perhaps the best example we know of conversion-through-experience occurred at the United Kingdom's Treasury Department, which controlled budgets and personnel. As we reported in chapter 1, the Next Steps initiative called for Treasury to negotiate framework agreements that gave executive agencies more management control in exchange for commitment to specific performance goals. At first, Treasury was reluctant to give the agencies much freedom. But as agency after agency delivered on its agreement without overspending its budgets, Treasury leaders became convinced. Gradually they abandoned many of their controls.

It also helps if you can offer the central headquarters or administrative agencies—like the politicians—something they need in return for flexibility. In Australia, for instance, top managers in the Finance Department worried that if they loosened their grip spending would explode. So when they allowed agencies to manage their own costs, they also imposed an "efficiency dividend," which automatically cut running-cost budgets by 1.25 percent every year. This forced the agencies to control their costs.

Employee Empowerment

> *Empowerment is in the mind. You can't be afraid to trust. That's what it comes to—trusting the people below you to do the job. You kind of orchestrate, and then you step back and let them do their jobs.*
>
> —Lynn Corbitt, district ranger, Mark Twain National Forest

When organizations gain autonomy from the center, it goes to their heads—literally, to the managers at the top of the agency hierarchy. All too often, that's where it stays. "The fact that power was given to you doesn't seem to make it any more likely that you'll give it up," says Doug Ross, a former director of commerce in Michigan and assistant secretary in the U.S. Department of Labor. "Every level of government bureaucracy seems to be its own separate battle."

After Australia's federal government shifted control from central agencies to departments, reinventors found that many of the departments' top managers used their new power to *tighten* their grip over employees. Mike Codd, secretary to the Department of the Prime Minister and Cabinet from 1986 to 1992, says his "greatest disappointment has been the unevenness with which these reforms have been carried through within departments, too many of which have retained excessive central control."

Most reinventors discover that a majority of the constraints they rail against originated in their own organizations. Few administrators hold a darker view of the center's pathologies than Marita. But even he found—much to his surprise—that many of the controls that frustrated him and his allies had been developed by his own regional office, before he took over, or by managers at the forests.

Marita and his fellow reinventors wanted their employees to think for themselves. So they eliminated many management jobs designed to command workers and check for their compliance. They expected employees to figure out how to achieve the organization's goals, not just to follow the rules. So they reduced the importance of detailed job descriptions and eliminated many regulations. Instead, they put workers into teams, where they could pool their skills to get the job done.

When Bill Creech took a similar step in the Tactical Air Command, he had to first break down the rigid functional silos that the organization's bureaucratic designers had created. Because Creech, Marita, and Morse expected workers to take control of their own work, they also developed new roles for managers to play, as coaches, facilitators, strategists—as practically anything but controllers.

Most organizations that embrace employee empowerment take these types of steps. Some also use total quality management and business process reengineering, metatools we discuss in chapter 24, to let employees redesign their work processes.

Pass the Power Down, Please

There are several ways to encourage managers to deregulate their own agencies and pass the power they receive on to frontline employees:

Create consequences for passing power down. First, make managers accountable for achieving ambitious performance improvements. Then, to encourage them to empower their employees, make the degree to which they let go of control a factor in assessing their performance. Make it a measurable goal of their performance contracts and appraisals. Ask the people they control how well they're doing at it.

Establish a driving force. Create a unit outside the central agencies, but close to the top executive (president, minister, governor, mayor, city or county manager), whose mission is to keep pushing the agency heads to let go. In the U.K., the Next Steps Team played this role. In the U.S., the National Performance Review does the same.

Teach managers the benefits of letting go. Take them to see organizations that practice employee empowerment, so they can talk with practitioners. Help them test its approaches and tools without having to commit entirely to them. Use management development courses to consciously teach them how to let go. Create experiences that challenge them to break their habits of control—as Butch Marita did by exposing his personnel director to employees who had ideas about how to change the personnel system. When some of them buy in and try letting go, reward them and hold their efforts up as models for the entire organization. And if you are a top manager, teach by example. Show your subordinates how to let go of power by visibly doing it yourself.

If they can't let go, let them go. Pressure, opportunities, and teaching don't always work. Sometimes you have to force the issue—as when Butch Marita eliminated more than half of his region's top administrative positions and moved 10 percent of his field supervisors out of their jobs.

