CREATING THE NEW MANAGEMENT SYSTEMS WE NEED FOR 21ST CENTURY GOVERNANCE

By

David Osborne

Abstract: Reinventing government, also known as the new public management, is about transforming the industrial-era bureaucracies we have inherited from the 20th century into the more flexible, innovative and responsive organizations that thrive in today's information-age and global marketplace. An important part of this process is the redesign of administrative systems such as budget and finance, personnel, procurement and auditing. Much has been written about redesigning such systems. But in addition, 21st century governments need entirely new management systems, to help them develop the new capacities they need to embrace continuous improvement. These 21st century management systems include strategic management, performance management, market testing, customer relations, labor-management cooperation, and learning systems.

In December 1991, Charles "Skip" Stitt was a 28-year-old lawyer with a large, prestigious firm in Indianapolis, Indiana. He had just finished helping the local prosecutor, Steve Goldsmith, get elected mayor, and he was looking forward to resuming his fast-paced work in commercial litigation. In a few years, he figured, he had shot at making partner.

"When Steve won, I said, 'Congratulations,' and turned back to work at the law firm," Stitt recalls. A few weeks later, he got a call from Goldsmith. "He asked me if I wanted to join him in city government, but I was not particularly interested. Joining local government had not been high on my list."

But Goldsmith persisted. "He invited me out to the house and we talked,"

says Stitt. "He said, 'This is really going to be an exciting time. Were going to reinvent local government here. It will be fascinating, you should come join me.'"

Stitt consulted with his family and members of his firm, where a managing partner was a former deputy mayor. Finally, he bit.

Right away, he was asked to develop the mayor's plan for using competition -- "privatization," they called it at first -- to save money and improve services. He had no idea what it should be. "We didn't exactly know what we were doing," he says.

> I began to pull together everything I could find on privatization. I started reading Tom Peters and the *Harvard Business Review*. I read Reinventing Government and bothered David Osborne and Ted Gaebler with phone calls. I called Ron Jensen [the Phoenix public works director who pioneered public vs. private competition] and took all the time on the phone that he would give me. In March I went to a conference and literally stood in the hallway taking business cards from anyone who would talk to me.

Stitt got help from a commission of local business people that Goldsmith appointed, the Service, Efficiency, and Lower Taxes for Indianapolis Commission (SELTIC). "I remember telling people that my working group's performance goal was to save the city $1 million a month," he says. "People laughed out loud. We were ranked one of the leanest cities in the nation. People were saying it couldn't be done."

But "SELTIC brought in very serious people, people well respected around the community" to work on the problem.

Stitt could also count on Goldsmith. The mayor made competition one of his top priorities and he kept it that way. "It was essential to my success that Steve was very seriously committed to this issue," says Stitt. He reported directly to the mayor and had access to every corner of city government. "If my position had been a number three position in a far away department, [competition] wouldn't have happened."

As Stitt and SELTIC began to take on projects and register success, the mayor realized he could become well known for the initiative. And Stitt kept promoting the successes -- to Goldsmith and to the public. "We never allowed a week to go by without the mayor receiving a couple of detailed anecdotes on his e-mail system about our success. It became a part of his verbiage, his anecdote file."

To begin with, SELTIC tried several small bids, to test ways to create competition. First, they put the city's microfilm function out to bid. But no private firms bid for the work, Stitt says.

> We had prepared a very lengthy RFP, because we always prepared a lengthy RFP. We sent it out and didn't get any responses. We called around and asked why. The vendors said, "You don't have bad people, you have bad systems. And you have captured all the components of those bad systems in this RFP: where and when and how to do things, which technology to use, and what processes to use. We can't do it any better than you can if you're going to constrain us."

The mistake taught Stitt a lesson he would incorporate into future competitions: "Stop thinking about the processes, think about the outcomes."

Stitt's main task was to build a new system for competition – what the British would call a "market testing" system. "We ran into a whole series of design issues," he recalls. Some involved the contracting and bidding process: what to specify in contracts; how long contracts should last; how to structure proposals to attract the most competition. Other issues arose because public employees were also allowed to bid. The city gradually designed a new safety net for unionized employees who lost bids, ensuring that none of them wound up unemployed.[1] And it began to find ways to build performance incentives -- such as gainsharing (sharing savings with employees through annual bonuses) -- into contracts with employees, much like those used in contracts with private vendors.[2] "Each time we did a contract, we learned new things," he says.

