Chapter 17

Organizational Empowerment

Giving Managers the Power to Manage

Discourage conformity, uniformity, and centralization because they stifle innovation.

—PRINCIPLES OF EXCELLENT INSTALLATIONS, U.S. DEPARTMENT OF DEFENSE

***Organizational Empowerment** streamlines the rules, procedures, and other methods that central administrative agencies, legislatures, executives, and higher levels of government use to control government organizations, in order to help them improve their performance. It substitutes control of outcomes and outputs for control of inputs and processes.*

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*F*or 20 years, Jim Zingale was a foot soldier in the army of staffers that Florida's legislature used to keep state government under control. He wielded rules, regulations, and budget appropriations to keep the departments on a tight leash. By 1991, he had risen to a command position: head of the House appropriations staff.

"The legislature was state of the art when it came to micromanaging departments," says Bob O'Leary, a reinventor who joined the governor's office that same year.

> They had lots of incredibly skilled staff people. They had every conceivable tool to micromanage the way the agencies ran. In some ways, they had far better ways to keep track of the agencies than the agencies had themselves.

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A year later, Zingale accepted a position as deputy director of the Department of Revenue. At the helm of an organization he had once bird-dogged, he started seeing things differently: the controls he once relished were now working against him.

Zingale and his new boss, Executive Director Larry Fuchs, wanted to improve the performance of their 3,000–employee organization. They were under pressure to increase revenue collections while reducing costs. When they looked to the private sector for advice, they found that high-performing organizations articulated the results they wanted, let managers and employees decide how to achieve these results, and provided incentives for performance. Private managers, says Zingale, "have tremendous freedom and incentives."

Unfortunately, that was not how things worked in the revenue department—or anywhere else in Florida's government. Managers had little control over departmental resources. Instead, the legislature's inflexible line-item budgets dictated how funds could be used, the state's "career service" system dictated how to use personnel, and there were practically no incentives to reward performance. Furthermore, the hierarchical structure imposed by statutes had built enormous inefficiencies into the agency.

Fuchs and Zingale realized that these systemic handcuffs prevented them from transforming the department. "We needed freedom from the normal constraints," says Fuchs.

So Zingale, the former jailer for the legislature, became a liberation activist for the imprisoned department.

THE PROBLEM WITH CENTRALIZATION

The conversion that came upon Jim Zingale is still rare among the hundreds of thousands of legislative staffers; budget, personnel, and procurement officers; inspectors; auditors; and elected officials who see their role as keeping the productive organs of government on the straight and narrow. But practically everyone else has understood for some time that the system of centralized controls that emerged and spread in the first half of the 20th century is a colossal impediment to performance.

Early in the century, government reinventors known as Progressives believed deeply in centralization. Their motives were honorable: to banish the political patronage and cronyism that riddled public service and to ensure that rapidly growing public organizations followed policies set by elected officials. They adopted an approach—"corporate management," political scientist Peter Aucoin calls it—pioneered by private businesses trying to manage their own sprawling empires. The key was administrative centralization. It made every organization of government part of a unified, corporate whole. It standardized administrative practices—in particular, budgeting, financial management, and personnel. It es-

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tablished central administrative agencies as keepers of the standards.

And it worked. It curbed the power of political bosses, and it embedded a set of standard operating procedures into most government organizations. But it worked with a vengeance. Handing control over day-to-day practices to central agencies—civil service commissions, budget offices, treasury departments, headquarters—takes power away from operational managers, the very people who are supposed to implement policies and produce results. This pervasive micromanagement disables those managers. They learn to follow rigid central rules rather than their own judgment about what will best produce the results elected officials want.
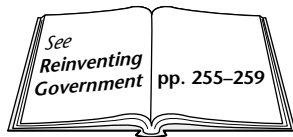
General Bill Creech, the master reinventor of the U.S. Tactical Air Command (TAC), remembers when one of his own commanders was worried about Creech's decision to get rid of at least half of the TAC's internal rules.

> *He told me, "After all, those rules are there for a reason. They are saving us from our past mistakes." My reply was "They are also saving us from our future accomplishments."*

Centralization gives managers an excuse: how can they be held accountable for results if they don't have real authority over their resources? But if managers are not responsible for results, who is? Not the central agencies; their business is to produce rules, not results. The fact is that no one in bureaucratic governments is on the hook for achieving the outcomes the people want. Is it any wonder that so few deliver them?

Perhaps the first blow against central bureaucracy was struck in the 1960s (when else?), in a most unlikely place. For nearly 50 years, Canada's federal government had been in the forefront of centralization. Right after World War I, it created a Civil Service Commission. In the 1930s it added a centralized financial management system, and by the late 1950s, says Aucoin, "the central apparatus . . . was firmly in place."

There was only minor resistance. Then in 1963, the Glassco Royal Commission on Government Organization issued recommendations that for the first time promoted decentralization of government authority. Its advice to "let the managers manage" became a rallying cry when decentralization efforts finally hit their stride—two and three decades later—in Canada, the U.K., New Zealand, Australia, and the U.S.

By the 1990s many elected officials were under pressure to produce better results while cutting costs. In the new Information Age, the price of centralization was just too high. That recognition came with many verses and voices:

- "Effective, entrepreneurial governments cast aside red tape," asserted

President Clinton's National Performance Review. "They streamline their budget, personnel, and procurement systems—liberating organizations to pursue their missions."

- Create "a flexible structure within which managers can manage better and a climate that encourages, rewards and supports them," proclaimed Australia's *Diagnostic Study.*

- Make decision-making as "decentralized as possible," insisted Canada's Ministerial Task Force on Program Review.

Letting managers manage means giving them control over resources so they can use them effectively and economically to achieve results. But decentralization also has a price. Managers must assume greater responsibility for deciding how to use resources. They must be accountable for their decisions. And they must agree to have their performance measured, judged, and rewarded or sanctioned.

Without this autonomy-for-accountability deal, elected officials will not—and should not—feel comfortable about reducing central controls. Thus, organizational empowerment doesn't just *let* managers manage; by tying managers' freedom to results, it also *makes* managers manage. It shifts both the *locus* of control and the *form* of control—from rules and compliance to accountability for performance.

DECONSTRUCTING THE CENTER

Before Jim Zingale joined Florida's Department of Revenue, Governor Lawton Chiles had persuaded the legislature to grant the organization some management flexibilities for one year. The pilot effort was one of Chiles's and Lieutenant Governor Buddy MacKay's first attempts to strip away central controls. "You find a really talented manager who's got the vision and you say [to lawmakers], 'Just let him try,'" explains MacKay. "When he succeeds and everybody sees he can succeed, then, by God, everybody says, 'I'm ready to do it.'"

The pilot, which also involved the Division of Worker's Compensation in the Labor Department, was successful. The department gained the flexibility to pay bonuses to 350 of its employees if they improved their performance. In some offices, productivity shot up by an estimated 34 percent. So the legislature extended the pilot by a year and then gave the same flexibility to several other departments.

As the Revenue Department continued to improve, Zingale and Fuchs won additional freedoms. In 1994, the legislature made it the first state organization to operate under a performance budgeting system, giving it flexibility to manage its budget as long as it met performance goals. In 1995, legislators allowed

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Fuchs to do away with the department's cumbersome structure of four divisions and 13 specialized bureaus and reorganize it around core work processes.

Over a four-year period, the department increased its collections while reducing employment (eliminating 22 percent of its management staff) and slashing operating costs. In 1995, the Federation of Tax Administrators called the department "a model of how government should function" and gave it a national Management and Organizational Initiative Award.

The Revenue Department was the "canary in the mine" that tested the atmosphere for organizational empowerment in Florida. Because legislators trusted its leaders—and because its outcomes were relatively simple to describe and measure—it was allowed to test freedoms that lawmakers might consider extending government-wide.

Reinventors like Zingale and Fuchs usually nibble away at the center's power; they break down the bureaucratic control system in small increments, because they don't have the political support to dismantle it all at once. Often they are not sure what they would put in its place. They try new tools, such as waiver policies, reinvention labs, and charter schools, to learn more about how to use management flexibility. They use these experiments to demonstrate what works and what doesn't work, and just as important, to prove that the chaos centralizers predict won't occur.

But nibbling away is a slow, tedious process that can wear down one's patience and stamina. When the opportunity exists, reinventors strike more boldly. In New Zealand in 1988, Labor Party leaders eliminated in one fell swoop most of the controls the State Services Commission (SSC) and Treasury Department had imposed on other departments.

In Florida, Chiles and MacKay not only went after the central budget and personnel offices, they also dismantled several departments' central headquarters. They began with the state's social welfare department, Health and Rehabilitative Services (HRS). With 45,000 employees, it was the largest state agency in America; nearly 4,500 of those positions were in the Tallahassee headquarters, distributed among eight layers of managers.

MacKay and Chiles persuaded the legislature to approve a plan to decentralize HRS into 15 community-based districts. But department officials took too long to implement the plan. So Chiles eased the department director out of the way, then assigned MacKay to run the agency for six months. The lieutenant governor demanded and received written, undated resignations from the department's senior managers to ensure their cooperation. He installed the new districts' governing bodies and administrators and gave them some authority over budgets, personnel, and planning.

"We knew we'd never get headquarters to volunteer to cut itself," says his key aide in the process, Bob O'Leary. "So everything inside the Tallahassee

See
Banishing
Bureaucracy pp. II/2-16
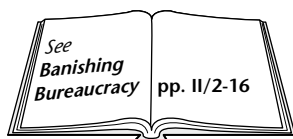
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city limits was going to be looked at with a magnifying glass by somebody who wasn't inclined to protect it." MacKay even invited local-level HRS professionals to help him redesign the department's central office. They divested several departmental functions, axed three layers of management, eliminated 25 of the 38 senior management positions, and eliminated 2,300 positions. They gave up more than 30,000 square feet of leased office space—shipping the remaining furniture, copiers, and computers to district offices to help cut their costs. Then MacKay left the department.

One key to aggressive decentralization in Florida and New Zealand was that reinventors in those jurisdictions knew what they would use to replace the central control systems. MacKay installed community-based control and performance accountability. The New Zealanders made state-owned enterprises accountable to their customers and government departments accountable to elected officials, who contracted with them for specific, measurable outputs. According to virtually every knowledgeable observer, these changes produced significant improvements. Allen Schick, perhaps the leading American expert on public management around the globe, sums them up this way:

> *Public services are more accessible and responsive, more sensitive than in the past to the needs of citizens and clients, and much more efficient. A culture of performance has penetrated New Zealand public management. Chief executives and managers know and accept that they are judged on the performance of their organizations.*

DESIGNING A NEW CENTER

See *Banishing Bureaucracy* pp. II/10-12

See *Banishing Bureaucracy* pp. I/34-40
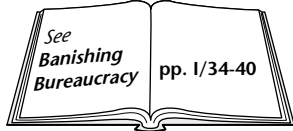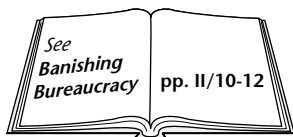
Once reinventors *deconstruct* the administrative centers of power, they find that they must *reconstruct* the center into a source of accountability and a useful partner for empowered organizations. As we reported in *Banishing Bureaucracy,* the New Zealanders gave departments control over their personnel but still had the State Services Commission appoint departments' chief executives and assess their performance. Generals Bill Creech and Michael Loh gave enormous autonomy to the 500 or so squadrons of the Tactical Air Command (renamed the Air Combat Command) but maintained a command headquarters that measured squadron performance, trained employees in Total Quality Management, and conducted annual employee surveys.

As Schick says, "Some central functions are carried out differently than they once were, and relations with line departments have changed, but it would be naive to argue that managerial freedom is incompatible with central direction."
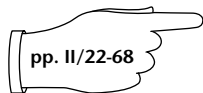
In decentralized systems, the center has several key functions:

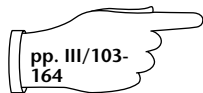- **It helps steer the system.** Central offices like the budget and finance of-
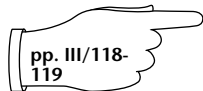
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fice, and central headquarters in large departments, are intimately involved in the steering process. They help elected officials and steering organizations create visions and outcome goals for the system, develop strategies, tie resources to those strategies through performance budgets, measure performance against outcome goals, and evaluate their strategies. We discuss this role in depth in Chapter Five.
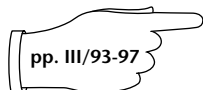
    • *It holds line organizations accountable for improving their performance.* As part of its steering role, the center needs to oversee development of the performance measurement system that monitors organizations' improvement efforts and the accountability system that creates consequences. This should be done in collaboration with the departments and agencies that will be obliged to collect the data and use it to improve performance. But the center must be prepared to deal with organizations that are failing. In education, for example, interventions can include requiring a school improvement plan, providing technical assistance, replacing the school principal, or closing and reconstituting a school.
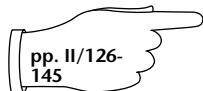
    • *It provides support to line organizations.* The leaders of newly empowered organizations face challenges for which they are not necessarily prepared. The center can aid them in building capacity and improving performance. It can also provide support services: everything from training to telecommunications. Even charter schools, for example—radically independent public institutions—often turn to a school district for transportation, security services, data processing, and the like.

    • *It stimulates innovation within the system.* The center can help spawn and spread effective improvement methods. It can support the introduction of promising innovations created outside the organization, and it can boost innovators within the system—by helping them obtain space or seed money, for instance. It can use competitive benchmarking, a tool that stimulates friendly competition among units, such as schools and squadrons, as a goad to improve performance.

    Thus, there is life after death for the center, but it is a life transformed. As Gifford and Elizabeth Pinchot point out in their book *The End of Bureaucracy and the Rise of the Intelligent Organization,* the role of the new center is to create the conditions that empower others. It does not look anything like the old bureaucratic center.

    One way to picture this new role is to see the new center in terms of a steering body and rowing organizations that have been uncoupled, as we discuss in Chapter Seven.

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EMPOWERING ORGANIZATIONS: LESSONS LEARNED

As reinventors have used various tools to get rid of unnecessary rules and re-focus public organizations on results, they have learned some critical lessons about how it's done:

1. Keep flexibility tightly linked to accountability for performance.

Remember the empowerment deal: it's freedom *for* accountability, not freedom *before* accountability. "At each step in the evolution from centralism to decentralism there should be a balance between the freedoms granted and the accountabilities imposed," advises Graham Scott, former secretary of the treasury in New Zealand.