Lessons Learned About Empowering Employees

Combine employee empowerment with other strategies, particularly consequences and culture. To make employee empowerment work, you must not only dismantle bureaucratic, hierarchical controls but create alternative ways of guiding and supporting employees. You must embrace all five steps described on page III/103, establishing clear goals and marrying the control and consequences strategies. As much as possible, you must do this in ways that involve the employees.

All this is often difficult at the outset, because you run up against the formidable power of bureaucratic culture: the habits, hearts, and minds of public employees have been shaped by their years of experience under bureaucratic controls. Hence, many workers and managers will be skeptical about the prospect of change, even if they want it. And some will be very anxious about taking more responsibility, because it comes with potential consequences for performance. Thus, leaders using employee empowerment also must focus on changing their organization's culture, a strategy we address in chapter 20.

Design employee empowerment to foster effectiveness, not democracy. Employee empowerment does not mean every decision in the organization must be made democratically or through consensus. There will still be levels of responsibility, although fewer of them. The military will still have generals and privates, with officers—middle managers, really—in between. Orders will still come down from the top ranks, but there will be fewer of them. A fire chief will still require firefighters to follow safety procedures, whether they want to or not.

"There's still 'yes, sir—no, sir.' You cannot get away from some of that," explains ACC General Michael Loh.

> *After all, our mission is to send people in harm's way, which is different from any other private company or enterprise.... So there has to be a certain obedience level. When we get in the middle of combat we don't say, "Oh, let's stop and think about this and see if there's a better way." You think about the better way before you get into those circumstances.*

Determining how much hierarchy an organization needs is an art, not a science. It depends largely on how confident leaders are about the employees' commitment to organizational goals and their capacity to take on greater responsibilities. Many leaders start with a built-in bias against empowering employees; they are trapped in bureaucratic assumptions. But even leaders committed to empowerment don't propose to do away with all management roles. Nor do public employee unions.

Stop lower-level managers from hoarding power. Just because you want power to flow to frontline workers doesn't mean it will get there. You must push it through middle management's ranks. Leaders must do more than let go and get out of their people's way, advises Bill Creech. They must "*help find the way, show the way, and pave the way.*" You will have to lean on, reward, and educate managers to help them let go, and move those who won't out of the way.

Embed empowerment in your organization's structure. Even when employee empowerment has taken hold in an organization, reinventors should worry about recidivism. "It took me 20 years to change this place, it'll take a long time to go back," observes former Madison police chief David Couper. "But we have this incredible relationship with the authoritarian structure. We're quick to fall back into that. It's simpler, it's less work, it's the lazy person's way to lead."

The best solution to this problem is to institutionalize administrative decentralization and work teams—to permanently change your bureaucratic structures. If you strip the central controllers of their authority and then greatly thin their ranks, it will be difficult for anyone to reimpose centralization. And if you reorganize work around permanent teams of collaborative, cross-function employees, it will be hard for managers to micromanage.

Community Empowerment

In the typical community, government experts do the urban planning, and citizens learnto live with the plans. The experts work hard to minimize opposition. The public gets a shot at them in hearings, but usually the planners are only looking for ratification of decisions they want to make. For the citizen wading into a comprehensive urban development plan, the challenge is daunting. So residents normally get involved only when they are outraged. If opposition grows large and loud enough, it can force changes in the plan. But even then, the professional planners remain in charge; they will control the next round of planning.

In the early 1990s, Hampton, Virginia, a city of 130,000, stopped being typical.

Joan Kennedy remembers when the traditional planning process stopped making sense. She was the city's planning director. Her agency had just finished drafting the city's comprehensive plan, she recalls.

> *We had gone through a kind of normal, traditional citizen participation thing where you put an ad in the newspaper and tell everybody to come to*

a meeting. Then you tell them what you're thinking about doing. So we claimed that this plan was going to be the community's vision of where we were going next.

The next step was a public hearing before the planning commission.

I had just done my spiel about how the comprehensive plan is the community's vision. But when I looked around, there was just this sea of angry faces out there. I thought, this must come a lot closer to being these people's nightmare than their vision.