By 1994, visitors eager to learn more about the Indianapolis competition approach were streaming into the city. Demand for information became so great that the city had to outsource the process of responding to requests for documents. "We were sending out thousands of pages every month," says Stitt. He began to do workshops about the competition approach. Sometimes, he would be attacked by people who felt that letting public employees bid violated the spirit of privatization. "I've been beaten up pretty badly a couple of times," he laughs. Occasionally, he would be defended by an unlikely ally: Steve Fantauzzo, head of the AFSCME local. "We're good enough friends now that he'll occasionally bail me out."

By 1996, the city had bid out work on 27 separate services. Because some competitions were held every two or three years, there had been 64 public-private

competitions in all. Public employees had won 16 bids outright, split 13 bids with private bidders, and lost 35 times. This competition had lowered the city's costs by more than $100 million, projected over seven years. Contracts on which public employees had not bid were projected to save another $20 million. And competitive bidding for the right to manage the regional airport, won by BAA USA, the subsidiary of a British company that had once been a government agency, was projected to save the airlines more than $100 million in landing fees.[3]

By the time Stitt left city government, in late 1997, Indianapolis was famous for its competitive bidding initiative. But he knew it still had much to do to build a comprehensive market testing system. It needed to do a better job of measuring the performance of contractors. It needed to revamp its pay for performance system. It needed to improve its contract management. In sum, it needed to refine its new competitive contracting approach into a true management system.

This insight defines one of the key remaining frontiers in the process of reinventing government – the process of converting the centralized, hierarchical, rule-driven bureaucracies of the industrial era into the decentralized, results-oriented, customer-driven organizations needed for effective governance and management in the information age. This frontier challenge, undertaken by a few national, state and local governments around the world but still quite rare, is the task of constructing the new management systems we need for the 21st century.

Governments use management or administrative systems – budget and finance systems, personnel systems, procurement systems, auditing systems – to translate their basic marching orders into countless mandates for organizations. The power of these systems shapes public sector organizations, work processes, and people. To transform the behavior of these organizations, work processes and people, bureaucratic administrative systems must be redesigned. If not, they will stymie reinvention, because they have such a strong grip on the resources and incentives of public organizations and employees.

Peter Plastrik and I addressed the issue of how to redesign these four administrative systems in our latest book, *The Reinventor's Fieldbook: Tools for Transforming Your Government.*[4] But reinvention also requires the development of

new management systems -- systems that never mattered in the heyday of public bureaucracies. These new systems support 21st century capabilities, just as traditional administrative systems supported bureaucratic capabilities. Reinventors around the world are building at least six new management systems, piece by piece:

- Strategic management systems, which help leaders decide what outcomes they want, what methods are most likely to produce those outcomes, and what outputs to buy to produce those outcomes.
- Market testing systems, which create systematic competition between service providers.
- Performance management systems, which link the measurement of government's performance with consequences for success or failure.
- Customer relations systems, which help public organizations understand, anticipate, and meet their customers' shifting expectations and needs.
- Systems of labor-management cooperation, which organize government workplaces more effectively and humanely.
- And learning systems, which help employees produce constant innovation and continuous improvement of performance.

Strategic Management Systems: Steering Well

Some governments have what they call planning or strategic planning systems. Typically, these include planning or policy offices reporting to the executive, which help set long-term goals, develop new policies to meet them, and inject those goals into the budget process so departments will take them seriously. Often, these offices have little leverage, because the budget is not built around these long-term goals, so they become little more than statements that precede line items. They also have no consequences attached to them, so no managers have to take them seriously. Unless a strong executive forces his or her cabinet members to buy in, the planners often feel like they are pushing on a string.

Yet 21st century governments need effective systems that help them not only

plan but steer. In a world of global competition and rapid change, public leaders must learn to respond quickly and effectively to changes in their environment. As New Zealand's State Services Commission puts it, "The ability to make consistently good decisions over time, enabling an organization to adapt quickly to changes in its environment, has become a critical determinant of success."[5] Today, nations, regions, and cities with a highly developed strategic capacity are at a competitive advantage in the global marketplace.

A strategic management system has several basic functions:

- It helps a nation, region or city create a vision of its desired future.
- It sets long-term and medium-term outcome goals that must be met to realize that vision.
- It creates steering organizations that develop, evaluate, and modify alternative strategies to meet those outcome goals.
- It embeds those goals and strategies into the budget process, through performance budgeting, so organizations will adopt them.
- It translates those goals into outcome and output targets for every agency and organization.
- It links to the performance management and market testing systems, which create consequences for performance in achieving those targets.
- It provides strategic evaluation, to analyse the results produced by government strategies and programs and recommend changes to produce improved outcomes.
- It feeds performance data and lessons learned through strategic evaluation back into the process of setting goals, refining strategies, and setting targets.
- And it builds long-term budget forecasts, which suggest the long-term implications of current budget decisions by projecting current fiscal trends (spending, revenue, debt and net worth) into the future.