This can be thought of as a ladder in which each step balances freedom and accountability and maintains the functionality of a management system. Any step which involves imbalance between freedom and accountability is dysfunctional. The system will not work if people are held to account for things they cannot control, or if they are given freedoms without clear expectations of performance.

All too often, reinventors focus on empowerment and let accountability go by the boards. They are prone, says General Loh, to treat empowerment as a social experiment; they "forget what the bottom line is." This is a big mistake. Without accountability for performance, the center will seldom be willing to let go, and few empowered organizations will have the urgency necessary to fight through the obstacles to improvement they will face.

See Reinventing Government pp. 10–11
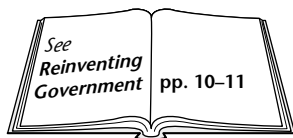
2. To remove the barriers to organizational empowerment, you need political leadership.

When Bob Stone was deputy assistant secretary of defense for installations, he was having trouble getting DOD comptrollers to approve waivers to rules for military base commanders. So he went to get help from his boss, William Howard Taft IV, a political appointee.

When I told Taft about it, he pounded his fist on the table in a big public meeting and said, "I want all the waivers approved." I kind of gritted my teeth, because even I didn't want them all approved; only the 95 percent that were sensible. Later, one of the people I was friendly with in the comptroller's office—they were the enemy—told me, "Don't think I'm going along with this because I believe in what you're doing. I just don't want to get in trouble with Will Taft."

Make no mistake about it: without this kind of push from elected officials and their appointees, centralizers are unlikely to relinquish their power. "I see this everywhere," says Stone, who went on to direct Vice President Gore's Na-

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tional Performance Review for six years.

> *The assistant administrators for personnel or finance or information technology have vested interests in the failure of such an empowered organization. If you empower an organization to make its own personnel decisions, what do you need with an assistant administrator for personnel? So these people, if they're really nice people, will just sit by and hope it will fail. But if they are ordinary human beings, they will help it fail.*
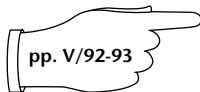
It's not easy for politicians to stay interested in public management, but it is crucial that they back up reformers in the departments. One place to start is with their own political appointees, who seldom relinquish power voluntarily. At an annual conference of federal reinvention lab leaders, Stone remembers, participants were asked to advise Vice President Gore. "Almost everything they said boiled down to one statement repeated 30 different ways: 'Don't waste time with us; we get it. Our bosses don't get it—work on them.'" One of the participants was even more direct:

> *He was angry about the political appointees who weren't supportive of reinvention. I asked him why he spared the career [civil service] people. He almost spat at me; he thought I was a pol. "If your own senior appointees don't support the program," he said, "how can you expect career people to?"*

3. Build up organizational leaders' credibility with elected officials.

Larry Fuchs, the former executive director of Florida's Department of Revenue, says part of his success was knowing how to work with legislators who were reluctant to give up control. To make them feel comfortable with organizational empowerment, he advises, "You have to establish unblemished personal credibility. Be the first one to reveal a problem, and make sure you're not the subject of somebody else's revelation."

In 1991, when the Chiles administration took office, the legislature was naturally skeptical about reducing central control over new department heads. But several department heads—Tom Herndon at Revenue (before Fuchs) and Frank Scruggs at the Department of Labor—had personal credibility with lawmakers, which made all the difference in the world. "Herndon could go in and say, I've been the budget director and the governor's chief of staff," explains Bob O'Leary. "Let me go to the next level. I'll put in an accountability system so you won't be uncomfortable." That pitch earned the Revenue Department new status as a management flexibility pilot.

As you work with leaders, Fuchs says, bombard them with information. "Make sure they feel comfortable about the internal workings of your organization." Use annual and quarterly reports, success stories, monthly newsletters, and anything else you can dream up.

You can get friendly lawmakers to influence their colleagues, he adds. "Find the legislators who have a genuine interest and knowledge in this, and give them the tools to educate their colleagues."

For some services, it's also important to get community leaders comfortable with organizational empowerment. When David Couper was police chief of Madison, Wisconsin, he didn't try to decentralize controls until he had won the trust of community and elected officials. "I'd been around for a while, and I think the community saw me as competent and a good police chief," he says. "They knew what I was doing, that I had a vision, that I was progressive—so when the police who resisted [changes] would go to the community, the community would say to them, 'We don't agree.'"

### 4. Convert the center into a champion for empowerment.

Most central controllers believe in what they're doing, and few are interested in losing their power or their jobs. Still, there are ways to recruit them to the cause of reform.

One is to pilot-test organizational empowerment and make sure the central agencies get something out of it. In the U.K., the all-powerful Treasury Department resisted organizational empowerment during the first few years of the Next Steps process. After several years, though, reluctant Treasury officials became convinced that empowerment in exchange for accountability was working; spending was not running out of control. Then *they* began to find ways to use it to save money, by forcing Next Steps agencies to eat inflation. Finally, they converted—extending management flexibilities first to agencies and then to departments as well.

At the Tactical Air Command, General Bill Creech documented the negative impact of centralized controls. "I showed [the Pentagon staff] numbers that showed we were doing worse every year, that our productivity was declining at a rate of almost 6 percent a year," says Creech. "They'd never seen numbers like that before." That made it easier to persuade the centralizers to stop micromanaging.

If you really want administrative control agencies to let go of their controls, start appointing reinventors to run them. Sometimes you may have to find these reinventors in the private sector. In the early 1990s, California officials decided to turn around their Department of General Services (DSG). In charge of the state's procurement system, it was guided by the nine-inch-
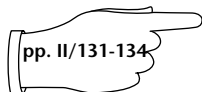
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thick *State Administrative Manual.* The state used a headhunter agency to conduct a search. It found Peter Stamison, an executive from the aerospace and communications industries who had no government experience. "I've been a critic of government ever since I got my first paycheck," Stamison says. He quickly began to dismantle DSG's cumbersome controls.

5. Get top managers to blow up their own central control systems at headquarters.

George Weise, commissioner of the U.S. Customs Service, cut his HQ staff by one-third and shifted the resources to the field. Bob Stone followed a similar pattern with the office he ran in the Defense Department. "I blew up my part of headquarters," he says. "I basically took all the people in the business of checking up on compliance with silly rules and put them in charge of helping base commanders get waivers."

A rule of thumb is that you should reduce headquarters staff by at least 50 percent. But some reinventors advise going further. "You should tell them they have to do the job with no more than half of the people they have—and that each year they have to cut back even more," say Florida's Bob O'Leary.

"I think the right number [for reduction] is something greater than three-quarters of the staff," comments Stone. If you cut less than that, he explains, "people will attempt to keep doing the same things they've always done."

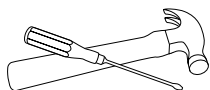### RESOURCES ON ORGANIZATIONAL EMPOWERMENT

Peter Block. *Stewardship: Choosing Service over Self-Interest.* San Francisco: Berrett-Koehler, 1993. Bloch critiques the rationale behind central control and offers important ideas about alternatives.

Bill Creech. *The Five Pillars of TQM: How to Make Total Quality Management Work for You.* New York: Truman Talley Books/Dutton, 1994. The inspiring and savvy tales of a master reinventor who found ways to empower his organization, the Tactical Air Command, and then reinvent it thoroughly.

Gifford and Elizabeth Pinchot. *The End of Bureaucracy and the Rise of the Intelligent Organization.* San Francisco: Berrett-Koehler, 1993. A comprehensive indictment of the command-and-control approach, with useful advice and stories, mainly from business, about empowerment.

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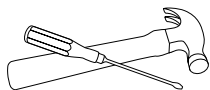
TOOLS FOR ORGANIZATIONAL EMPOWERMENT

Reforming Administrative Systems gives line agencies the authority to manage their own resources within a minimal framework of mandates from and oversight by central administrative agencies. It changes budget and finance, personnel, procurement, and auditing systems to make agencies accountable for producing results rather than for simply following rules. See below.

Site-Based Management shifts control over resources and day-to-day decision making from the central office of a system, such as a school district or a national employment service, to the many frontline organizations in the system, such as schools or local employment offices. See p. 427.

Waiver Policies are a mechanism that central agencies and headquarters use to temporarily or permanently exempt organizations from rules on a case-by-case basis. See p. 430.

Opting Out or Chartering allows existing or new public organizations, such as charter schools, to operate outside the jurisdiction of most government control systems. See p. 434.

Reinvention Laboratories are public organizations that receive permission to break administrative rules and procedures temporarily and to experiment with new ways of improving performance. Typically they are granted waivers and protected from interference. See p. 444.

Mass Organizational Deregulation repeals many of the other internal rules and regulations created by legislatures, central agencies, and departments to dictate the behavior of public organizations. See p. 450.

REFORMING ADMINISTRATIVE SYSTEMS

After the energy crisis in the late 1970s, leaders of the police department in Madison, Wisconsin, decided to reduce fuel consumption. "The management, in its infinite wisdom, decided it was going to contribute to the cause of saving fuel by buying small police cars," recalls Michael Masterson, then a junior officer with the force. The agency replaced many traditional, larger cars with low-power subcompacts, such as Omnis and Horizons.

"Unfortunately," says Masterson, now a captain, "no one took into account those frequent times when officers had to squeeze motorists into the back seat to complete accident reports; place a combative, struggling prisoner inside; or try to guide a person incapacitated by alcohol inside for conveyance to a detox-

ification facility. It just didn't work."

Police officers also tampered with the small cars' engines. They "flipped the air cleaners over to make the engines sound like police cars," Masterson recalls. "Then they drove around in low gear to give them more oomph." As a result, savings from fuel economy were lost to increased maintenance and repair costs.

Unfortunately, the police car follies were not an isolated incident. Madison also issued its police officers boots for patrol. The boots were not insulated, even though Madison's winters can be severe. Managers believed that if officers had insulated boots, they would wear them off duty, wear them out more quickly, and need more frequent replacements, which would cost the city more money. Masterson remembers how he and fellow officers got around the restriction. "I was part of this and take great pride in this subterfuge. You go down [to the store] and you order the uninsulated boots, and you pay them $10 more, and they give you insulated boots." When management got wind of this, it made a new rule: all clothing had to be delivered to the police station first, so it could be inspected for compliance with the approved clothing list. Officers soon found a way around this as well: they picked up uninsulated boots at the station, returned to the store, and exchanged them and some extra money for a warmer pair.

Madison has since changed its procurement rules to give officers more say in what the city buys. But most public organizations still suffer with centralized administrative systems that take control out of managers' and employees' hands. As these examples illustrate, their effect is often counterproductive.

Bureaucratic procurement, personnel, auditing, and budget and finance systems create countless mandates for organizations. Their power shapes public organizations, work processes, and people. You can see this linked chain in Madison. When the departmental procurement system purchased subcompact cars, it affected everyday work processes, like bringing in arrested people, and it affected the morale of the department's employees—who got their revenge by tinkering with the puny engines.

Transforming Systems Instead of Gaming Them

Smart managers in government figure out how to beat bureaucratic administrative systems. They wheel and deal for special favors from the central agencies: to allow a hire or purchase that doesn't quite conform to the rules; to speed up an urgent promotion, grant, or bid. They fend off auditors by giving them too little or too much information and endlessly contesting their criticisms and interpretations. Most departments have several veterans who specialize in "working the system" to get what the agency needs, no matter what the rules say. And most central administrative agencies have staffers who play the other

end of the game—helping people in agencies get around the rules.

All of this wastes precious time, money, and energy. This inefficiency is a chronic and massive problem in government.

Sometimes politicians even get dragged into the mess. In Portland, Oregon, a few years ago, the local police were trying to figure out how to get around a federal rule. They had a potbellied pig named Harley who was very good at sniffing out narcotics. They wanted to buy some more pigs and train them to sniff out guns, too. But they couldn't use federal antidrug funds to train pigs—only dogs. The bureaucratic problem went all the way to the White House, where, finally, Vice President Al Gore broke the impasse. He designated Harley an honorary dog.

The stories of Mike Masterson's insulated boots and Portland's potbellied pig highlight the enduring absurdities produced by centralized administrative systems. Instead of focusing on performance, managers spend their time maneuvering around the rules. The process wears them down, because it takes far too much energy to get little things done. They become cynical and disheartened.

Compare this with how managers feel in New Zealand, where reinventors released them from administrative handcuffs and began to hold them accountable for producing results.

Not long after the reforms, George Hickton became a manager in the Department of Social Welfare. He had worked for years in the private sector with Ford and Honda. When we talked with Hickton in 1994, he was general manager of the department's largest unit, Income Support Services. His 1,500 employees operated New Zealand's welfare offices.

Hickton worked for Margaret Bazeley, the department's chief executive. She had the power to hire and fire, to set salaries within broad ranges, to evaluate performance, and to negotiate performance contracts with managers like Hickton. She also worked under a performance contract, as did all department heads. Each year, she negotiated her department's expected outputs with a cabinet minister, an elected official. Then she was empowered to succeed. She controlled her agency's budget, personnel, and purchasing. In addition to giving her management autonomy, she told us, New Zealand's reforms gave her "clarity of objectives" and "accountability for performance." And she passed all three elements down to her managers.

George Hickton used the freedom Bazeley gave him to transform his organization's culture and performance. When he took over, he changed practically every member of his executive team, bringing in some new people from the outside. He invested in sprucing up the local offices and training employees in customer service. Responding to his contract with Bazeley, he focused

See
Banishing
Bureaucracy   pp. II/2-16
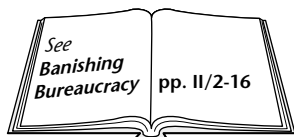
on improving the speed with which the agency approved applications for public assistance. In 1993, it took an average of six days. One year later, it took *less* than a day. Visitors from social services agencies in other countries didn't believe the results, Hickton says. "One of them got into a car with one of my people and said, 'What's the truth?'"

George Hickton obviously relished his autonomy as a manager. New Zealand's system, he told us, provides "incredible freedoms for management." In fact, he said, it gave him more freedom than Ford or Honda ever had.

To reinvent government, you *must* do as New Zealand did and transform your administrative systems. If you don't, they will stymie change, because they have such a strong grip on the resources and incentives of public organizations and employees. Indeed, reforming administrative systems is the single most powerful tool for empowering public organizations. It is a metatool: in addition to the Control Strategy, it also uses the Consequences Strategy, to give organizations incentives and accountability for performance; the Customer Strategy, to force central agencies to pay attention to what line organizations need from them (such as insulated boots); and the Culture Strategy, to break the "comply with the rules" mind-set that keeps organizations from responding effectively to their customers.