Kennedy was right. Many citizens were angry over a proposal to construct a road through residential neighborhoods in order to ease traffic congestion. Kennedy agreed to scrap the proposal and to work with citizens to develop an alternative recommendation. That opened the door to community empowerment—putting the bureaucracy's power into the hands of citizens. First, city planners agreed that an alternative proposal had to meet with the neighborhoods' approval. Then they agreed to redraft the entire comprehensive plan in partnership with the neighborhood groups. "We totally redid the comprehensive plan from A to Z," says Michael Monteith, the assistant city manager who facilitated the process.

The planners were amazed; the results were more creative than anything they had done previously. When the community has an equal voice with you, you have to really debate the planning issues, to figure out how to meet everybody's requirements. That's when you get really creative.

But it wasn't long before the neighborhoods were complaining that the city still had too much control. Its planners set the agenda for planning; they identified the problems and convened the stakeholders. The neighborhoods wanted this power too. "They're the people who live with the problem, not the city staff," says Kennedy.

Take the example of a residential neighborhood with a road that carries 3,000 cars a day. Our traffic engineer says there's no problem: the road is built to handle that much traffic. But to the neighborhood, 3,000 cars a day sounds horrendous.

So Hampton let the neighborhoods define their problems and their preferred solutions. That caused a different problem: power had shifted too far into the neighborhoods' hands. "They defined the problems, mailed us a list of solutions, and said to implement them," explains Kennedy. The city became the "bad guy," telling neighborhoods their solutions cost too much or couldn't be used because they had negative effects on other parts of the city.

So the city changed the process again. "Now," says Kennedy, "we say to the neighborhoods, 'We'll accept the problem as you defined it. Then, let's go through the planning process as partners.' "

The Many Uses of Community Empowerment

Community empowerment involves handing to communities substantial control over the decisions, resources, and tasks of public organizations. In Hampton, Dayton, and other cities, neighborhood groups—not elected officials—decide how to use public funds appropriated for neighborhood development. In Denver, Savannah, Roanoke, and other cities, thousands of citizens have participated in large-scale collaborative planning—steering—for their communities. In Kansas, state government gave a consortium of corporate, charitable, union, and neighborhood leaders the power to allocate more than $250 million in social services funds targeted for Kansas City families. In hundreds of cities that have adopted community policing, residents share responsibilities with police departments; they help implement crime-prevention strategies. In hundreds of public housing developments, residents have formal corporations to manage the property.

In Chicago, reformers shifted control over nearly 600 public schools to local school councils made up of parents and community members elected by voters in neighborhoods. The councils allocate portions of their schools' budgets, set school-improvement goals, and recruit, select, and negotiate performance contracts with their principals. In New Zealand and the United Kingdom, every school has a community governing board that performs similar functions. Many cities, business districts, and, increasingly, residential neighborhoods, are forming self-taxing improvement districts to enhance their physical, economic, and social conditions. These community governance mechanisms decide what to do with the special revenues they collect and often manage the work and services that are needed.

Community empowerment is used typically to shift public control to place-based communities—neighborhoods in a city, or residents in public housing projects, for example. But a community may also be defined as stakeholders who, whatever their geographic links, share an interest. In Florida, a nonprofit partnership led by the business community, called Enterprise Florida, has taken over functions of the state's Department of Commerce. In Montreal, the local Chamber of Commerce has taken responsibility for operating the government's Business Assistance Office.

Chapter 2 of Reinventing Government explained why this is happening: because people are more energetic, more committed, and more responsible when they control their own environments than when some authority outside the community does. It described the advantages of community empowerment this way:

- *Communities have more commitment to their members than service-delivery systems have to their clients.*
- *Communities understand their problems better than service professionals.*
- *Professionals and bureaucracies deliver services; communities solve problems.*
- *Institutions and professionals offer "service"; communities offer "care."*
- *Communities are more flexible and creative than large service bureaucracies.*
- *Communities are cheaper than service professionals.*
- *Communities enforce standards of behavior more effectively than bureaucracies or service professionals.*
- *Communities focus on capacities; service systems focus on deficiencies.*

Making Community Empowerment Work

Community empowerment often meets with more resistance than the other approaches for shifting control, because it so radically undermines the power of elected officials and institutional managers. Indeed, many politicians and public executives can't imagine community empowerment—it is outside of their paradigms. Of those who can, many argue that communities lack the knowledge, professional expertise, or commitment to solve their own problems. Often, this is nothing more than a self-serving rationalization, says Doug Ross, a former state senator and top manager of state and federal agencies.