These tools help governments anticipate and prevent problems, rather than always reacting after those problems reach crisis dimensions. They also give leaders

the ability to anticipate future trends, define what kind of future they want to create, and harness their resources to create that future. Finally, they eliminate the necessity for many rules and procedures. When leaders, managers and employees are clear on their vision, mission, goals and strategies, they need fewer internal controls to keep everyone on course. Strategic management gives leaders the capacity to steer the ship of state without overly constraining the methods their managers and employees choose to row.

Performance Management Systems: Managing Results

Once they are clear on the outcomes and outputs they want to produce, 21st century organizations need to measure whether they are achieving them, then create consequences for performance: a system of rewards and sanctions for managers and work units. This is known as performance management.

Without consequences, performance measurement has little leverage. But tied to incentives, it takes on great power to influence performance.

The bureaucratic model offers public employees few if any rewards for good performance and imposes few if any penalties for poor performance. In most public organizations, pay increases are earned simply by surviving in the job for a long time, and seniority offers greater protection against losing a job than high performance does.

Industrial-era bureaucracies typically control workers by specifying their tasks and rules in detail. They are built on the assumption that most workers do routine tasks and are thus interchangeable. Hence each civil service position is part of a job classification, with similar duties and the same pay range. All employees in the job classification get the same pay, and increases are granted only to reward length of service. Sometimes managers and supervisors must certify that employees' performance has been satisfactory, but this too becomes routine. Few managers want the burden of handing out a poor rating, because it means they must spend time documenting and justifying their decision, and if the employee or union objects they must go through a lengthy appeal or arbitration process. Nor do managers want to

anger employees by singling out a few for superior ratings. So most simply bless the performance of all but the most egregious employees. When national governments in Australia, Canada, and the U.S. tried to introduce performance pay, this bureaucratic tradition quickly rendered the efforts inoperative, because managers gave pay increases or bonuses to the vast majority of their employees.[6]

Performance management upends this system. It sends managers and employees clear signals about which results matter, and it rewards managers and work units that produce those results, while penalizing those with repeated poor performance

Performance management tools include:[7]

- Performance awards, which give employees nonfinancial recognition for their achievements.
- Psychic pay, which provides quasi-financial benefits of real value, such as paid time off, new equipment, or professional development opportunities.
- Performance bonuses, which give employees or teams one-time cash awards, in addition to their salaries.
- Gainsharing, which hands employees a guaranteed portion of financial savings their organization achieves, as long as they produce specific service levels and quality.
- Shared savings, which does the same for organizations by allowing them to keep a portion of the funds they save during a fiscal year to use in the future.
- And performance contracts and agreements, which specify the performance levels expected of managers and their organizations, as well as the rewards and consequences for producing them.

In addition to deciding which of these tools to use and when, organizations must develop ways to measure performance. This is relatively new work for most governments. There are many pitfalls and the process usually takes several years -- often longer than the attention span of elected officials and managers. But performance measurement is a core competence necessary for any performance management system.

Market Testing Systems: Managing Competition

A market testing system such as Skip Stitt helped develop in Indianapolis institutionalizes the process of examining alternatives to service delivery by public agencies. It replaces automatic appropriations to public agencies with competition between service providers, often public and private, for contracts.

In Indianapolis, the United Kingdom, many British and American cities, and many other places, reinventors systematically test their public service providers against private competitors. Sometimes they choose to simply contract out a function; at other times they choose to create public-versus-private bidding. In Indianapolis, the U.K. national government, and elsewhere, savings from the first round of competitive bidding often total 20 to 25 percent.[8]

This kind of system will become more common in coming years; in some places it will no doubt expand to include options other than contracting, such as enterprise management (which turns agencies public enterprises that must compete with private providers to sell their services), competitive benchmarking, vouchers and franchising.[9] This would subject public functions to regular scrutiny as candidates for competition, a fundamental force that drives public agencies to higher levels of performance.