Transforming these systems is heavy lifting at the very frontier of reinvention. Fortunately, reinventors have begun to pull it off. In the pages that follow, we sketch the many changes they are putting into place, system by system. When we describe tools discussed in other chapters, we use pointers to direct you to those more detailed discussions.

### Transforming Budget and Finance Systems

In 1993, the NPR reported that "the federal books are a mess. Any business with separate, uncoordinated systems for budgeting, accounting and product sales would soon be bankrupt. But the federal government has such systems." This was not a case of American or federal exceptionalism; most governments used pretty much the same systems that the NPR condemned. Unfortunately, these systems often lead elected officials and managers to waste the public's money.

For starters, government officials and managers don't have a clue how much it costs agencies to get something done, because the accounting systems don't tell them. When employees in Indianapolis wanted to compete against private contractors for street repair work, for instance, they realized that they didn't know how much the work they performed cost the city; their financial systems were not designed to collect and report this information.

Second, public managers normally spend as much money as they can get

See Reinventing Government pp. 117–124
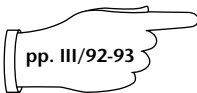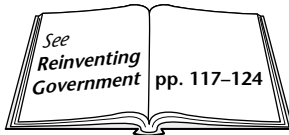
their hands on, because budgeting systems provide disincentives for saving funds. In most public organizations, if you don't spend your entire budget, you lose whatever you saved, and you probably get less the next year. This explains why 94 percent of senior managers in the Australia Public Service said in a 1984 survey that good financial management was "spending no more—and no less—than their budget allocation."

Indianapolis mayor Stephen Goldsmith tells a story in his book *The Twenty-First Century City* that brings the phenomenon to life:

> *We created a reward program, called the "Golden Garbage Awards," to recognize employees who uncovered such examples of waste. Dozens of examples surfaced. A parks employee identified stacks of chalk to line softball fields that had been purchased at year's end by a buyer fearful of having his annual budget reduced if he had any money left over. We had enough surplus chalk to line all the softball fields in the city for five years—even though we had switched to spray-painting the lines two years before.*

Third, public leaders don't know what they get for their money, since government budget systems don't tell them. The typical government budget counts expenditures but not results. This is like leaving a department store knowing how much you spent but not what you bought.

Thus, bureaucratic budget and finance systems create multiple problems for reinventors. They make it hard to improve steering, since steerers don't have good information about what it costs to produce results. They keep organizations from using managed competition or enterprise management, because they don't know how much it costs to produce their goods and services. And they forestall organizational and employee empowerment, because they don't give managers and employees any incentive to spend the public's money wisely, as if it were their own.

Generally, reinventors change budget, finance, and accounting systems in four ways:

1. They introduce powerful incentives for managing and saving money.

Quite simply, they break the traditional get-all-you-can-spend, spend-all-you-can-get mold. Instead, they reward managers for using less money while maintaining or improving service levels and quality. In Australia, Canada, the U.K., Sweden, and an increasing number of U.S. governments, departments are allowed to keep a portion of any funds they do not spend. They can "roll it over" into the next year and spend it on ways to increase productivity. This discourages wasteful year-end spending done only to avoid losing funds.

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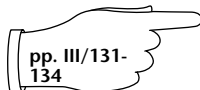
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We call this tool shared savings. The British call it "unlimited end-year flexibility." Some governments let agencies keep all of what they save; others allow them to keep a percentage. In most cases, we believe, you should let organizations keep at least half of their savings, so they will have a strong enough incentive to save. You must also protect organizations from retroactive raids on their savings by legislators, who may be tempted to recapture agencies' savings or to cut future budgets of agencies that save money. Such moves quickly destroy the incentive to save.

Another tool ensures that managers will pay attention to the full cost of things. Capital charging, pioneered by New Zealand in 1991 and recently adopted by the U.K., charges departments for the cost of the capital they use for fixed assets and, sometimes, the capital they use for operations. In New Zealand, each department pays interest pegged to the cost of capital used for similar activities in the private sector. The main effect, according to Graham Scott, former head of the New Zealand Treasury Department, is that managers use assets more productively, dispose of assets they don't need, and manage debts and inventories more effectively. New Zealand also allows agencies to retain proceeds from the sale of their assets.

The Australians and British used a third tool: they reduced running (operating) cost budgets by 1 to 1.25 percent every year—an "efficiency dividend" that forced managers to find ways to boost productivity.

2. They give managers the flexibility to manage their resources.

The new financial systems break the habit of insisting on annual input-based budgets with innumerable, inflexible line items or accounts for practically every kind of expenditure. The best way to escape this paradigm is to give managers lump-sum operating budgets and let them figure out the most effective ways to spend the money. (*Reinventing Government* called these "mission-driven budgets.") The Australians, New Zealanders, and British all do this now, as do many state and local governments in the U.S.
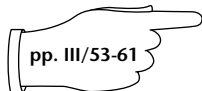
A second, although weaker, option is to give managers more flexibility to move money between line items. The Department of Defense took this approach in its Unified Budget Test, which gave some military base commanders this authority.

Another tool for creating flexibility is the innovation fund. It allows organizations to build a pot of money out of shared savings or appropriations and use it to pay for innovations that managers support. The Air Combat Command created a $10 million fund, and several other federal organizations have similar mechanisms. Hampton, Virginia, puts 10 percent of annual shared savings into its innovation fund. In Philadelphia, an innovation fund gives agencies five-year loans that must be repaid at double the amount borrowed. Portland,
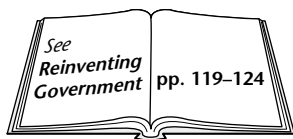
Oregon, requires a three-year payback on loans from its fund. When public administration scholar Paul Light studied 26 innovative organizations in Minnesota, he found that "all but a handful . . . had an innovation investment fund of some kind."
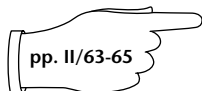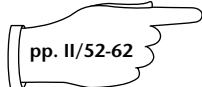
Finally, reinventors can also give departments control over their budgets for purchasing internal services, such as printing and computer services—a tool we call internal enterprise management. In most governments, these internal services are run as monopolies. Departments must obtain goods and services from them; usually they don't even control the budgets for these purchases. Breaking up this monopoly by using internal enterprise management has saved substantial sums in Australia, New Zealand, the U.K., Minnesota, and other places. Part of the change involves giving agencies, rather than internal providers, the budgets for services they need and letting them purchase those services wherever they wish.
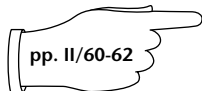
3. They provide better financial steering tools to elected officials and managers.
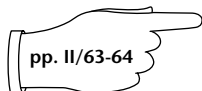
Reinventors use budgets that project revenues and costs for five to ten years rather than just one year at a time. They also use performance budgets to buy specific results rather than to pay for specified activities. Both changes help public officials improve their hand-to-eye coordination: they keep their eyes on the long-term outcomes they want, while keeping their hands on the steering wheel.

A third useful tool is biennial budgeting: drafting two-year budgets rather than the usual annual appropriations bills. This cuts the time lawmakers spend crafting budgets, giving them more time for steering and planning.

Finally, some reinventors try to make government's financial condition more visible and comprehensible to citizens. In 1994, New Zealand adopted the Fiscal Responsibility Act. In two previous elections, political parties in power had hidden the government's fiscal weaknesses during their campaigns. When the out-of-power party was elected, it discovered the real situation and had to make far more drastic spending cuts than it had promised. The new law requires full exposure of the fiscal situation in the period leading up to an election, among other things.

In the U.S., reinventors with the National Performance Review were concerned about similar problems. They recommended that the president annually release a report to the citizens, detailing "in terms that are easy to understand" the government's revenues, expenditures, investments, contingent liabilities, and financial condition.

4. They reform accounting systems to help managers do a better job.

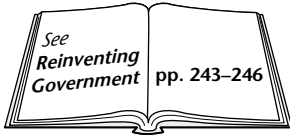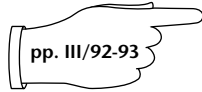Properly designed accounting systems expose a great deal of information about what organizations are actually doing and what they are getting for their money. This is essential for improving performance. Several basic competencies are involved.

Full cost accounting helps managers identify both the direct and the overhead costs of their programs and units. Activity-based costing helps them discover how much it costs to produce each output. Accrual accounting requires organizations to record liabilities as they occur and revenues as they are earned, rather than ignoring them until the bill or check comes in. It also requires them to depreciate capital expenditures over time, rather than treating them as an operating expense in the year they buy or build the asset. This prevents some of the perverse incentives that occur in cash accounting, which ignores the cost of deterioration in capital assets like highways, bridges, and buildings. Australia, Canada, Finland, Iceland, New Zealand, Sweden, the U.K., and the U.S. have all converted to accrual accounting. Lastly, public organizations are adopting Generally Accepted Accounting Practices (GAAP), which create more consistency and honesty in financial management and accounting practices across organizations than do other methods. Using GAAP holds governments to some basic accounting standards.

Reinventing Budget and Finance Systems

| *Create Incentives for Managing Money:*	*Improve Steering:*
• Shared savings	• Performance budgets
• Capital charging	• Long-term budget forecasting
• Efficiency dividends	• Biennial budgets
	• Financial reports to citizens
Give Managers Flexibility:	*Use Accounting to Improve Management:*
• Lump-sum budgets	• Full cost accounting
• Line-item flexibility	• Activity-based costing
• Innovation funds	• Accrual accounting
• Internal enterprise management	• Generally accepted accounting practices

Transforming Personnel Systems

In 1992, consultants from KPMG Peat Marwick evaluated the state personnel system in North Carolina, which spent nearly $4 billion a year on salaries and benefits for 212,000 employees. They found a raft of problems:

• Employees collected $30 million in annual longevity bonuses no matter

how well they performed.

- Eighty-three percent of employees evaluated by managers received a rating of "exceeds expectations." Only 1 percent were identified as not meeting expectations.

- The state had 4,891 job classifications—one for every 15 workers—resulting in excessive layers of management and very small spans of control for managers.

- The state had no idea how much money it was spending on training employees, since no records on this were kept.

- Fewer than 0.1 percent of middle managers eligible for a skill development program initiated in 1988 had actually taken the course.
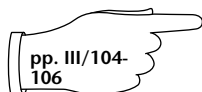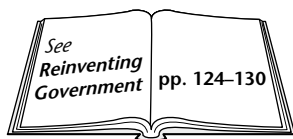
In other words, the personnel system looked like those of most bureaucratic governments: it had few incentives for performance, it was top-heavy, it gave managers little flexibility in the way they used employees, and it barely invested in developing employees' capabilities.

In half of all U.S. states, longevity pay has been a standard feature of compensation systems. Relatively few governments have effective systems for rewarding high-performing individuals or organizations. Even fewer governments have significant consequences for poor performance. North Carolina's consultants noted that managers avoided giving employees poor performance ratings because they didn't want to get involved with the state's grievance process.

Many governments have far too many job classifications. Some, like North Carolina, have thousands. Because employees are locked into their job classifications and pay grades, managers often cannot move personnel around or give people raises. They spend hundreds of useless hours haggling with personnel offices over classification issues. Virtually every personnel study in the last 10 years has recommended reducing the number of classifications. The National Commission on the State and Local Public Service, chaired by former Mississippi governor William F. Winter, concluded in 1993 that states need only a few dozen.

Finally, few governments invest significantly in training. KPMG Peat Marwick told the North Carolina legislature that Fortune 500 firms spend 3 percent of their payroll on training and the federal government spends 1 percent. Meanwhile, the two large states for which data existed at the time—Florida and New Jersey—were investing about 0.1 percent.

No wonder, then, that reinventors worldwide are transforming the standard-issue personnel or civil service system. The system needs "a complete reconstruction," say the authors of *Civil Service Reform,* published by the prestigious Brookings Institution. "In its foundations, it is slowly decaying; and in its per-

formance, it is simply unable to continue to bear the burdens it must carry. It must be fixed, and the fix will require more than a shiny coat of new paint."

The Brookings Institution's call for radical reform echoed that of the NPR, which concluded that "we must reform virtually the entire personnel system: recruitment, hiring, classification, promotion, pay, and reward systems.

> *We must make it easier for federal managers to hire the workers they need, to reward those who do good work, and to fire those who do not. As the National Academy of Public Administration concluded in 1993: "It is not a question of whether the federal government should change how it manages its human resources. It must change."*

In New Zealand, reformers reached similar conclusions five years earlier and blew the system's foundations away—dismantling the civil service controls and letting each department manage its personnel in line with a few basic systemwide rules. Sweden and the U.K. have most of the same flexibilities. Georgia made a similar move in 1996, ending the civil service system for new employees; instead, each state agency can create its own personnel system, define job classes and pay ranges, and recruit and hire employees.

We wouldn't recommend going quite as far as Georgia has gone; we think you need to preserve prohibitions against patronage hiring and political manipulation of public employees, as New Zealand and the U.K. have done. But bit by bit, governments are revamping their personnel systems in three very important ways:
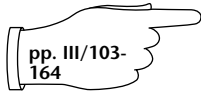
1. They use compensation to create incentives for performance.

They use many of the tools of performance management identified in Chapter Eleven, including performance contracts, performance bonuses, and gainsharing. At the same time, reinventors abolish longevity pay and routine annual increases, which are not based on performance. Thus employees can only increase their income (other than through cost-of-living adjustments) by performing well or being promoted.
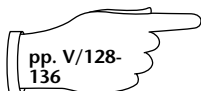
With many organizations developing work teams, some reinventors are experimenting with team-based performance pay. For example, Hampton's personnel unit, which is a self-managed team, decided in 1995 that its members' raises would depend on the whole team's performance in achieving its measurable goals, not just on individuals' performance. Gainsharing is another way of rewarding teams financially, since it allows work units to keep as bonuses a portion of the savings they generate. Other organizations have begun compensating team members on the basis of the skills they have rather than their job descriptions. Skill-based pay gives employees a reason to keep building their capacities and creates mobility for employees stuck in low-level job classifications.

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Personnel reformers have also invented new ways to do performance appraisals. Hampton has experimented with team-based appraisals. Other places include peer reviews as part of the process. Aggressive reinventors use a "four-way check," which solicits input from subordinates, peers, supervisors, and the employee himself or herself.

In Florida, reinventors made employees' performance a factor in determining whether they would be laid off or "bumped" into other positions during personnel reductions. (In the past, workers with the most seniority had been protected against layoffs.) Better yet, some governments have done away with bumping altogether.

2. They give managers flexibility to shift human resources to meet the organization's changing needs, including more authority over hiring, firing, and promotions.