> *Most of us are not comfortable consciously or unconsciously with saying, "I love the control, I like to lord it over other people and I'm not going to give it up without a fight." Instead, we frame it more paternalistically, as the need to protect those who are less able to fend for themselves. The claim is a modern, more politically correct version of the white man's burden.*

Typically, it takes a large amount of sustained public anger—like the "sea of angry faces" that Joan Kennedy saw—to get the political sector to even consider community control. It is a rare public official who, without prodding, initiates the shift.

Even when community empowerment gains support and momentum, it is risky. Sometimes community-based initiatives fail. Sometimes they become paralyzed by factionalism and conflict. Sometimes corruption sets in. A few efforts are even hijacked by authoritarian leaders, who re-create a bureaucracy *they* can control. (Of course, all these ills befall government organizations as well.)

These difficulties can be addressed by applying the same kinds of lessons we have discussed regarding the other control approaches:

Give communities a clear charter. Just as flexible performance frameworks work best when they use written contractual agreements, so does community empowerment. The charter should spell out which decisions and tasks are shifting into the community's control and which are not, and it should specify the performance expected of the community. Ambiguity will lead inevitably to confusion and ineffectiveness, and possibly to conflict between the community and government officials. It will also stymie accountability. Sometimes getting clear about a community's charter involves an evolutionary, negotiated process, as we saw with Hampton's planning function.

Use the consequences strategy to establish genuine accountability measures. Unless a community is accountable for its performance, politicians will be very reluctant to give it control over public decisions and resources. Use the customer and consequences strategies to make communities directly accountable to their customers and to elected officials. In Britain and New Zealand, for example, governing bodies run public schools, but parents have their choice of schools, and public dollars follow the children. Thus the governing bodies have powerful incentives to respond to their customers' needs and concerns.

Invest in the competence of communities to manage their own affairs. If you empower communities but don't also help build their capacity, you are condemning some of them to failure. Many poor communities have depended on government for so long that they don't have the capacities needed to exercise control. They need strong leadership, as well as organizing and technical skills. These don't materialize the instant communities are empowered; they must be developed.

That's why Hampton created a Neighborhood College in 1995, to offer neighborhood residents free courses in "City Hall: Behind the Scenes," "Neighborhood Organization," "Public Speaking," and other topics. Governments in Dayton, Chicago, the United Kingdom, and other places have made similar investments—training, resources, and technical assistance—to help community residents become more effective in using their new powers.

Change the culture of government agencies so they can be better partners with communities. As power shifts to communities, public managers and employees must adjust their roles, attitudes, and expectations. This is rarely easy, because it involves changing government's organizational culture.

In Hampton, for example, city planners were not used to having to listen to and share power with neighborhood residents. They didn't know how. Terry O'Neill, who succeeded Joan Kennedy as the city planning director, had to redefine their jobs. He assigned them as liaisons to neighborhoods, and he asked them to attend meetings and survey neighborhood groups regularly. They worked with residents, schools, and children to design six neighborhood parks that met the specific needs of each neighborhood. All of this, says O'Neill, required big changes in his organization's culture—the way employees thought and felt about their work.

Use organizational empowerment to free communities from the bureaucratic requirements of government's central administrative agencies. Just as public organizations and employees need the freedom to manage their resources, so do community-based organizations. When you give them control, don't handcuff them with bureaucratic budget, personnel, and procurement systems. You still need safeguards such as audits and investigations. But if you wrap communities up in bureaucratic controls—a common mistake—you will greatly diminish the advantages of community empowerment.

Questions People ask about the Control Strategy

Q: If you give people more control, won't they make mistakes?

Yes, they will. It's inevitable. But if you don't decentralize control, the organization will still make mistakes. More of them may be mistakes of omission than commission, but the results will be the same—or, more likely, much worse.

Rather than asking if people will blunder, a better question is: What will you do when they do? "A mistake is not a crime, and a crime is not a mistake," says Bill Creech. Foul-ups are opportunities for lessons. If you punish people who make mistakes, they will try to hide them from you.

Never admitting you goofed is standard operating procedure in bureaucratic organizations. Butch Marita remembers the day a deputy from the Washington office came to visit him.