A market testing system should help public leaders select from among the many ways of delivering services, then help them manage the enterprises and providers they chose. In short, it should institutionalize the use of competition. But it should also address the other issues raised by competition. How can governments best prepare their agencies for competition with private providers? How can they develop the activity based costing systems that will give them the data they need to determine the true cost of each service, in order to prepare bids? How can they create a level playing field between public and private bidders? And how can they ensure humane treatment of employees whose agencies lose in competition with private providers? As noted above, Indianapolis chose to protect union members (but not managers) from losing their jobs, by creating a safety net. Options include

the following:

- requiring firms that win contracts to hire displaced public employees before anyone else;
- keeping those who are close to becoming vested with pensions on the public payroll, but making the private contractors pick up the cost;
- retraining displaced employees and placing them in other government jobs as they become open through attrition;
- using a "job bank" to keep some jobs open, so they will be available when needed for displaced workers;
- offering displaced workers severance packages and/or early retirement incentives;
- providing outplacement services to help them find private sector jobs;
- and protecting the benefit levels of those who go to work for contractors, by providing any benefits necessary to keep pace with those they should have received in public service, or by requiring the contractors to do so.

Customer Relations Systems: Managing Satisfaction

Public organizations that create consequences to reward and sanction performance, whether through performance management or forms of competition, do not always provide good service to their customers. By 1997, Indianapolis had an effective market testing system that had driven its costs down dramatically, but that did not mean the quality of its services had improved. Indeed, its leaders had little sense of the quality of their services. They had no idea what their customers thought of their public services, nor what they wanted from those services. The public transit system may have been more efficient, but its managers did not know whether the system's users were happy with the service, nor what they wanted in the way of improvements -- more bus lines, air-conditioned buses, cleaner shelters at bus stops? The recreation department was cheaper, but many customers may have wanted quite different recreation programs. Nearly every organization I have studied that has made dramatic gains using market testing or performance management has at some

point realized that it also needs a strategy to improve customer service and satisfaction. Indianapolis was no exception.

To drive improvement in customer service, 21st century governments make their agencies accountable to their customers. In bureaucratic governments, most agencies are accountable only up the chain of command, to their superiors in the hierarchy – and, ultimately, to elected officials. In public systems that give their customers choices between providers, however, agencies are accountable to their customers. Customers become powerful. If a service provider does not please them, they can take their business elsewhere. If a service provider fails to meet its quality standards, it has to make it up to the customers through some form of redress. Such organizations are both "vertically" accountable, to their superiors, and "horizontally" accountable, to their customers—just as businesses are both vertically accountable to their owners and horizontally accountable to their customers.

In *Banishing Bureaucracy*, Peter Plastrik and I defined the primary customers of a public agency or group as its *principle intended beneficiaries* – those individuals or groups the work is primarily designed to benefit.[10] Secondary customers are others the work is designed to benefit, but who are less important than the primary group. For instance, the primary customers of schools are students and their parents; future employers, who want skilled employees, are secondary customers.

If an agency's primary product is compliance, not service – for example, a police department, tax collection agency, or environmental protection agency – its primary customer is usually the community at large. People the agency employees deal with day to day, such as suspected criminals, taxpayers, and developers, are *not* the primary customers. They are important, but they are not the principal intended beneficiaries of the work. We call them *compliers*, to distinguish them from customers.

To become systematic about improving service to customers and compliers, governments need to create what Peter Plastrik and I call customer relations systems. In *The Reinventor's Fieldbook*, we laid out many of the elements of these emerging systems, including customer choice, vouchers and reimbursement systems, customer

information systems, brokers to help customers sort out their choices, customer service standards to define the promised levels of service, quality guarantees, redress procedures to make it up to customers when service standards are not met, complaint systems, customer councils to help set standards, redress procedures and other policies, and customer service agreements between provider and customer organizations.[11]

Customer relations systems also institutionalize the process of listening to customers. To find out what their customers are thinking, 21st century governments make routine use of customer surveys, focus groups, customer councils, suggestion forms and other techniques. They also track complaints to identify chronic problems that cause customer dissatisfaction.

A third basic element of a customer relations system is customer-service training for employees. As in business, this teaches workers how to give customers excellent service, how to deal with difficult customers, and how to redesign their work processes to provide better service. Some governments augment training with experiences such as meetings and interviews with customers, and with written guidance on customer service. For example, the London borough of Bromley put its customer-service know-how into a series of excellent pamphlets for its employees: "Meeting the Customer," "Writing for the Customer," “Dealing with Complaints," and "Dealing with Customers on the Phone.”

Customers need more than good treatment, however. They need easy access to government and good information about what public agencies do and how well they do it. Hence a customer relations system should also help customers contact the organization through e-mail, electronic kiosks, on-line computer connections, and toll-free telephone numbers. As increasing numbers of organizations use “one stop-shopping” -- offices that offer related services in one location. A few have begun to generate and disseminate performance information for customers -- especially data that compares the performance of similar public agencies.[12]

Finally, reinventors create incentives for improving performance for customers by offering organizations and employees awards for meeting or exceeding their customer service standards and guarantees. In this way, they link the customer-

relations system to the performance management system.