The Clinton administration threw out the 10,000-page *Federal Personnel Manual* and substituted a shorter set of rules in its place. The New Zealanders and British have gone much further. In 1996, the British finished delegating all pay, pay bargaining, and civil service grading to agencies and departments. The process took two years and proceeded agency by agency. It wasn't long before organizations began making changes. For example, the 60,000–employee Inland Revenue abolished 120 traditional civil service grades and replaced them with five broad pay bands covering nearly all of the staff.

The shift from narrow to broad pay grades and job classifications is a worldwide trend, because it gives agencies much more flexibility in setting compensation, rewarding performance, and organizing work.

Reinventors are also streamlining hiring and firing processes. The latter are often so cumbersome and slow that most managers simply avoid them, choosing to put up with or transfer incompetent employees rather than try to fire them. One common reform is to simplify the appeals process for employees who are fired, so appeals do not go on endlessly. Many governments with British-style civil service systems are increasing competition for management positions by opening the door to candidates from the private sector.

Lastly, as reinventors seek more flexibility, they also are building new assistance programs for employees faced with losing their jobs due to privatization, managed competition, or other causes. As we discuss in Chapter Ten, they are creating job banks, which keep some jobs vacant so dislocated workers can be moved into them; providing outplacement services; requiring private contractors to hire public employees; and providing early retirement incentives.

3. They invest in building the capacities of public employees.

Alan Brunacini, the fire chief of Phoenix, notes that 90 percent of his department's budget goes for personnel: "Every service that we deliver, we deliver

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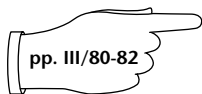
with a real live firefighter. We are effective to the extent that our firefighters are effective. So it doesn't make a hell of a lot of sense not to invest in that workforce."

Many reinventors would agree with Brunacini's assessment. But they find that typical government personnel systems don't invest in employees. Major American corporations routinely spend four times more on training employees than the federal government does, according to the National Commission on the Public Service. But the level of investment is hardly the only issue. In 1989 the commission, chaired by Paul Volcker, issued this disapproving description of federal agencies' training practices:

> *Agencies are not sure what they should train for (short-term or long-term), who should get the lion's share of resources (entry level or senior level), when employees need additional education (once a year or more often), and whether mid-career education is of value. . . . Career paths are poorly designed, executive succession is accidental and unplanned, and real-time training for pressured managers is virtually nonexistent. At both the career and presidential levels, training is all-too-often ad hoc and self-initiated.*

Many governments are now boosting their spending on training and management development—led by Australia, which dedicates 5 percent of its payroll to training.

Reinventing Personnel Systems

Use Compensation as a Performance Incentive:	*Give Managers Flexibility to Manage Their Human Resources:*	*Invest in Capacity Building:*
• Performance management tools	• Decentralized personnel authority (hiring, firing, promotions, and so on)	• Employee training
• Elimination of longevity pay	• Simplified job classifications	• Employee and management development
• Team-based pay	• Broad pay bands	• Investing in employees
• Skill-based pay	• Streamlined hiring and firing processes	
• New forms of performance appraisal	• Open-door job competition	
• Performance criteria in personnel reductions	• Employee assistance programs	

Transforming Procurement Systems

George Boersma chalked up 10 years running the purchasing and credit card operations of a major Detroit bank before he became Michigan's purchasing director in June 1994. He was no expert in government purchasing systems,

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so he had all the departments send him flowcharts of their purchasing processes. They were Byzantine: some required as many as seven or eight different people to check on and approve each purchase. "I could not look at them," says Boersma. "I decided this was ridiculous."

Then Boersma created a list of all government employees who spent at least 25 percent of their time processing and approving purchasing requests. It amounted to the equivalent of 183 full-time staffers. He tracked one $20,000 purchase: it crossed 27 desks and took 81 days—but it required just 3 hours and 15 minutes of actual work. Finally, Boersma asked how much it cost to process purchase orders. "Nobody had a clue," he says. So he figured it out. He found that the vast majority of the state's more than 100,000 purchases annually were for goods and services under $1,000. The average price of those purchases was $254. Then he took the cost of the purchasing employees (salaries, benefits, equipment, and the like), and divided it by the number of purchasing transactions. The answer: on average, it cost between $70 and $100 to make a $254 purchase. That, Boersma thought, was outrageously expensive. Sometimes the *process* cost more than the *product*!

So he found a way to cut the cost by as much as 90 percent. He offered to give purchasing cards (like credit cards) to state employees selected by their departments. The civil servants could use their cards to buy whatever they needed—no permission required—as long as it didn't cost more than $1,000. That cut out all the layers of the purchasing process, as well as all the inspectors and approvers. It didn't just save the state money, it saved the agencies an enormous amount of time.

George Boersma cut one of the Gordian knots of purchasing: the red tape created because no one trusts employees. The other big Gordian knot is the low-bid mentality. Governments have long acted as though the lowest cost is the only goal in purchasing. This is supposed to prevent corruption in bidding, but it can be a costly mistake, since low prices often mean shoddy goods and services.

The impact of bureaucratic procurement systems becomes more striking when you realize just how much purchasing governments do. By 1991, North Carolina purchased about $1 billion worth of goods and services a year. By 1993, the U.S. federal government spent more than $200 billion a year on goods and services—about $28,000 every second of every working day. Overall, government purchasing amounts to 20 percent of America's gross national product.

But there's more than money at stake in reinventing procurement. As the Madison police learned, procurement systems can be completely disempowering. Because of "Mickey Mouse rules," as Mike Masterson calls them, employees often can't get the goods and services they need to do their jobs.

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Sometimes they get them long after they need them. As a result, performance suffers. And no one is accountable for these failures. They just happen—*routinely.*

In response, reinventors push procurement systems to change in several ways:

1. They give managers and employees more control over purchasing decisions.

A relatively easy step is to let departments use purchase cards, as Boersma did in Michigan, the Clinton administration did in Washington, and many other states, cities, and counties are now doing. A federal government pilot begun in 1986 took off after 1994, when Congress passed a procurement reform package recommended by the NPR and President Clinton issued an executive order on purchase cards. By 1996, federal employees were making 31 percent of their acquisitions with cards—seven million purchases worth $2.9 billion. A 1994 study found that they saved an average of $54 per transaction by using cards rather than purchase orders. Do the math and federal savings were in the neighborhood of $378 million a year by 1996.

Reinventors also allow agencies to purchase more off-the-shelf commercial products rather than drawing up bid specifications and going through formal bidding processes.

In addition, many governments are raising the "purchase floors" under which simplified procurement procedures apply. This is a particularly helpful change, since most purchases involve relatively small amounts of money. In 1993, when the NPR recommended that the federal floor move from $25,000 to $100,000 (a reform Congress passed), it estimated that this would exempt nearly 50,000 transactions a year from full-scale procedures.

More generally, reinventors deregulate procurement by shifting from rigid rules and processes to general principles agencies must follow. Canada, for instance, has boiled its procurement law down to just eight pages, counting both the English and French versions. In Michigan, former chief information officer John Kost discovered that the state's cumbersome procurement system was not even required by law. "The state purchasing law required virtually none of the bureaucratic hassle that was occurring," he says. "In fact, existing law contained explicit language giving the Department of Management and Budget the authority to do whatever was in the state's best interest."

So Kost and Boersma issued purchase cards, allowed unapproved "quick purchases" for transactions under $25,000, and replaced detailed procedures with several basic principles for agencies to follow:

- The procurement outcome is more important than the process.
- Flexible purchasing processes allow the best outcomes.
- "Best value is more important than low price."
- "Time is money."

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- "Invitations to bid should describe the problem, not the solution."

- Bidders should be able to propose a variety of possible solutions, not just the "right" solution.

When reinventors shift operational control of procurement to agencies, as Michigan has, some purchasing agents are no longer needed. When this happened in Minnesota, says Jeff Zlonis, a former deputy commissioner of administration, the state turned redundant purchasing agents into consultants to help agencies find the best vendors, hold down costs, and avoid purchasing pitfalls.

To speed up purchasing processes, reformers also amend protest rules to discourage vendors from making frivolous challenges. Philip Howard, author of *The Death of Common Sense,* artfully describes the way that agencies' vulnerability to protests slows purchasing down:

> *Losing vendors are actually able to sue, or "protest," when a contract is awarded to someone else. Any businessman will see immediately the paradox. Sue your would-be customer? No such legal right exists in the real world. If anyone tried it, they would never get a chance at the business again. . . .*
>
> *What this accomplishes for government is a corrosion of its bargaining power. Col. John Case, testifying recently before Congress, observed that instead of negotiating hard for taxpayers, contracting officials spend months trying to please bidders in an effort to make the bids "protest proof." The main goal—spending money wisely—gets lost in a labyrinthine exercise of process for its own sake. Soviet central planning, by comparison, seems almost crisp and efficient.*

To ensure prompt and efficient handling of protests, governments also use alternative dispute resolution: negotiation, mediation, facilitation, fact finding, and arbitration.

Another way to accelerate purchasing processes is to use catalogs with prenegotiated prices for office furniture, supplies, and other things. Basically, the government negotiates terms and conditions with vendors, then gives employees a catalog of items—or even better, puts the catalog on-line, where it can be updated daily. Managers can buy these items without bids or approvals. Usually, the vendors have also been required to guarantee fast processing of orders. In Michigan, says Boersma, "If you order something by 5 o'clock today, in 80 percent of the state you will get it delivered tomorrow. In the remaining [more remote] part of the state, delivery will be the following day."

Lastly, many governments are paying special attention to the problems of purchasing information technology (IT), a rapidly growing commodity for pub-

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lic buyers. Because of past problems with IT systems and eye-popping cost overruns, purchasing processes often became quite rigid and, therefore, incredibly slow. In 1993, the NPR reported that the pace of IT purchasing was causing serious problems:

> *The federal government takes, on average, more than four years to buy major information technology systems; the private sector takes 13 months. Due to rapidly changing technology, the government often buys computers that are state-of-the-art when the purchase process begins and when prices are negotiated, but which are almost obsolete when computers are delivered. The phenomenon is what one observer calls "getting a 286 at a 486 price."*

One solution is to delegate more IT purchasing authority to agencies while providing them with much more expert assistance. San Francisco opened a computer store for its agencies. It offered equipment from three vendors selected competitively, providing a wide range of choices while meeting the city's standards. The store cut the time it took to procure a personal computer from six months to about two weeks. The committee that once handled all technology purchases stepped out of that role; instead, it now oversees the system to ensure that the city's computer systems are compatible.

2. They substitute best value purchasing for low-cost purchasing.

Some governments, including both Canada and the U.S., have shifted their emphasis from getting the lowest bid to getting the best value. In 1993, California adopted reforms that added quality, reliability, and past vendor performance to price as important factors to consider in purchasing.

One way to identify value is to define the "full cost" or "life cycle" cost of the equipment, including the cost of disposal or recycling. This approach was introduced in Madison by elected officials. "A low purchase price means little if the equipment becomes unreliable or requires a series of expensive repairs," explains Mike Masterson. "Madison's elected leaders saw the value of looking at the total cost of a product, not just the initial price tag, and at its predicted life cycle based on how it would be used. Their aim was to minimize the total cost, not just the bid price."

Increasingly, governments are also using performance-based contracts to ensure that vendors deliver the value they have promised. In Indianapolis, for example, the company that won the right to manage the city airport guaranteed it would reduce costs by $50 million and backed up its pledge with an irrevocable letter of credit.

Another way to increase value is to create long-term partnerships with suppliers and engage them in helping improve your productivity. Michigan's

Boersma put such a provision into a three-year contract with the firm that provides the state government with office supplies. The state can extend the contract by up to two years. "We told them we may extend," he explained, "provided you come to the state on an annual basis and show us how to reduce our costs by 3 percent or more."

In Canada, an innovation called Common Purpose Procurement (CPP) allows governments to select private sector partners who will work closely with them to jointly develop and manage new ways of delivering services. This process, rather than a traditional bidding process, is used "when government does not have the time, money and expertise to design and build a solution of its own," as Ontario's guide for industry suppliers explains. The Canadian federal government piloted the method, using IT purchases. New Brunswick and Ontario have implemented their own versions. "Ontario's new CPP format encourages government ministries to select partners on proven experience and expertise, project approach and management, financial stability and the ability to work in partnership where each partner shares the project's risks, investment and benefits," according to the guide.

Under CPP, an organization starts the process by asking vendors to respond to a request for proposals that describes the organization's vision or opportunity and the desired results. From the responses, the agency selects several vendors, who then compete based on the quality of their proposed business relationship, financial arrangements, project approach, and organization, as well as their capacity to partner with government. Then the agency and the highest-ranked vendor negotiate an agreement that defines initial activities and deliverables, as well as some procedures for managing the partnership. Although this procurement method is appropriate only for certain projects, it encourages innovative approaches, reduces decision-making times, and allows the public and private sectors to share risks.

3. They build the customers' needs into the purchasing process.

When the Madison police department bought Omnis and Horizons for its fleet, it left the customers out of the purchasing loop. No one asked those who would be driving the cars what they needed. Later, a team of employees developed ways to get the customer back into the picture. The *Purchasing Improvement Toolkit* they created explained why it was important to fully understand the end user's needs:

> *For example, one might order a dozen pairs of work gloves for a city work crew. This seems simple enough. But what is not obvious to City Purchasing is the relative importance of such factors as usable life, waterproofing, warmth, protection from abrasions, retention of*

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manual dexterity, fire protection, or even color.

The team recommended that customers be involved in drawing up specifications and even in testing equipment. They called this involvement "user input." Thus when the police department purchased portable two-way radios for its officers, it insisted that the bidders provide samples for two-week trials. The police gave every bidder's radios an extensive field test before choosing the best ones.

In Minnesota, Larry Schanus at the Department of Transportation discovered that he could let people order customized equipment and still save money. Traditionally, the state had created a general specification and required every unit to buy the same product, whether that product best met their needs or not. Large manufacturers had produced lower-quality vehicles (no radios, no air conditioning, vinyl seats) to meet government specifications. Schanus learned that he could actually get much better value at the same price by promising a large number of customized purchases. He also discovered that the resale value of the nongeneric vehicles was much higher—so it reduced the life cycle cost to the state.

4. They enhance competition between providers.

Often governments select multiple vendors for a product, then force them to continuously compete to make sales to agencies. For instance, Michigan allows state agencies to purchase personal computers from any of three companies that meet state standards. The vendors compete for sales by periodically cutting their prices.