He challenged me when I referred to the mistakes [we were making].

"They weren't mistakes, Butch. Don't call them mistakes, don't admit

they're mistakes." And I said, "Well, they were mistakes, by God, and if you don't agree with it, then take 'mistake' out of the English language. "

Once you acknowledge a mistake, you can figure out what went wrong—and then decide how to make sure it won't happen again.

Q: Can compliance agencies use the control strategy?

Yes, but not in every situation, and not always as fully as service organizations.

Compliance organizations can empower employees. They can also empower other agencies. For example, the Nuclear Regulatory Agency allows about half of the states to regulate nonreactor nuclear materials.

Compliance agencies can even hand some degree of control to the community. One way is by negotiating regulations with stakeholder groups before submitting them for legal approval. Another is by letting the stakeholders do the inspections. When the federal Occupational Safety and Health Administration in Maine gave control over workplace inspections to the nearly 200 businesses in the state with the highest injury rates—in partnership with their employees—the improvements were astonishing. According to the 1995 National Performance Review report:

> *Industry's response was immediate and positive.. .. Employer/worker safety teams in the participating firms are identifying—and fixing—14 times more hazards than OSHA's inspectors ever could have found, including hazards for which the agency didn't even have regulations. After all, who knows where the problems are better than the workers themselves?*

Compliance organizations can also partner with the community to prevent problems. An example of this is community policing, which gives neighborhoods some say over how law enforcement resources are used.

Still, there are limits to decontrol in many compliance organizations. Some controls exist to protect citizens' rights. When citizens must be treated identically, for instance, it makes sense to remove discretion from employees. A good example is the reading of Miranda rights to a suspected criminal. Police officers have no discretion about when and how this must occur (unless their well-being is endangered).

Tax agencies face a similar issue: they must respect everyone's rights and treat everyone fairly. But if they want high compliance rates, they must also allow employees to deal with habitual compilers and habitual noncompliers very differently. In some areas standardization is imperative; in others it is to be avoided. "Getting that right—what they can change and what they can't change—is the trick," says Clive Corlett, director general of Inland Revenue, the U.K.'s tax agency.

> *Getting the delegation right is difficult. You've got to understand what it is you're empowering them to do, and make them accountable. Otherwise you've got chaos. There's a lot of discussion that has got to go on between different levels of management. People have to understand what the constraints are within which they can do different things.*

In general, compliance organizations must spend the time necessary to sort out where employee discretion is appropriate and where it is not.

Q: Can policy and regulatory organizations use the control strategy?

Certainly. Organizational empowerment is just as important in policy and regulatory organizations: there is no more reason to tie them up in rules and red tape than to tie up service and compliance organizations.

Even community empowerment can be used with policy and regulatory activities, though to a more limited degree. Communities can be brought into the policy-making process, as advisors and as decision-makers. The progress boards that have sprung up throughout Oregon, which consult closely with their communities and advise elected officials, are made up primarily of community members. School boards are policy-making bodies directly elected by their communities.

Some regulatory functions can also be delegated to communities. Local neighborhood associations often set rules for their members, for example. Housing cooperatives and resident councils in public housing developments do the same. Governments often let professions regulate their own members, to a degree. In all cases the society's laws, passed by elected officials, apply. But the community in question sets rules that go beyond these laws. This makes perfect sense, but there are limits to how far it should go—as years of inadequate self-regulation by the legal, medical, and journalistic professions attest. Common sense would suggest that government should impose those rules the nation, state, or community feels it cannot live without, but leave more specific matters to the narrower community. The trick is to get the balance right.

Can a Developing Nation Afford to Decentralize Control?

This book is based on public sector experience in five English-speaking democracies with information age economies. Although we have had consulting experience in democracies that are still industrializing, such as Brazil and Argentina, we have not done research in those countries.

The social, political, and economic realities faced by developing nations are very different from those found in the countries we have analyzed. They are in many ways similar to the conditions faced by reformers in the U.S. 100 years ago. Corruption and influence peddling are often widespread. Patronage is often the norm: many get jobs because of their connections, not their abilities. The public sector is often used as the employer of last resort for the unemployed. And in some countries, the courts and police departments are not fully independent of political control, so legal prosecution of corruption is difficult.