Labor-Management Cooperation Systems: Managing Workplaces

In an increasing number of public organizations, union leaders and top managers are discovering the potential of collaboration. When public leaders use market testing or performance management systems to create consequences for performance, both labor and management often find that they have a common stake in improving that performance. This discovery is the key to developing a system in which labor and management embrace a new relationship.

In today's economic and political environment, neither labor nor management can afford to continue the traditional pattern of intense conflict around contract negotiations and a steady state of grievances the rest of the time. Given the increasing demands of citizens and customers and the increasing pressure to do more with less brought on by global competition, they must begin to learn how to improve performance. In the 1990s, many leaders in the U.S. American Federation of Labor-Congress of Industrial Relations (AFL-CIO) recognized this. In 1994, one of its committees called on unions "to take the initiative in stimulating, sustaining and institutionalizing a new system of work organization based upon full and equal labor-management partnerships."

In this new relationship, managers share some of their decision-making power with unions. In exchange, union leaders help managers define and address some of the organization's problems. They may give up some contractual rights obtained through collective bargaining, such as work schedules or compensation plans, or they may use their knowledge and experience to increase efficiency or effectiveness. The two sides collaborate in ways that create benefits for each of them – and more importantly, better results for the public.

Labor-management partnerships do not replace collective bargaining and the other traditional mechanisms labor and management use to negotiate. Instead, they are a "parallel system of collaboration," as Warner Woodworth and Christopher Meek call them.[13] Unlike collective bargaining, this new system puts labor and

management in the same boat: to make progress, they must agree.

But systems of cooperation can help labor and management use collective bargaining to develop more flexible contracts, which allow easier adjustments when problems or new needs arise. In Mercer Island, Washington, for example, the city officials worked with American Federation of State, Local and Municipal Employees (AFSCME) Local 21-M, which represents maintenance workers, to change their labor contract from "a long, cumbersome, legalistic document into a much simpler, service-focused agreement," according to a U.S. Department of Labor task force.

> The new contract focuses on the collective service responsibilities of the parties and defines the structure through which the parties will discuss and resolve issues facing them. . . . Provisions concerning work rules are subject to constant, joint re-examination by labor and management as service needs or quality of work life requires a re-examination. Continuous improvement is a fundamental part of the ethic of this relationship.[14]

Cooperative labor-management systems use a variety of other tools to boost productivity, reduce costs and improve services. Joint Quality of Work Life programs are aimed at reducing employee injuries and increasing safety, which often cuts worker compensation and health care costs as well as absenteeism. Total Quality Management initiatives, Business Process Reengineering, and WorkOuts improve customer service. In these and other efforts, employees become much more involved in redesigning work and solving workplace problems.

Labor-management partnerships also develop ways to make employees feel economically secure even as their jobs and incomes are tied more directly to their performance. They build a new safety net to protect workers whose jobs may disappear, as discussed above. And they negotiate gainsharing agreements to ensure that workers get some of the upside when their improvements save money, or bonus programs to reward teams and employees that improve their performance.

Sometimes, partnerships deal with problems that are simply too difficult for the collective bargaining process. In some places, for example, they have tackled the issue of exploding costs in employee health care plans. In others, they have worked on social problems such as substance abuse and sexual harassment. At times, labor and management have worked together to reform bureaucratic personnel practices,

such as job classification systems, performance appraisal systems, and procedures to discipline and/or terminate employees. Many partnerships have also worked to create better training for employees.

Learning Systems: Managing Creativity

Twenty-first century governments are under intense scrutiny -- by policymakers judging the outcomes of budget allocations; by private vendors competing for public sector work; by boards of directors examining the financial results of public enterprises; by customers deciding which provider of services to use; by top managers hoping to earn performance raises; by employees looking for gainsharing bonuses; and by communities that want their problems addressed.

Modern public organizations meet these challenges by constantly innovating. They must perpetually improve old methods and invent new ones. A learning system helps employees develop and use the skills, knowledge, and creativity they need to do this. It creates an *environment* in which learning to do better is supported, rewarded, even cherished.