It is also becoming common to prequalify bidders, then pick the best ones and ask them to come up with their best proposal. This "two-step" bidding process "encourages innovation and initiative on the part of competing firms to develop new approaches, techniques, and methods in producing an item," notes Susan MacManus, a professor of public administration who specializes in procurement.

Increasingly, reinventors are also using information technology to boost purchasing competition. They create "electronic marketplaces" in which businesses and buyers enjoy rapid, computerized access to procurement information. In the most advanced systems, buyers make their purchases on-line. Canada runs an electronic marketplace in which companies list their best price every day. When President Clinton signed an executive order to create such a system for the U.S., experts predicted that average procurement times would drop from three weeks to five days.

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Give Managers Control over Purchasing:

- Purchase cards
- Increased use of off-the-shelf commercial products
- Higher purchase floors
- Deregulation of purchasing processes
- Amendment of protest processes
- Simplified information technology purchasing

Build Customers' Needs into the Process:

- End-user input
- Choice and customization

Substitute Best Value for Low Cost:

- Best-value buying criteria
- Full cost or life cycle purchasing
- Long-term partnerships with suppliers
- Performance-based contracts

Enhance Competition:

- Use of multiple vendors
- Prequalification of bidders
- Electronic marketplaces

Reinventing Procurement Systems

Transforming Audit Systems

In God we trust, all others we audit.

—SAYING ATTRIBUTED TO AUDITORS

When Jim Flanagan was the city auditor in Phoenix, Arizona, he met annually with a panel of city employees known as the Quality Board to get their ideas about new priorities for city government. One time, the board suggested that the city speed up inspections of blighted properties to force owners to make improvements, because people in the neighborhoods were so angry about the problem. Flanagan's auditors led the city inspectors in tackling the problem. "The inspectors were asked to redesign their own process," he says. "We went through the whole learning process with them, six months of study. It was very, very time-consuming; there were lots of angry people out there."

When the group finally designed a solution, the auditors' role as facilitators continued into the implementation phase. Then Flanagan's office helped the inspectors measure their performance. "They were able to reduce the cycle time on inspections pretty dramatically—over a 50 percent reduction, in terms of getting a case closed out," Flanagan recalls. "That became the focus of attention: getting the number down, as opposed to our issuing a report. A report probably would have been ignored."

Another time, the Quality Board advised the city to focus on improving services to its internal customers—the agencies that depend on other agencies for vehicles, printing, and the like. So Flanagan sent Deputy City Auditor Susan Perkins to Milwaukee, which had adopted internal enterprise management. The information Perkins gathered helped Phoenix develop a pilot in this area.

In 1996, Flanagan, Perkins, and two other staffers traveled with government officials from 10 other countries to Finland and Germany to learn about organizational culture, citizen participation, alternatives to bureaucracy, and other topics.

For years Phoenix's auditors have benchmarked the city's performance against data from 10 southwestern cities of similar size. "Every time something comes up—water rates or animal control problems—one of the standard steps you go through is to check it out with the 10 cities," Flanagan explains. If his
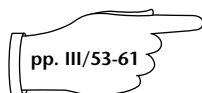
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auditors find another city with better performance, "you pursue it, you figure out why it's better. We use the other cities this way; they use us this way."

Phoenix's auditors are pioneers; they are moving far beyond the auditor's traditional role as a bean-counting watchdog. They are creating new roles for themselves: facilitating work process reengineering, conducting far-flung study tours, and benchmarking performance against comparable governments. They still conduct audits, but they audit for results, instead of nitpicking about agencies' activities. And they add much more value to government than they have done in the past. "We focus on helping make change happen," Flanagan explains. "We really don't use the hammer here unless it's appropriate."

Phoenix is not alone at this frontier. Reinvention is triggering a long-overdue revolution in auditing at every level of government in the U.S., the U.K., Australia, Canada, and New Zealand. The basic trend is to do less auditing for compliance with rules and procedures, while shifting to auditing for results. "I saw a change taking place in the early 1990s in the field of auditing," Flanagan says. Increasingly, auditors recognize that if they want government to improve, they must go beyond inspecting and controlling organizations and help them change.

The Canadian auditor general's office is considered a world leader in this revolution. Auditor General Denis Desautels sketches the modern evolution of public auditing: "The emphasis of the traditional role, in the 1950s and 1960s, was on compliance with all the financial rules and regulations. The basic objective was to determine if the departments spent within their budgets for the things they were authorized." In the 1970s, he explains, some government auditors began to focus on efficiency.

> *There was a gradual movement to concern about getting value for money. And it hasn't stopped there. More recently it has evolved into concerns about effectiveness as well. In this evolution, we have also moved towards, for one thing, the notion of best practices, benchmarking, learning from what other jurisdictions are doing. And there is more emphasis on results being achieved. It is a kind of auditing that is more broad-minded. We're supporting improvements.*

Our research suggests that auditors around the world are developing four new roles:
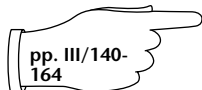
1. They measure government's performance.

In the new world of performance management, measuring performance is absolutely critical. To do it well, you need a neutral, objective body that keeps the system honest—just as auditors do in a financial management system. The auditor's office is a perfect candidate for this function. In fact, some auditor's

offices have taken the lead in introducing performance measurement. They help agencies select performance measures, prevent the adoption of vague or useless measures, monitor the process of collecting and analyzing performance data, and audit the measurement system. These tasks stretch the competencies of traditional auditor's offices, because performance measurement involves difficult technical challenges.

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2. They publish data that compares the performance of different governments.

Performance data should not be used just by managers and elected officials. Reinventors are providing it to citizens, too. And when citizens get the information—finding out performance trends in crime control, government services, student test scores, and the like—they often pay attention. That's when politicians respond and change things. Increasingly, then, reinventors are thinking about how to get this information into citizens' hands.

A leading example is the Audit Commission in the U.K. It was launched by Margaret Thatcher's government in the early 1980s to audit local governments. But when the Citizen's Charter initiative in 1991 required some public organizations to measure their results and report them to the citizens annually, the Audit Commission took on a new role. It now gathers performance data from local authorities and publishes comparisons on 10 to 20 key measures. It does the same for police and fire brigades, which are separate from local authorities, and the national government publishes performance tables on hospitals and schools. These "league tables," as they are known, have generated enormous attention from the press.

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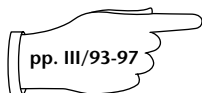
3. They audit competitive bids for government contracts.

Governments that use managed competition to force improvements need someone to keep the process honest. Both public employees and private vendors will instinctively distrust the process. To build their confidence, governments must demonstrate that the playing field is level and the process is honest. This function is tailor-made for auditors.

In Phoenix, which pioneered public-versus-private bidding, the city auditor's office has long performed the role. It audits public agencies' bids to make sure all costs have been included—all overhead and depreciated capital expenditures, for example. And if a public agency wins a bid, the auditors later check to make sure the agency is delivering the service at or below the cost it bid.

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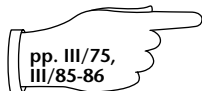
4. They spread best practices.

As Phoenix's Flanagan and Canada's Desautels indicate, this is the latest evolutionary phase in the history of public auditing. Because auditors often see

an organization's performance problems, they can teach managers new approaches. Canada's auditor general has surveyed the world for best practices in reinvention and contrasted what it found with Canada's efforts.

In the U. K., the Audit Commission publishes studies that identify key success factors and explain how to improve management practices in police departments, fire services, transportation agencies, and other organizations. Some of these studies are guidebooks on how to solve chronic problems; others help local government agencies assess their own performance. The commission created a database of comparative information on the performance, quality, and management processes of local authorities, which they can use to benchmark their performance against best practices. The commission has also established a telephone help line for local managers, and it runs conferences that promote best practices.

In the U.S., even the inspectors general (IGs) and their staffs—widely despised by federal managers—are beginning to promote best practices. In 1994, for instance, the IG in the Air Combat Command (ACC) started helping squadrons assess their work processes. The IG started a "cross-flow" of critical information among the ACC's more than 500 squadrons, says then-commander Michael Loh.

> *They'll go to this unit, and they'll see how they are doing in their self-assessment, and then they'll just interact for a day or two. And they'll say, "You're doing great here. In fact, this becomes a new best practice for us to cross-flow to others. But in this area over here, these guys are doing this better than you."*

The box below summarizes the new roles auditors play in governments that embrace reinvention.

Reinventing Audit Systems

Measure Performance:	***Spread Best Practices:***
• Help in selection of measures	• Performance audits
• Training in performance measurement	• Benchmarking
• Data collection monitoring	• Management studies and guides
• Audits of measurement systems	• Conferences
	• Consultations
Enhance Competition:	
• Publication of comparative data	
• Audits of competitive bids	

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RESOURCES FOR REFORMING ADMINISTRATIVE SYSTEMS

Jonathan Boston, John Martin, June Pallot, and Pat Walsh. *Public Management: The New Zealand Model.* Auckland, New Zealand: Oxford University Press, 1996. The six chapters on human resource management, financial management, and auditing describe and assess New Zealand's powerful administrative system reforms.

Albert Gore and the National Performance Review. NPR accompanying reports: *Reinventing Federal Procurement; Mission-Driven, Results-Oriented Budgeting; Improving Financial Management;* and *Reinventing Human Resource Management.* Washington, D.C.: U.S. Government Printing Office, 1993. These slim, readable reports, available at www.npr.gov/library/review.html, provide overviews of the basic ways to transform administrative control systems, at any level of government.

Charles Horngren, George Foster, and Srikant Datar. *Cost Accounting: A Managerial Emphasis.* 8th ed. Englewood Cliffs, N.J.: Prentice Hall, 1994. A good basic text on full cost accounting and activity-based costing.

Howard Husock. *Organizing Competition in Indianapolis: Mayor Stephen Goldsmith and the Quest for Lower Costs.* Cambridge, Mass.: John F. Kennedy School of Government, Harvard University, 1995. This case study about Indianapolis's work to create an activity-based costing system provides a good, concrete look at the challenge and its solutions.

Donald F. Kettl, Patricia W. Ingraham, Ronald P. Sanders, and Constance Horner. *Civil Service Reform: Building a Government That Works.* Washington: Brookings Institution Press, 1996. Focusing on the U.S. federal government, the authors describe the basic principles for "a new human resources model."

Susan A. MacManus. "Designing and Managing the Procurement Process." In *Handbook of Public Administration,* edited by James Perry. San Francisco: Jossey-Bass, 1996. An informative survey of state-of-the-art practice and innovations in procurement.

National Association of State Purchasing Officials, National Association of State Information Resource Executives, and National Association of State Directors of Administration and General Services. *Buying Smart.* 1998. A brief but meaty summary of procurement reforms in state governments; available at www.naspo.org, www.nasire.org, and www.nasdags.org.

Allen Schick. *Modern Budgeting.* Paris: Organization for Economic Development and Cooperation, 1997. A careful look at budget reforms in New Zealand, Australia, Sweden, and the U.K. Available at www.oecd.org/puma/pubs/.

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SITE-BASED MANAGEMENT

Site-Based Management **shifts control over resources and day-to-day decision making from the central office of a system, such as a school district or a national employment service, to the many frontline organizations in the system, such as schools or local employment offices.**

Site-based management is used by a wide variety of government systems to empower their organizations. In Edmonton, Canada, school superintendent Michael Strembitsky launched it in the 1970s. He started with seven schools that volunteered to receive powers long held by the central office. He rerouted 85 percent of the district's funds directly to the schools; each one got a lump-sum budget to allocate as it wished.

"There were real territorial battles" over the changes, Strembitsky says. "The central office didn't want to give up some powers." Within a year, though, he could tell the experiment was working. "People took to it like you wouldn't believe."

Within three years, Edmonton "went whole-hog." The superintendent and school board established goals in eight different areas, including student performance and employee satisfaction, and performance improved. Then they gave schools power over many internal services, through internal enterprise management. Some two decades later, the shift in control is still in place.

About the same time that Strembitsky launched his experiment, one of the largest organizations in the world, the U.S. Tactical Air Command, was also shifting central power to its "sites," hundreds of squadrons throughout the nation. Each squadron has control over its own resources and is responsible for achieving its performance standards. As *Reinventing Government* and *Banishing Bureaucracy* reported, decentralization catalyzed a remarkable turnaround in performance.

Britain's Employment Service has also moved power to local offices around the nation. And in Madison, Wisconsin, the police department shifted central headquarters' powers to district offices scattered among the city's neighborhoods.

These quite different organizations share a key characteristic that makes them candidates for site-based management: they have units in different places that produce similar types of results: schools produce student learning; air force squadrons produce combat-readiness; employment offices fill vacant jobs; police offices make neighborhoods safe.

Under site-based management, a site is made virtually self-sufficient. It commands the resources it needs to produce the results that are expected. As former ACC commander Michael Loh puts it: the site has to have "all its capability within it so it can do its job." In addition, as with any empowerment tool, the site is accountable for whether or not it produces the desired results.
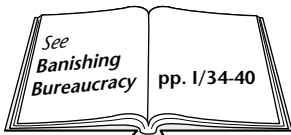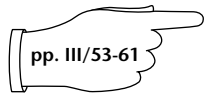
When sites are able to manage their resources—their people, their money, and their facilities—more flexibly, they become more responsive to local conditions. "We don't get caught up in a lot of the bureaucratic shuffle and bull that takes place when you're part of the downtown station," says Captain Ted Ballesteros, who helped lead the site-based decentralization in Madison's police department. "If we want to do something quickly, we do it, as opposed to the sense downtown that you have to bounce it off all the others before you do something."

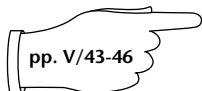## Site-Based Management: Lessons Learned

The U.S. has a 20–year history of using site-based management (SBM) in public school systems. But as the National School Boards Association reports, the reform has been "largely ineffective in raising the bar for student achievement." Why? "Schools operating under SBM often lack significant authority over budget, staffing, and instructional programming."

School boards are part of the difficulty. Some board members see school-based management as a threat to their own political power, so they limit it, override school improvement plans, or reject waiver requests. "Such acts of active and passive resistance are not at all uncommon," the association reports.

When schools do not get significant power, they tend to work on "peripheral issues, such as hall duty, campus beautification, and the assignment of parking space. This trivialization of goals and objectives represents a natural response to the limited authority and resources available to schools under SBM."

Even when the central office allows sites to have power, it is often unclear which decisions they can make. In the face of this uncertainty, people in sites are usually timid, since they worry about having the rug yanked out from under them. Or they go ahead with decision making and then get frustrated when the center does pull back the power.