In such countries, leaders must pick and choose their reinvention strategies with care. Certainly there are elements of bureaucracy they can discard with impunity. And there are many elements of entrepreneurial government—including competition, privatization, and customer choice—they can introduce without qualms. After all, these approaches worked well in the U.S., when used, even in the heart of the bureaucratic era. But other elements of bureaucratic government were invented precisely to deal with problems like corruption, patronage, and political manipulation of public employees. Many of the rigidities of our central administrative systems, from civil service to procurement to budget and finance, evolved to solve these problems.

Developing democracies can clearly use the core, consequences, and customer strategies—indeed, many have already embraced asset privatization, competitive contracting, and customer choice. They clearly need the culture strategy. The one strategy that becomes tricky is the control strategy.

As information age democracies have loosened their bureaucratic systems of control, they have shifted to other forms of control—performance measurement and rewards, competition based on results, information systems that track financial transactions, careful auditing, and rigorous prosecution of illegal activity. Many developing democracies can do this as well, leapfrogging decades of the bureaucratic era. If they cannot, however, they should probably loosen the old controls with great care.

This is one of those frontier areas that will be clarified only through experience. Fortunately, developing nations are beginning to experiment. Singapore has introduced many elements of entrepreneurial government, including performance budgeting, activity based costing, and empowerment of organizations through a step-by-step process similar to the U.K.'s Next

Steps reform. Malaysia has initiated a management system in which public managers are held accountable for producing results and rewarded for excellent performance. Like the U.K. and New Zealand, it is drafting formal agreements in which departments specify the outputs they will produce—although it is not giving organizations and their managers as much flexibility as New Zealand and the U.K. have. Malaysia is also developing an accounting system to track the cost of each output, and it has adapted the Citizen's Charter idea from the U.K.

In Latin America, Brazil is struggling to reinvent on a broad scale, and Argentina, which launched a very successful asset-privatization initiative in the early 1990s, is trying to figure out how to reform the organizations it does not privatize. Costa Rica is developing performance agreements with its department heads.

Should governments such as these decentralize authority if corruption and patronage are still the norms in their countries?

In our view, the answer depends at least in part on what other reinvention strategies these governments are willing to use. The best defenses against many types of corruption are full information, consequences for performance, and prosecution of illegal activity. If everyone in a system faces consequences when performance suffers, outright stealing will trigger those consequences, because it will drive costs up. This is one advantage of highly competitive markets—a fact that makes asset-privatization, corporatization, and the rest of the enterprise management tools very effective and relatively safe in developing countries.

Managed competition and performance management, the other consequences approaches, can only be effective if information systems reveal full and accurate information about costs and quality. Yet part of the problem in countries suffering from corruption is the almost complete absence of management information systems. Managers cannot detect fraud when it occurs.

The best answer we can give is the following: as reformers loosen the old systems of control, they should construct new systems in their place—management information systems, systems that impose consequences, auditing systems, and systems that will prosecute corruption. When they cannot use market competition to create consequences, perhaps their best option is to grant flexibilities organization by organization, as the British Next Steps process did. Using this approach, they would grant an agency freedom from overly centralized controls only after the agency had proved its capacity to detect and control corruption, patronage, and political manipulation of employees. The freedoms could even be granted in stages, as agencies gradually strengthened and demonstrated the effectiveness of their new control systems.

For those who fear to take these steps, we will close with one last question. Clearly centralized controls have not eliminated corruption in many countries. Yet they have hurt the performance of public institutions. Isn't it time to try another path?

Notes

All quotations that are not attributed in the text or in these endnotes are from interviews with the authors or their associates. Only in cases where there might be some confusion about the source of a quotation have we indicated in a note that it came from an interview.

Chapter Sixteen

P. V/2: "By the mid-1980s ... Louisiana combined": Pamela Varley, *"What if We Could Start Over?" The U.S. Forest Service Champions "Bottom-Up Management,* draft of John F. Kennedy School of Government Case Study A (Cambridge, Mass.: Harvard University), p. 2.

P. V/2: "And it took a few ... and policies": The story of Robertson's stack has been told throughout Region 9 and in newspapers. See, for instance, Erik Gunn, "Pruning Bureaucracy's Thick Forest," *The Milwaukee Journal,* Sept. 26, 1993, and Karl H. Mettke, *A Catalyst for Change in the Eastern Region of the Forest Service* (Milwaukee: U.S. Forest Service Region 9), p. 3.