In 1990, Peter Senge's book, *The Fifth Discipline*, introduced many readers to this idea, which Senge called the "learning organization." As Senge put it, a learning organization "is continually expanding its capacity to create its future."[15]

A learning system involves much more than job training and professional development to upgrade employee skills. It stimulates active, relevant, applied learning, not just "seat time" learning. And it focuses less on individual learning and more on learning by groups of people -- the "communities of practice" in which people develop and share new ways of doing things. As Gifford and Elizabeth Pinchot observe in *The End of Bureaucracy & the Rise of the Intelligent Organization:*

> The intelligence required of organizations today is not the genius of a few great strategists at the top. To do many things simultaneously and well requires an organization with breadth and depth of thinking power. . . . To achieve organizational intelligence, the system must support large numbers of people in applying their intelligence in a free yet coordinated way.[16]

In an insightful article in the *Harvard Business Review*, "Building a Learning Organization," David Garvin described the key characteristics of a learning system:[17]

1. Employees systematically solve problems. In many organizations that embrace Total Quality Management, for instance, employees consistently use a scientific method to analyze data, diagnose problems, identify options, test, and then implement solutions. In the U.S. Air Combat Command, a Quality Schoolhouse conducts courses in TQM for thousands of employees. "They come here and take our courses," former Commander Michael Loh explains. "And then they go back and they train others [in] the same way to solve a problem--a seven-step problem-solving process."

2. Employees experiment with new approaches. The organization supports systematic tests of new knowledge that might prove helpful. To do this, employees must work from a "clean slate," unencumbered by the organization's long-held assumptions, and they must have the freedom to try new things. A striking example is the Experimental Police District established in 1987 by the Police Department in Madison, Wisconsin. The idea started when then-chief David Couper, in a newsletter for the organization, suggested that the department create an experimental organization where it could test all the new practices its members were afraid to try, for fear that they would fail. Many employees got involved in designing the experimental district to test ways to empower employees and implement community policing. Couper had the initiative closely watched by third-party evaluators. And eventually he and his staff used what they learned to change the entire department.

The Madison district was a "beta site," designed to test specific innovations. Other methods for experimentation include "reinvention laboratories" -- units that are given permission to try new things, waivers to regulations that stand in the way, technical support and political protection[18] -- and more traditional pilot projects.

3. Employees learn from their own experiences and history. They examine their own successes and failures honestly and openly, and learn from both. Learning from experience can be a painful and painstaking process. To make this

point, Garvin repeats a story that is part of IBM's lore. A young manager who had lost $10 million on a risky venture was called into the office of founder Thomas Watson Sr. He began by saying, "I guess you want my resignation." To which Watson replied: "You can't be serious. We just spent $10 million educating you."

Organizations can help employees learn from their successes and failures by providing in depth information about their performance, including data regularly generated by a performance measurement system; special, more focused evaluations and studies of particular programs or processes; and extensive customer feedback generated by the customer relations system.

4. Employees learn from the experiences and best practices of others. As Garvin puts it, they replace the "Not Invented Here" Syndrome with "Steal Ideas Shamelessly." They benchmark their performance against those of comparable organizations. They create venture teams to visit other places.

In New York State, for example, the Commission on Quality of Care for the Mentally Disabled publishes case studies of its investigations into mental health facilities. Its quarterly publication, *Could This Happen in Your Program?*, goes to 1,700 agencies and advocacy groups in the state. Clarence Sundram, the commission's chairman, points to "the thirst of service providers for practical guidance on real-life situations, and the utility of a case study approach as a means of quenching that desire. Whereas government often rules by the promulgation of laws and regulations. . . . the Commission's experience. . . . reinforces that it can also govern through teaching, and has ample teaching moments and lessons to share."[20]

5. **Employees transfer knowledge quickly and efficiently throughout the rest of the organization.** When every employee is responsible for thinking about how to improve performance, they all need access to information, skills, and tools that will help. An important way to achieve this is through the use of information technologies, which allow employees to rapidly access data bases and share information without going through a central controller. In addition:

- Employee study groups**,** often bringing people together from different parts of the organization, take on particular problems or knowledge gaps.

- Resource libraries provide easy access to relevant books, articles, videotapes, audio cassettes, and the Internet. When Austin, Texas, established a Quality Resource Center at a public library branch, it gave city employees a 36-page booklet describing what was in the collection.
- Web sites link people to resources around the world.
- In-house "consultants" serve other employees as coaches, critics, and teachers. They become skilled at facilitating group learning processes and leading problem-solving exercises. In Phoenix, Arizona, auditors play this role by conducting audits that assess the quality of departments' work processes.[21] In 1995 the Philadelphia Federation of Teachers also took on this role, agreeing to establish "Philadelphia Quest," a professional development unit to work with troubled schools.
- In-house schoolhouses teach the basic knowledge and know-how the organization wants employees to master -- topics ranging from leadership practices and quality management tools to how to run meetings and handle angry customers.
- Learning networks establish organization-to-organization connections, sometimes involving hundreds of entities -- although they can exist within one organization, among its many units. These are not professional societies or associations, although those can be a helpful elements of learning systems. The community quality councils that have sprouted up around the U.S., in which people in government, business, and education learn together about quality management methods, offer one example of a learning network. In the U. K., the Service First Unit has invested heavily in building a learning network among executive agency staffers who want to learn how to improve their customer service. It has also organized Charter Forums, where people from different organizations come together and exchange best practice ideas. By 1999, there were dozens of Service First Networks around the U.K., some with as many as 100 members. In the U.S., the National Performance Review created an on-line network called NetResults, for people who wanted to discuss implementation of the