Obviously, then, the most important lesson about site-based management is to give the sites real control—over their budgets, personnel, and purchasing. The second is to make it very clear where their power begins and ends. The general lessons outlined earlier also apply—along with the following:

1. To get sites focused on improvement, introduce consequences for performance.

One pillar of site-based management is a clear set of performance goals. "If expectations are not clear, no amount of delegation will make much difference," observe Peter Hutchinson and his Public Strategies Group partner Laurie Ohmann. Yet sites often plunge ahead without even a performance measurement system. When people face consequences for their performance,

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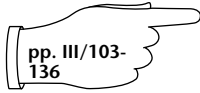
they pay more attention to improving it. When they can earn rewards, it makes empowerment feel even more worthwhile. Generally, team rewards work better than individual rewards.

2. *Help sites develop the capacity to manage their own affairs.*

Sites accustomed to having little control over their resources will not instantly know how to handle power when they get it. Yet, quite often, those implementing site-based management act as if once authority is shifted, it's up to the sites to produce.

The fact is that empowered sites need help building the capacity to manage. As the National School Boards Association says, "If SBM or any other reform strategy is going to improve student achievement, additional resources—including information, knowledge, and rewards—must be made accessible at the school site. But it will be necessary to *develop* capacity in these areas, not simply *devolve* capacity from central office to school site." People in empowered sites also have to learn how to make budget, personnel, and purchasing decisions. They need information systems, such as activity-based costing, that support their decision making. And they need help building an entrepreneurial culture, because empowerment depends on a different mind-set than bureaucratic compliance does. Finally, many site leaders need help learning how to empower their own employees and build work teams that share decision-making power.

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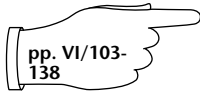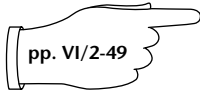
3. *Give sites a way to get waivers of rules that restrict their flexibility.*

Central control systems have many tentacles. An individual school, for instance, must contend with rules from its school district, from state government, from the federal government, and from union contracts. So once a site has obtained some flexibility, it is still likely to bump into controls that limit its authority. A waiver policy can help the site get relief from specific controls.

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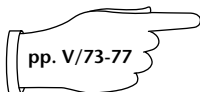
4. *Don't make sites march in lockstep.*

Each site should be free to decide how it will produce the desired results. Don't make all sites try to do the same thing or proceed at the same speed. "I let each unit of production proceed at its own pace," says General Loh. To make sure he couldn't micromanage sites, he only measured their results, not their activities or inputs. "All I wanted to see was progress against performance measures."

5. *Give sites plenty of time to plan how they will function.*

Setting up self-sufficient sites is a complex undertaking. It requires thorough planning, which should involve the site's employees. Ted Ballesteros re-

calls how Madison's police department failed to anticipate the basic needs of the first site it established. "We originally were set up and sent down here without a unit stenographer to answer the phones," he says. "I spent six hours of the initial 12–hour days just answering the frickin' phone."

RESOURCES ON SITE-BASED MANAGEMENT

National School Boards Association. *Reinventing School-Based Management: A School Board Guide to School-Based Improvement.* Alexandria, Va.: National School Boards Association, 1999. A clear and readable analysis of what can go wrong with site-based management and how to make it work. Available at www.nsba.org/bookreports/bookreports.htm or by phone: (703) 838–6722.

WAIVER POLICIES

Waiver Policies **are a mechanism that central agencies and headquarters use to temporarily or permanently exempt organizations from rules on a case-by-case basis.**

A waiver grants autonomy for one organization at a time; the rules in question are suspended, but they stay on the books. It can be quite narrow, covering a single rule; or broad, addressing a class of rules, like personnel matters. It may be issued to one person, a unit, an agency, or multiple agencies.

Many headquarters staffers and central agency officials deny that their rules are a serious problem. They say the controls are necessary and that their negative effect is exaggerated. When the U.S. Coast Guard set up a Model Units program, its top officers had reservations about the initiative. They felt, says Captain Ken Allington, chief of the Plans and Evaluation Division, that the Coast Guard "didn't really need a program like that because we were already doing almost everything right."

Another top official says they adopted the program as a challenge to employees:

> *One aspect of the program was, OK, put your money where your mouth is. Show us where you can be more efficient. Tell us which of these onerous regulations is keeping you from doing your job and causing you all this grief and anguish.*

Of course, *some* controls are needed. And it is true that some empowered organizations find that few of the hated rules are actually in their way. But the sheer volume of rules—and the trivial nature of many rules—shows how stifling they are. A Coast Guard unit had to get approval to allow its boats to carry

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nautical charts for its area only rather than for the entire Atlantic coast. The Commerce Department's Boulder Scientific Research Laboratories needed permission to eliminate a requirement that drivers have Government Motor Vehicle Operator cards to operate vehicles on the lab's grounds, even though they had normal driver's licenses already. "It was common sense," explains Paige Gilbert, a department official. But when the request went up the chain of command, "The safety officers for a couple of agencies went apoplectic."

The fact that a great many waivers are requested and granted undercuts the denials of centralizers. In 1984, when Bob Stone launched the Model Installations Program, which encouraged base commanders to request waivers, the first 15 bases generated 8,000 requests for waivers in two years; the department approved the majority of those within its power to address. Even as the Clinton administration eliminated 16,000 pages of internal regulations, reinvention labs surveyed by the GAO requested nearly 1,000 waivers in less than two years. One-third of the petitions involved agency work-process rules; the rest were aimed at personnel, procurement, and other rules.

Waivers are an essential element of several other tools for empowering organizations. Charter schools get waivers from most public school rules and regulations. Reinvention labs would make no sense without waivers.

Giving an organization waivers frees it to innovate in ways that improve its performance. Waivers also expose rules and procedures that need to be changed because they really are impediments to performance. Waivers should be used as early warning signals, telling those in charge of an organization or system which rules need to be eliminated. If leaders don't use them this way, waivers are somewhat limited in their power to create change. They aren't complete solutions to the problem of over-control; indeed, central agencies may use them as a safety valve, to let off steam that would otherwise force fundamental reform of administrative systems. After all, waivers usually help only one organization at a time, while the rule in question stands in the way of many others.

Difficulties in getting waivers are usually caused by two factors. First is the attitude of the person with the authority to issue the waiver. Usually the very people who make the rules must also give permission to break the rules, and many of them are not inclined to do so. "That's the problem we had at Defense," says Bob Stone. "If they are open-hearted and trusting, they will grant a waiver. But that's asking a lot." Somebody who wrote a safety rule because he thinks it will save lives will have a hard time changing his mind, Stone explains.

The second factor is the complexity of the waiver sought. In general, the more complex the request, the greater the difficulty in getting it granted. For example, federal personnel rules governing the use of leave time are far simpler than regulations about the use of federal funds in welfare reform. When
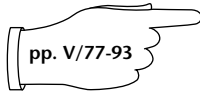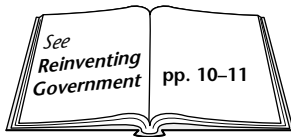
Oregon reinventors tried to get permission to waive the latter, they found that federal officials had to have the request reviewed by all federal stakeholders with jurisdiction over the program. The waiver had potential cost implications, which slowed things down further. And then the feds and the state had to negotiate numerous technical points. In all, it took Oregon about eight months to get federal permission to reinvest welfare savings in poverty prevention programs.

How to Increase the Flow of Waivers

Minimize the number of people who have to approve a waiver. A big problem with many waiver processes is that so many people have to say yes. In the U.S. Commerce Department, as many as 19 headquarters officials were involved in reviewing requests. "Requests for seemingly minor administrative changes triggered major bureaucratic skirmishes," says Paige Gilbert, an executive with the National Institute of Standards and Technology. This led to so many complaints that a top administrator finally allowed the department's reinvention labs to waive all internal regulations without going through the process.

Take waiver decisions out of the hands of the rule makers. When the former head of the General Services Administration, Roger Johnson, granted "reinvention charters" to two of his regional directors, he also gave them the right to unilaterally waive internal agency regulations. The Denver office used the new authority to shorten the process for selecting architects and engineers for major design projects from 12 months to 4 months. It also reorganized the workforce around service centers instead of functional specializations and allowed some agencies to negotiate their own leases for properties under 3,000 square feet.

"The beauty of the charter," says Wolfgang Zoellner, assistant regional director for the Public Buildings Service, was that "we did not have to ask the central office." He sympathizes with others who have to do so: "I spent 30 years in Washington. . . . You are asking the people who created the procedures and processes to waive them."

Although these kinds of blanket waivers can be very useful, they are not a cure-all for bureaucratic controls. For one thing, they don't cover the many rules set by central agencies, outside the department. And those agencies—the central budget, personnel, and procurement offices—will usually put up massive resistance to blanket waivers of *their* rules. Such a radical step would make elected officials very uncomfortable. After all, such broad waivers would open the door to nepotism, patronage, and many other abuses. So a blanket waiver may be appropriate and possible with departments and agencies or within small governments where people will operate on trust, but not beyond. That means

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reinvention labs will usually have to ask for waivers one by one, or in clusters. The challenge is to make approval easy.

The best solution is to give approval authority to a third party with a strong inclination to say yes—a high-level office near the executive in charge of reinvention, or an independent entity such as the Next Steps office in the U.K. or the National Performance Review in the U.S. This third party can of course consult with the central agencies to make sure it understands the problems that might be caused by granting a waiver. But it shouldn't be *required* to consult with anyone, since this would give those agencies the power to bog down the approval process.

Create deadlines for waiver decisions, with consequences for failure to act. Deadlines are easy to set, but that's only half the battle. The U.S. Coast Guard set a deadline of three weeks for responding to a waiver request from one of its Model Units sites. But when it took controllers much longer to act, no one did anything about it.

The trick is to enforce the deadline. One way is to have a top official keep pushing the waiver processors to get their work done, and make their performance part of their personnel evaluations. This may fall by the wayside when the top official gets too busy with other matters, however. A better answer is automatic approval if there has been no response by the deadline. NPR veteran Ronald Sanders, who has studied federal reinvention labs, would go even further. He suggests having the lab give 10 days notice before it waives an agency regulation. "Then the responsible staff office would have to convince the agency head to stop it."

Make control agencies develop lists of regulations that are ripe for waivers. It is unfair to assume that everyone in control agencies will tenaciously hang on to every single rule. Some may believe in reinvention, so it may be useful to ask them to think about which rules they would be willing to waive. They are likely to come up with something, although it may be quite modest. That's better than nothing, and it gets them thinking about what they can do to empower organizations.

Help reinventors develop and make the case for waivers. Some waiver requests involve a great deal of complexity. Although central administrators are familiar with these intricacies, most managers are not, so they are at a disadvantage in designing and arguing for waivers. "Reinvention labs need someone on their side who can do battle with the best of their bureaucratic brethren," says Sanders. One place to find this expertise is in the control agencies themselves; assign a converted expert to serve as an "angel" for the reinventors. Sanders also suggests having a high-level advocate in each department, someone "strategically placed right outside the secretary's door or perhaps right in the general counsel's office, since that is 'ground zero' for many innovations."


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Automatically renew waivers unless there is an objection. This is a way to put the burden on the controllers, if waivers have a time limit.

Create an independent appeals process with override powers. If you can't issue a blanket waiver, then you need a way to review how controllers are handling waiver requests. Make their decisions subject to appeal, and conduct a periodic review of their decisions.

RESOURCES ON WAIVER POLICIES

Patricia W. Ingraham, James R. Thompson, Ronald P. Sanders, eds. *Transforming Government: Lessons from the Reinvention Laboratories.* San Francisco: Jossey-Bass, 1998. Though focused on reinvention labs, this set of essays provides valuable insight into what it takes to make waiver policies work.

OPTING OUT OR CHARTERING
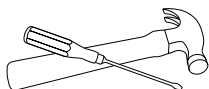
Opting Out or Chartering **allows existing or new public organizations, such as charter schools, to operate outside the jurisdiction of most government control systems.**

In 1992, America's first official charter school, City Academy, opened in St. Paul, Minnesota. That was three years after reformers in the U.K. began to create the first of their "grant-maintained schools," a version of chartering that allows existing public schools to secede from their districts.

In spite of many obstacles, the charter school idea has caught on. By October 1999, some 1,684 charter schools were serving roughly 350,000 students in the U.S., in more than 32 states and the District of Columbia. And more were on the way. In California, which already had 130 charter schools, a 1998 law allowed 100 more to be added every year, with no total cap. In Milwaukee, where teacher union opposition had blocked the spread of charters, voters in April 1999 rejected all five school board candidates endorsed by the union and opened the door for more charter schools. In Colorado, Governor Bill Owens called for increased financing of charter schools so they would be funded at the same level as regular schools.

In England, one of every five secondary schools is now grant maintained. These schools have their own governing bodies, get their money directly from the national government, hire their own employees, and make their own rules.

It's not hard to understand why charter and grant-maintained schools are popular. A great many people have a passion to help children get a good education and are prepared to do something about it. They are unwilling to put
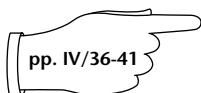
up with the stifling bureaucratic controls of public education systems. Charter schools are tailor-made for them, because they allow people to escape from—opt out of—the system's rules. This "entrepreneurial approach has generally not been available to public school teachers and parents," says Joe Nathan, a former teacher and longtime leader of the charter school movement. "Teachers or parents who had ideas about new ways of organizing an entire school were out of luck."

WHEN BAD THINGS HAPPEN TO GOOD SCHOOLS

In 1993, Robert Wright, a middle school teacher in San Jose, California, wrote an op-ed piece in the *San Jose Mercury News* about his experience starting a school within his school district. What happened to him says worlds about why we need to give innovators an opportunity to get outside the district's controls.

Last year I started my own school and fell flat on my face.

The staff was hand-picked, our philosophy was solid, the parents were supportive, the students loved the school and money was not a problem. But we made a fatal mistake: We created an alternative middle school within the public school system.

We had a great idea: 1) It would be a small school that would develop its own family-like identity. 2) It would be a school of choice, not assignment. 3) Learning would be activity- based, not textbook-driven.

The school board approved our creation when it was a nice plan on paper, but when we opened our doors we learned we could be outstanding so long as we didn't stand out. We could do whatever we wanted, so long as we didn't violate the rule of the ringing telephone.

If somebody called an administrator to voice a compliant, that was a point against us. Substance didn't matter. The complaint that our school colors were too attractive took up just as much time as any other. The vast majority of complaints came from tenured teachers and principals.