P. V/3: "When a consulting firm . . .": Mettke, *A Catalyst for Change,* p. 3.

P. V/4: "The Mark Twain National Forest...": Data about the national forest is from Mark Twain National Forest, *Welcome to the Mark Twain!,* a promotional brochure.

P. V/6: "At Mark Twain ...": Eastern Region of the U.S. Forest Service, *Shaping a New Culture,* brochure obtained from regional office in Milwaukee.

P. V/6: "The staff did more and more ...": Communications to authors from Karl Mettke, Eastern Region headquarters, concerning budget, personnel, and forest accomplishments and trends from 1986 to 1993.

P. V/6: SEC, Inc. quotations: *Mark Twain National Forest Land and Resource Management Plan Five Year Implementation Review* (Sedona, Ariz.: SEC, Inc., Apr. 3, 1991).

P. V/8: "When Marita asked employees ... it saved $500,000 a year": From Eastern Region, *Shaping a New Culture;* Mettke, *A Catalyst for Change;* and interviews with Region 9 personnel.

P. V/9: "But in 1993, the region ... Bucket disappeared": Varley, *"What If We Could Start Over?"* Case Study A, pp. 7-13, and Case Study C, pp. 1-4.

P. V/9: "By 1995, the regional ... than in 1989": The Regional Office's Changing Culture, internal document obtained from Eastern Region of the U.S. Forest Service in Milwaukee.

P. V/9: "It ate up only 7 percent...": From "R.O.A.s % of Region, FY 1993 Final," chart provided by Karl Mettke, Eastern Region of Forest Service.

P. V/10: Robertson quotation: F. Dale Robertson, *Chartering a Management Philosophy for the Forest Service,* internal Forest Service document, Dec. 19, 1989.

P. V/10: "Roger Douglas remembers ... was preposterous' ": Douglas, "National Policy-Makers' Experience," pp. 11-12.

P. V/11: "In 1986, David Packard's Commission ... or connivance": President's Blue Ribbon Commission on Defense Management, *A Quest for Excellence: Final Report to the President* (Washington, D.C.: U.S. Department of Defense, June 1986), pp. xxiii-xxiv.

P. V/11: Creech quotation: Creech, *The Five Pillars of TQM,* p. 388.

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P. V/12: Handy quotation: Charles Handy, *The Age of Reason* (Boston: Harvard Business School Press, 1990), p. 259.
P. V/12: Levin and Sanger quotation: Martin A. Levin and Mary Bryna Sanger, *Making Government Work: How Entrepreneurial Executives Turn Bright Ideas into Real Results* (San Francisco: Jossey-Bass, 1994), p. 259.
P. V/13: Creech quotation: Creech, *The Five Pillars of TQM*, pp. 259-260.
P. V/14: Creech quotation: Ibid., p. 387.
P. V/14: Phoenix quotation: From City of Phoenix, “An Overview of Organizational Change,” published by the city auditor, p. 12.
P. V/14: Scott quotation: Scott, *Government Reform in New Zealand.*
P. V/16: “Studies dating back to 1976 ...”: See Task Force on Management Improvement, *Australian Public Service Reformed,* chapter 2.
P. V/16: U.S. General Accounting Office quotations: *Managing for Results: Experiences Abroad Suggest Insights for Federal Management Reforms* (Washington, D.C.: U.S. General Accounting Office, 1995), pp. 5-6.
P. V/19: Creech quotation: Creech, *The Five Pillars of TQM*, p. 127.
P. V/20: Codd quotation: Michael Codd, “Better Government through Redrawing of Boundaries and Functions,” in Weller and Davis, eds.. *New Ideas, Better Government.*
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P. V/25: “In Denver, Savannah,...”: William R. Potapchuk, “New Approaches to Citizen Participation: Building Consent,” National Civic Review, spring 1991, p. 166.
P. V/28: Creech quotation: Creech, *The Five Pillars of TQM*, p. 317.
P. V/29: National Performance Review quotation: Al Gore, *Common Sense Government,* pp. 25-26.
P. V/31: “Singapore has introduced...”: Scott, *Government Reform in New Zealand.*
P. V/31: “Malaysia has initiated ...and the U.K. have”: Ibid.
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