review's recommendations. Very quickly, users created 10 sub-networks, including FinanceNet for those interested in financial management innovations, MeasureNet for those involved in performance measurement, and PeopleNet for those working on personnel and human resources reform.

- Internal learning forums are programs or events that allow employees to share their learning with each other. The Leisure Services Department in the London borough of Bromley, for example, stages "Away Days" in which employees visit other units and learn about their innovations and improvements.

Perhaps the single greatest impediment to building and maintaining learning systems is the unwillingness of elected officials and top managers to allocate significant resources to the task. Most public organizations shortchange training and education programs, spending far less than private firms. In the U.S., The National Commission on the State and Local Public Service recommended that a "learning budget" -- "set at at least *three percent of total personnel costs*" -- should be part of compensation agreements and labor contracts.[22] In addition, it said that learning funds should not be controlled by personnel or training units; instead, budget offices should give the purchasing power to managers and employees, along with a set of guidelines. Let them buy what they need, when they need it.

A Few Words on the Role of Information Technology

A hallmark of authoritarian systems -- including public bureaucracies -- is the desire of those at the top to control communications and information. It is said, for instance, that Moscow's telephone system was so bad because Joseph Stalin didn't want people to be able to communicate easily with each other. It is also said that the spread of personal computers, copy machines, and fax machines doomed the Soviet Union, because it became impossible to suppress information.

In entrepreneurial governments, information despotism is similarly doomed,

since the free and rapid flow of great amounts of information is essential. As many people have pointed out, information technology plays a crucial role in supporting the information needs of 21st century organizations. "All information," management guru Tom Peters has written, "must be available to virtually everybody in the organization."[23]

Indeed, the global shift from bureaucratic to more innovative, flexible, responsive organizations would not be underway were it not for the invention of the computer. The microprocessor revolution has made much of reinvention possible, while simultaneously creating the ever-changing, fast-moving global marketplace that has made reinvention imperative.

The latest wave of information technologies -- especially computer-based networks -- is ideally suited for decentralized, team-based organizations. Don Tapscott and Art Caston, authors of *Paradigm Shift: The New Promise of Information Technology*, argue that "first era" information technology was a way to reduce costs through automation. But it has evolved into "second era" information technology, which changes the fundamental nature of enterprises. It "empowers, distributing intelligence and decision making to users," and "provides a backbone for team-oriented business structures. It blurs walls between enterprises, enabling the recasting of external relationships."[24]

Hence many readers may have expected to see information technology on our list of new management systems for the 21st century. Unfortunately, however, information technology will not reinvent government by itself. In fact, leaders must reinvent government to some extent *before* they can realize the promise of information technology. This is one of the important lessons from business process reengineering. Michael Hammer and James Champy, authors of *Reengineering the Corporation*, urge change agents to first redesign their key processes and *only then* design new information systems. Or, in the words of General Bill Creech, who reinvented the U.S. Air Force's Tactical Air Command, "Automate only after you simplify."[25]

John Kost, the former chief information officer for the state of Michigan, makes the point more broadly: "Technology solutions are considered only after the

service solution has been defined and the best way to deliver it has been determined."[26] In other words, information technology should follow reinvention. It does not produce reinvention in and of itself.

Information technology is a wonderful tool for improvement, and if used wisely, it *enables* reinvention. But one can install all the latest technology to improve work processes and information flows and still have a bureaucratic organization. Indeed, General Motors discovered this in the mid-1980s. While Ford concentrated on quality management and employee empowerment, GM invested heavily in automation and robotics. Ford's investment paid off handsomely; GM's was a disaster. Operating within a traditional, hierarchical organization, GM's employees and organizations were simply not capable of exploiting the promise of the new technologies.

To empower employees, for example, organizations must shift authority to middle managers and front-line workers by using various tools: management delayering, work teams, and the like. Information technology can help a great deal. But it cannot shift authority; it can only shift information. Nor is information technology enough to create consequences for performance, make organizations accountable to their customers, or change their cultures. It can help do all three things, if used well. But it can also frustrate all three things, if used poorly.