They complained that we would attract the best students and leave them "the dregs." They predicted that we would drain the district of scarce resources. Many complaints had little to do with us and more to do with the complainer's emotional investment in an institution that—though it couldn't provide decent pay or prestige—offered the security of inertia. It was as sad as it was strange when a teacher cornered me and blurted out screaming and crying that the existence of our school meant that what she had been doing for 25 years wasn't good enough.

> *I had less compassion for the middle school principal who publicly cautioned parents not to enroll their children in our "risky experiment." When parents did anyway, he worked the phones in the evening persuading them to withdraw their applications. He finally got a directive from the district office prohibiting us from accepting any more of his students. So much for choice.*
>
> *I don't know if he ever gave any thought to improving his school so students would want to stay there. If the voucher initiative passes, he's going to have to.*
>
> *Since at the heart of all the complaints was a discomfort with the mere fact that we existed, we were pressured to give up, one at a time, all the elements that made up our identity as a small, separate school of choice.*
>
> *We gave up our faculty room, yearbook, school colors, budget, scheduling, staff development, recruiting—even the honor roll bumper stickers for proud parents. The reason? It made people uncomfortable. It made the phones ring.*
>
> *Before long, we were less like an actual alternative and more like a conventional school. And when that became apparent, it was used against us, too. Why have a new school if it's like all the rest?*
>
> *Finally we had to give up our name. We still could have a name, but it couldn't have "school" in it. I'm not kidding.*
>
> *I quit, along with most of the teachers who'd started the school. It's now a program that's indistinguishable from the regular school.*
>
> *The moral of our story is: If you have to get your parents' permission to run away from home, you're going to wind up in a pup-tent in the backyard.*

This tool is not just about escaping, however; it also creates accountability, because a charter is a contract in which the chartered organization pledges to achieve certain results in exchange for its freedom. "It's simple," says former Minnesota state senator Ember Reichgott-Junge, who authored the nation's first charter school law. "No results, no charter. Teachers trade away regulation for results and bureaucracy for accountability."

A charter school is a freestanding legal entity; it has its own governance board, separate financial status, and a minimum of state-imposed rules. In addition, it has a contract—a charter—with the chartering authority, which may be a state education department, a local school district, a university, or whomever else the state has authorized. "The term *charter*," explains Nathan, "comes

from the contracts given to European explorers, which specified expectations and responsibilities of both the explorer and his sponsors."

Although the most extensive use of this tool has been in elementary and secondary education, it can be applied wherever separating an organization from the rest of the system does not jeopardize its ability to perform. In Oregon, for instance, the state let part of its public university system become a more autonomous nonprofit organization. The Oregon Health Sciences University sets its own policies but still receives state funding. Every other year it must justify its use of tax dollars and request new appropriations. University president Peter Kohler says the changes have made it much easier for the university to raise capital and to establish a partnership with a local health maintenance organization. Inspired by the Oregon model, the University of Maryland at Baltimore let its hospital opt out of state regulations in late 1995. University president David J. Ramsey predicted that freedom, especially from personnel and procurement rules, could save the school millions of dollars a year.

Opting Out or Chartering: Lessons Learned

In 1994, the first charter school in Los Angeles had some 500 students—most of them dropouts with arrest records—and a board of directors that included several respected educators and businesspeople. But an outside audit discovered that the principal drove an expensive sports car leased by the school and that staff members had spent $7,000 on a secret retreat. The school lacked textbooks and supplies and was nearly $1 million in debt, including $240,000 it owed the school district for payments for anticipated students who never enrolled. When the board replaced the school's top administrators, the board president acknowledged that they were not qualified to manage such a large school.

Like their counterparts in "regular" government organizations, chartering pioneers must deal with the risk of corruption and incompetence by using audits, disciplinary processes, and other methods. But the opt-out tool comes with a set of other challenges not usually faced by mainstream government, and this is where the most lessons are being learned:

1. Take the performance of chartered organizations seriously, and hold them accountable for results.

Failure to establish performance standards is the Achilles' heel of chartering. If it's not clear what results the charter is supposed to produce, then it's hard to tell if opting out is making a difference.

In 1997, Arizona's department of education identified three dozen charter schools that had education programs bad enough to close down. The schools were
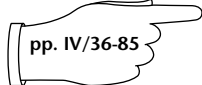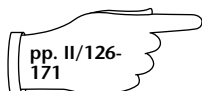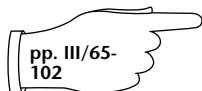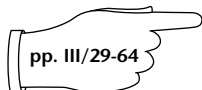
allowed to continue, however, because they were not physically endangering the students or defrauding the taxpayers. The state law took a "let the market rule" approach. Its authors reasoned that the charters were primarily accountable to their customers, and if parents wanted to keep sending their kids to the schools, then that was good enough for the government. "If the education in charter schools isn't good, people leave, and the schools don't stay in business," explained Lisa Keegan, the elected superintendent of schools.

We believe this laissez-faire approach is a mistake. It misapplies the power of market forces to education, and it misses the point of chartering. There are several ways to use the powerful dynamics of markets to reinvent government. Enterprise management, which we describe in Chapter Nine, forces government-run businesses to compete in the commercial marketplace for their customers and revenues. But public education is a public good, not a commercial product, because it benefits not only individual students but also the broader community. That's why it is purchased by the society, not individuals, and is required, not voluntary. That's also why we believe a chartered organization should have clear performance expectations, its performance should be measured, and if it does not deliver the expected results, its charter should be amended or withdrawn. If this is not done, charter schools will leave themselves wide open to a political backlash.

Customer satisfaction should of course be one of the expectations of a chartering authority. But in schools, parents are concerned mainly about the well-being of their own children. They may define their well-being in many ways: in terms of college-readiness, athletic opportunities, or social development, to name a few. Meanwhile, the government, on behalf of the public, is concerned mainly about the educational progress of all children. Its goal in freeing charters to experiment is to improve overall educational performance. That should be a bottom-line performance standard for any charter school.

Rather than using enterprise management to harness competitive forces in education, states that authorize charter schools are using managed competition. Charters are, in essence, three-to five-year performance contracts. They marry this approach with three others:

- Uncoupling steering and rowing, which separates the providers (schools) from the body steering the system (the school board).

- Competitive customer choice, which allows customers to choose their provider of education services, but within a system structured to achieve public goals.

- And organizational empowerment, which tests the proposition that if central administrative controls are abandoned, organizations will produce bet-

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From ***The Reinventor's Fieldbook,*** by David Osborne and Peter Plastrik. ©2000 by Osborne and Plastrik

ter results.

This explains why opting out or chartering is so powerful: it combines four strategies.

Some charter school authorizers have had difficulties getting clear about their standards for educational performance. They let charters get away with vague goals rather than requiring measurable improvements in student achievement. In California, for example, a 1999 study of 17 charter schools found that because there were no student assessment processes at the state level, charter schools were "more likely to be held fiscally than academically accountable." In contrast, Massachusetts uses rigorous three-day evaluations, built on the British model, to review each charter school every five years. The charter spells out expected results, and the evaluation reports on the school's performance in achieving them. The state board of education uses the evaluation, as well as test scores and other evidence, to decide whether to renew the charter.
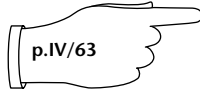
Authorizers must also be prepared to monitor performance. In the rush to set up charters, this is sometimes overlooked. In Michigan, for instance, one university put nearly 30 charter schools into operation before it hired any oversight staff.

2. Give several bodies the power to charter, so that no one entity can choke off the escape route.

Opting out is usually viewed as a hostile act by the entity from which the charter organization is trying to escape. School districts fear that charter schools will take away their students and, therefore, their per-pupil financial support. "Many school boards regard these schools as competition," explains Joe Nathan. "If you give people with power the opportunity to decide what kind of competition they will face, they don't want competition."

Cordia Booth, a school teacher, ran into a brick wall when she asked the Denver school district to approve her charter proposal. First the district, which had budget problems, rejected the plan, along with 11 other charter efforts. When the state board of education ordered it to take another look, it rejected Booth's charter again. Finally the state board ordered it to approve the charter and make sure the school opened the next school year.

If we wanted to ensure choice and competition in the software industry, we wouldn't dream of letting Microsoft decide who gets to start a software company. Letting a school board decide who gets to start a charter school amounts to the same thing.

To prevent school districts from closing down the opt-out route, you should also let other entities that are completely independent of the district issue charters. In Michigan, for instance, state universities can and do charter schools. In

many states, the state department or board of education can also issue charters. In California, county boards of supervisors can approve charters if school boards turn them down—but they are not independent enough, as it turns out. Elected school board members, district administrators, and teachers' unions have enough political clout to intimidate them at times.

As you spread the power to charter, be careful what incentives and disincentives you create for authorizing charter schools. In Arizona, for instance, school districts can make money when they charter schools. In one case, teachers looking for a quick charter gave a school district at a distant Indian reservation 3 percent of their revenues in exchange for their charter. The transaction was legal, but it was hardly the basis for the future accountability one should expect from a charter school.

3. Make the competence of charter entrepreneurs a standard for obtaining a charter.

School charter entrepreneurs run the gamut from employees, such as public school teachers and administrators, to customers, such as parents and businesses, to alternative organizations, such as museums, private schools, and even a teachers' union. In England, the process for converting a school to grant-maintained status starts when a majority of the parents at a school vote for the idea.

But the "due diligence" applied in assessing a charter proposal should include a careful look beyond the entrepreneurial spirit of the charter sponsors. Their competence and credibility as managers of a charter enterprise matters, too. Do they have a reasonable plan that is clear about goals and performance standards? Do they have the expertise to implement the plan?

Make sure the charter team has some business and financial expertise, since chartered organizations are independent businesses. "Many charter-school organizers are long on educational expertise but short on business skills," cautions a report by the Kennedy School of Government. "As with any start-up enterprise, this lack of management savvy can lead schools into trouble."

4. Keep the rules to a bare minimum.

Approving a charter should be close to granting a blanket waiver from central controls. Like any experimental effort, a charter school should still be expected to adhere to certain basic standards, such as following regular health and safety practices, not charging tuition or permitting religious instruction, and undergoing regular third-party audits. Like other institutions that opt out, it should still be subject to broader laws dealing with equal opportunity, due process, and the like. But it should be exempt from most of the system's in-

ternal regulations.

Although this may seem obvious, it's not that simple to put into practice. In Arizona, for instance, state lawmakers did not impose on charter schools the antinepotism rules that apply to school districts—and then had to deal with cases of nepotism. The state also let charters own property they purchased with public funds, so they would be able to borrow funds to build or renovate facilities. But when a charter school went bankrupt, the state had no legal position to try to recover equipment that had been purchased with taxpayer dollars.

Charters or opt-outs should not be subject to existing union contracts. A charter school should have the right to establish its own contracts, and its employees should have the right to organize and bargain collectively. But bargaining units in charter schools should be kept separate from the district's bargaining unit. Otherwise, charter schools' hands will be tied by the contract's rules regarding pay, benefits, work hours, and work rules.

5. *Avoid erecting inadvertent barriers to chartering or opting out.*

In Colorado, state law allowed districts to give charters less per-pupil funding than regular schools received. In some states, funding levels are equal for charter elementary schools, middle schools, and high schools, even though high schools are more expensive to operate. Few states fund start-up costs for charter schools, as we discuss in the next lesson. Reinventors should systematically weed out all such barriers.

6. *Help chartered organizations get started.*

Charter schools face the same problems as any start-up organization. Their biggest difficulties tend to be locating facilities and finding start-up capital, since they usually receive no public money until they open. That's why the U.S. federal government, some state governments, private foundations, and corporations are providing start-up grants to charter schools. The U.K.'s government does this as well; a transitional grant covers the early costs of a grant-maintained school, such as hiring a financial manager, setting up a payroll, and buying equipment. The government also provides grants for capital projects.

Charter schools have several problems locating facilities. One is a lack of vacant buildings that meet basic standards for providing education service. Another is local opposition to charter schools; some opponents put pressure on building owners to keep them from renting or selling to charter schools. A third is the cost of buying and renovating facilities. Because few states provide up-front funding for facilities, charters have to raise private funds or borrow what they need to secure and upgrade facilities. However, private financial

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institutions usually regard charter schools as risky propositions. Charters are new public organizations with no financial track record, and they have only three to five years before they must seek renewal—much less than the term of a typical building loan.

In *Paying for the Charter Schoolhouse,* the Charter Friends National Network identifies several ways to address financing problems:

- Governments can increase public funds going to charter schools to cover the cost of facilities. Several states offer charter schools funds beyond their operating revenues to pay for facilities.

- Governments can allow charter schools to use tax-exempt financing, which cuts the cost of borrowing. Two states already allow bonding authorities to issue tax-exempt bonds for charter schools.

- Governments can fund low-interest loan pools for charter schools. The Chicago Public Schools set aside $2 million for such lending.

- Governments can encourage property owners to provide facilities. They can offer tax credits to those who donate facilities to charters, or allow employers to reserve school seats for children of their employees if they invest in charter facilities.

- Governments can establish real estate trusts to acquire potential school properties and lease them to charter schools, as recommended by the Education Commission of the States.

7. Be prepared for failures.

There's no guarantee that every organization working outside the administrative control system will succeed. Some charter schools fail to deliver good student performance. Others have financial difficulties. A few falter due to malfeasance or corruption. So advocates of opting-out efforts should anticipate disappointment. Unfortunately, few of them do. "We expect some charter schools to fail, possibly even within the next few months," analysts at the Hudson Institute reported in 1996. "Yet we have not found a single state with a well-formed plan for dealing with these contingencies." The Hudson researchers suggest the development of monitoring systems to provide early warnings that charters are in trouble and a technical assistance capacity to help charters avert disaster.

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RESOURCES ON CHARTERING

Center for Education Reform Web site: edreform.com. A comprehensive source on education reform, it includes exhaustive, up-to-date information on charter schools, as well as summaries of state laws, key studies of charter school performance and impact, and guides and workbooks for those starting charter schools. Scroll down to the index and click on "Charter Schools."

Charter Friends National Network. Established in 1997 as a project of the Center for Policy Studies in St. Paul, Minnesota, the network helps start and strengthen state-level resource centers that support charter schools. It offers publications, conferences, and grants. Contact the network at www.charterfriends.org, (651) 649–5479, or 1745 University Avenue, Suite 110, St. Paul, Minn. 55104.