For these reasons, I have not defined information management as a key management system for 21st century government. Like any other technology (combustion engines, for example), it can help people get their jobs done better. But it isn't the job itself. It is extraordinarily helpful in running a performance management system, a budget system, a procurement system, a learning system, and so on. But those systems -- not the technology itself -- are the foundations of 21st century government. Leaders can just as easily use information technology to help them run their bureaucratic systems a little more efficiently. Indeed, that's what most governments do: they automate their bureaucratic systems.

We believe information management is an essential and potent weapon in the reinventor's arsenal. They should use it often, in support of their reinvention strategies. But they should not mistake it for a strategy, tool, or system that has the

power, in itself, to force reinvention.

Reinventing government, at bottom, is about redesigning public systems and organizations so that every manager and every employee has the desire, flexibility, and tools they need to continuously improve performance. In Indianapolis, for example, the combination of competition, a no-layoff guarantee for union members, and gainsharing created an environment in which frontline employees did whatever they could to drive costs down. In some agencies, even union shop stewards have quietly approached managers to suggest that certain functions be outsourced, in order to save money. As Skip Stitt describes it, "The outsourcing issue used to be a big fight with the administration. But now it's not. There's no bickering if the employees can save—and make—money on the deal."[27]

Union leaders recommending outsourcing: this is the world of bureaucracy turned upside down. This is the world we need in our 21st century governments. To reach it, we have to redesign our budget, personnel, procurement, and auditing systems to reinforce and reward innovation and change, rather than caution and stability. But just as important, we must develop new management systems that both drive and enable continuous improvement. From strategic management systems to learning systems, the 21st century demands capacities our 20th century governments never contemplated. Fortunately, pioneers like Skip Stitt and Stephen Goldsmith have already shown us the way.

All quotes not cited with endnotes are from interviews with the author or his associate, Peter Plastrik.

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[2] Ibid, pp. 119-120, 126-127.

[3] Ibid., pp. 124-128.

[4] David Osborne and Peter Plastrik, *The Reinventor's Fieldbook: Tools for Transforming Your Government* (San Francisco: Jossey-Bass, 2000).'

[5] *Strategic Management in the Public Service: A Review of the Implementation of Key Result Areas 1994-1997, Stakeholders' Perspectives* (Wellington, New Zealand: Daphne Brasell Associates, 1999).

[6] Department of Industrial Relations and Department of Finance, "Joint PSC, DIR, and DOF Memorandum to Agencies on Performance Appraisal and Performance-Based Pay," April 27, 1994, p. 4; and Donald Savoie, *Thatcher, Reagan, Mulroney: In Search of a New Bureaucracy* (Pittsburgh: University of Pittsburgh Press, 1994), pp. 296-297.

[7] Osborne and Plastrik, *The Reinventor's Fieldbook*, pp. 230-246.

[8] Osborne and Plastrik, *Banishing Bureaucracy*, pp. 31-32, 120.

[9] See Osborne and Plastrik, *The Reinventor's Fieldbook*, pp. 153-182, 210-214, and 308-310.

[10] Osborne and Plastrik, *Banishing Bureaucracy*, pp. 179-183.

[11] Osborne and Plastrik, *The Reinventor's Fieldbook*, pp. 279-388.

[12] Ibid., pp. 311-319.

[13] Warner Woodworth and Christopher Meek, *Creating Labor-Management Partnership* (Reading, Mass.: Addison-Wesley, 1995), p. 29.

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[18] Osborne and Plastrik, *The Reinventor's Fieldbook*, pp. 444-450.

[19] Garvin, "Building a Learning Organization," p. 78.

20. Personal communication from Clarence J. Sundram, April 19, 1995.

[21] Osborne and Plastrik, *The Reinventor's Fieldbook*, pp. 422-423.

[22] National Commission on the State and Local Public Service, *Hard Truths/Tough Choices: An Agenda for State and Local Reform* (Albany, N.Y.: Nelson A. Rockefeller Institute of Government, 1993), p. 42.

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24. Don Tapscott and Art Gaston, *Paradigm Shift: The New Promise of Information Technology* (New York: McGraw Hill, 1993), p. xiii.

25. Creech, *The Five Pillars of TQM*, p. 331.

26. John M. Kost, *New Approaches to Public Management: The Case of Michigan: A Report of the Brookings Institution Center for Public Management (*Washington, D.C.: Brookings, July 1996), p. 26.

[27] Osborne and Plastrik, *Banishing Bureaucracy*, p. 126.