Chester E. Finn Jr., Bruno V. Manno, and Gregg Vanourek. *Charter Schools in Action: Renewing Public Education.* Princeton, N.J.: Princeton University Press, 2000). A spirited but balanced account of charter schools nationwide, including a vision of how public education would work if every school in a district or region were a charter school.

Keith A. Halpern and Eliza R. Culbertson. *Blueprint for Change: Charter Schools, A Handbook for Action.* Washington, D.C.: Democratic Leadership Council, 1995. A brief guide to charter school legislation and tactics, available from the DLC at (202) 546–0007 or 600 Pennsylvania Avenue, S.E., Washington, D.C. 20003.

Bryan C. Hassel. *The Charter School Challenge: Avoiding the Pitfalls, Fulfilling the Promise.* Washington, D.C.: Brookings Institution Press, 1999. A new overview of charter schools and laws that looks specifically at Colorado, Georgia, Massachusetts, and Michigan and offers recommendations to enhance charter schools' autonomy, give them more resources, and help district-run schools learn from their success.

Joe Nathan. *Charter Schools: Creating Hope and Opportunity for American Education.* San Francisco: Jossey-Bass, 1996. A leader of the charter school movement, Nathan offers a readable explanation of the concept, stories from the front lines of charter schools, and excellent advice about how to create charter schools. Nathan runs the Center for School Change at the University of Minnesota's Humphrey Institute. Phone: (612) 625–3506.

REINVENTION LABORATORIES

Reinvention Laboratories **are public organizations that receive permission to break administrative rules and procedures temporarily and to experiment with new ways of improving performance. Typically they are granted waivers and protected from interference.**

> *If you want to start a revolution, build 100 fires and fan the flames.*
>
> —Bob Stone, former Energizer in Chief,
> National Performance Review

A reinvention lab is a small patch of temporarily liberated ground in the battlefield over control in government. It is an experiment in decontrol, often carried out at the front lines. A tool for bottom-up empowerment, reinvention labs turn loose selected organizations without having to free everyone.

In 1993, at Bob Stone's suggestion, Vice President Al Gore made reinvention labs a key tool of the National Performance Review (NPR). He asked cabinet members and heads of major independent agencies each to designate several units or programs to be reinvention labs. "Pick a few places where we can immediately unshackle our workers so they can reengineer their work processes to fully accomplish their missions—places where we can fully delegate authority and responsibility, replace regulations with incentives, and measure our success by customer satisfaction," Gore said. By 1999, more than 300 federal reinvention labs were in operation.

In Gore's model, there are no rules about creating reinvention labs; no central agency runs the process. Instead, each department determines its own criteria for labs and its own rules for how labs should function. "Each lab is unique," says Jeffrey Goldstein, an NPR staffer who surveyed the labs. "They are born out of different reasons to tackle different things. Each of them faces different issues and conditions." Some previous efforts, such as the U.S. Coast Guard's Model Units and the U.S. Forest Service's pilots in the 1980s, have included only a few handpicked sites. Gore, by contrast, sought to light a great many fires of change.

See Banishing Bureaucracy pp. V/2-9
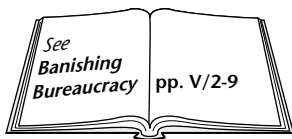
Benefits of Being a Reinvention Lab

Although being designated a reinvention lab does not usually mean a unit receives extra money, it does bring other benefits:

It gives innovative leaders the running room they need to move existing improvement efforts forward. John Haines, director of the Debt Collection Service in the U.S. Department of Education, had long wanted to change the budgeting methods used in his office. When Gore asked departments to create labs, Haines rushed to respond. "I got something to the de-

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partment before they knew what was going on," he recalls. "It was on the fast track, and we were the only game in town."

For Richard Kelly, in the Office of Regulatory Analysis and Development at the U.S. Department of Agriculture (USDA), Gore's initiative was just the opening he needed. "We were active before the call came," he says. "We had people reading, and we were tracking the formation of NPR. We had our proposal on the assistant secretary's desk at the same time the people from the White House called to say, 'What are you doing about reinvention?'" Kelly used reinvention lab status to cut the time it took the USDA to review regulations generated by its offices.

It gets the organization's reinvention juices flowing. Becoming a reinvention lab "emboldens your own people to think creatively and to want to meet the higher expectations," says Doug Ross, a former assistant secretary in the U.S. Department of Labor. A U.S. Commerce Department reinvention lab in Boulder, Colorado, sparked unprecedented employee participation in trying to improve performance, for example. "This place is traditionally apathetic; [employees] don't want any part of the administrative stuff," noted Paige Gilbert, an executive with the National Institute of Standards and Technology. To her surprise, the reinvention lab generated 300 ideas, and 90 employees volunteered for task forces to implement them.

It eases the difficulty of obtaining waivers. Being a reinvention lab "gives us visibility and support for central office waivers," says Adelaide De Falco, from the New York regional office of the Veterans Administration. "It makes it easier to get the green light." Some federal departments gave their labs blanket waivers for all department regulations; others did not. Lab status did not mean, however, that the rules of central administrative agencies, such as the Office of Management and Budget, were automatically waived. In a survey conducted by the GAO, staffers in reinvention labs reported that waivers were still difficult to obtain from central agencies. (For solutions to *that* problem, see pp. V/75.)

It shields innovators from bureaucratic opposition and other dangers. When you are recognized as a reinvention lab, it is riskier for managers in your own bureaucracy—or legislators or central agencies—to thwart your experiments. Bob Stone recalls how reinvention lab status protected one federal employee who worked in a two-person office in Mississippi.

> *One night, someone broke into the office and stole their two laptops. So he calls procurement and they say, "You know you can't get that equipment right away. Fill out a requisition form and wait." Instead, he went to a local computer store and ordered two laptops. Then he had a rubber stamp made that said, "Purchased in accordance with*

Al Gore's reinventing government program." He stamped the bill and sent it to the procurement office. One of our people [at the National Performance Review] found out about this and we made a fuss over this guy.

Several years later, Stone ran into someone from the same agency.

I told him about the story and said I always wondered if it had been made up. He said, "No, it wasn't." I said I was afraid the guy had been fired for what he did. He said, "No, but he probably would have been if you hadn't made a hero out of him. Once you did that, we couldn't touch him."

Doug Ross says the reinvention lab label may help a unit secure its funding. "When you're in the budget development process," he explains, "it's difficult for the central budget office to cut something that's just been designated as a learning center for the government."

Lab status can protect you from political risks as well. "It gives you some additional standing in Congress, because you're not forced to defend the status quo," Ross says. "You can claim to be an active part of making government work, rather than a part of the problem."

It increases opportunities to build cross-sector and cross-agency partnerships. "By virtue of their visibility," says the NPR's Goldstein, "reinvention labs seem to have lots of opportunities for partnerships with state and local government, academia, industry, and with each other."

These benefits are quite important to innovators at lower levels of organizations. "When we were first asked to set up a lab," recalls one federal employee, "we all laughed at Gore's memo—'Take away all the rules,' etc. Now I can't imagine going back."

Reinvention Labs: Pitfalls to Avoid

Reinvention labs don't always succeed. Some use their freedom in ways that don't accomplish much; others shoot themselves in the foot early on and don't recover. Here are a number of other potential pitfalls:

Revenge of the bureaucracy. Relief from central controls is "the lifeblood of reinvention labs," says Ronald Sanders, but "headquarters staffs are clogging their arteries. Many labs must fight through layers of bureaucracy to get waivers from even the most innocuous administrative rules within their own organizations, as well as those spawned by central agencies." If bureaucratic controllers are allowed to block or punish labs' efforts, reinventors will eventually lose heart.
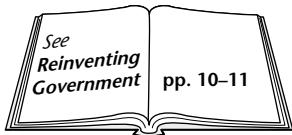
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This is perhaps the worst thing that can go wrong, because it crushes the hopes of employees and stymies change. Paige Gilbert says one of her colleagues compared their group to flies trapped in a jar:

At first, they want desperately to get out and will bump against the lid. After a few weeks of beating themselves up, when the lid is removed, the flies don't try to get out again. It was the same with us: there was so much frustration initially that people gave up.

Overshooting the mark. Freedom can go to a reinventor's head. Some labs file numerous requests for waivers, only to find they don't really need them all. Joe Thompson's veterans office in New York started out by submitting 140 requests, then boiled it down to the 31 that made sense. The lab in Boulder, Colorado, started out with a great many unfocused ideas or trivial requests for waivers. A Coast Guard commander's first request for a waiver was prompted by his anger over a botched moving job; he got the waiver, but he never used it. These exaggerated actions are a mistake. They anger the very controllers whose cooperation is needed, and they make reinvention lab leaders look like they don't know what they're doing.

Bottling up the reinventors. The great value of reinvention labs is that they unleash innovations. Yet many government officials are timid about doing this; they authorize a handful of labs, call them pilots, and announce that "when we learn what works, we'll do more." Sometime this ends well—with Bob Stone's Model Installations Program, for instance. All too often, however, it just ends: there is no "more." Al Gore understood that the power of labs was in their proliferation, in freeing tens of thousands of federal employees to innovate and improve performance. But even his effort, which gave departments the authority to create as many labs as they wanted, was regarded by some as too constraining, since departmental brass were sometimes reluctant to use the authority. "There needs to be an easier way to become a reinvention lab," said Ronald Sanders. "There are lots of reinvention wannabes out there, and they shouldn't be kept bottled up. . . . The executive branch needs a nice, simple, fast way of giving them reinvention licenses."

Silence of the labs. Lab participants may be reluctant to share their stories and what they've learned, because of the risk of repercussions. "Many reinvention labs are clandestine," says Sanders. Some labs don't tell superiors exactly what they're doing, because they don't want to be stopped. The problem with silence is that it doesn't help other labs learn, and it doesn't build the case for more systemic changes. The NPR has tried to stimulate communications by organizing annual conferences, attended by Vice President Gore and other top officials, as well as an on-line information clearinghouse.

*See
Reinventing
Government* | pp. 10–11

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STARTING A REINVENTION LAB: A CHECKLIST

Do you have your leadership's buy in? A lab "just isn't going to work if your leadership isn't totally and enthusiastically supportive, all the way through the management chain," says Jeff Goldstein, who worked with many labs in the Defense Department. Getting your leadership's buy in means more than just getting top managers to say yes to the idea. "I see an awful lot of labs where the leadership commitment is real," Goldstein says. "I also see some where the words are there, but the actions may not be."

Do you know how you will measure your lab's progress? One important measure of success is customer satisfaction. Other measures might assess changes in the lab's effectiveness, efficiency, and employee morale.

Do you have a plan for capturing lessons you learn? A reinvention laboratory is valuable in part because of what it learns about what works. Unless you dedicate time and resources to capturing the learning, the lessons will quickly be lost. You should then identify ways to share your learning with others—particularly headquarters and central control agencies, which have the power to eliminate or change rules that have been waived.
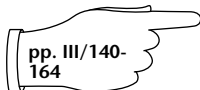
Reinvention Laboratories: Lessons Learned

1. Labs need "top cover."

A reinvention lab needs an "angel" to help it overcome the resistance of headquarters staff and central agencies. This should be either the top person in the organization—a director, secretary, city or county manager, or the like—or someone who is perceived to be acting on behalf of the top person. The advocate should help the labs get regulatory relief and shield them from threats. He or she must remain highly visible in support of the labs—sending clear signals that the labs' work is critical to the department's future and that barriers to the labs will not be tolerated. Vice President Gore and the National Performance Review offer one model: the reinvention office helped the labs, using the power and prestige of the vice president. Within a large department, however, it also helps to have a reinvention office closely linked to the director or secretary.

2. Don't leave the controllers in control.

When the Coast Guard set up its early version of reinvention labs, the Model Unit Program, it designed a special process for the approval of waivers.

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Only the headquarters chief of staff could say no; everyone else could only approve or comment negatively on the request. And each waiver had to be handled within three weeks. The idea was to ensure that the approval process would be easy and efficient, but it didn't work out that way. The waiver request had to "travel up the usual chain of command," says Susan Rosegrant, who studied the program for the Kennedy School of Government. It went "to the district office, where it would circulate among the district staff and appropriate program managers, and then on to headquarters, where it would be reviewed by the branch staff, more program managers, the resource director, and, finally, the chief of staff." In short, it had to run the gauntlet of controllers, usually at least a dozen of them.

Only 3 of the first 19 requests made it through in three weeks; most took nearly twice as long. With later requests, processing took an average of more than 10 weeks. But that wasn't the only problem. Of 28 waiver requests submitted during the program, the controllers recommended killing 18. The chief of staff, with the ultimate power to decide, denied 13 of the 28. So nearly half of the time that commanders submitted requests, they were wasting their energy. And more than two-thirds of the time that the controllers objected to a request, they won. It's little wonder that this process had a chilling effect on the units. With the chances of getting a waiver about 50–50 and a strong likelihood that it would be opposed every step of the way, reinventors grew reluctant to take on the system. "People really don't want to put their careers on the line over some silly little issue," explains Commander Ron Frazier.

The Coast Guard had the right intention—to design the waiver process so that it would be easy and efficient. But it gave controllers far too much power to hamper the process. That's what controllers will do, if you give them the chance. The solution is to take the waiver decision out of their hands, as we explained earlier.

3. Keep labs focused on achieving the mission and improving customer service.

Reinvention labs have a strong drive to try new things, to innovate. What they come up with will be all over the map. So it is critical that they always keep their purpose in mind. If they lose track of their mission and customers, they will not use the flexibility they have as a lab to improve their performance in ways that matter. To ensure that this doesn't happen, a reinvention lab should articulate a clear vision of what it is trying to accomplish for the organization and its customers, with goals and objectives linked to the organization's. It should do this at the outset and periodically check on progress.

4. Reward the labs for success.

It would be easy to think that for members of reinvention labs "innovation

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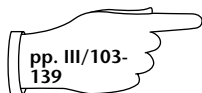
is its own reward." To a large extent this is true; the chance to try out new ideas and to escape from stifling rules and regulations is important. But why stop there? You can use performance management to introduce incentives—bonuses, gainsharing, shared savings, and awards. Vice President Al Gore does this by awarding symbolic Hammer Awards to high-performing reinvention labs, for example.

RESOURCES ON REINVENTION LABORATORIES

Patricia W. Ingraham, James R. Thompson, and Ronald P. Sanders, eds. *Transforming Government: Lessons from the Reinvention Laboratories.* San Francisco: Jossey-Bass, 1998. Chock full of stories from federal reinvention labs, this set of essays provides valuable insight into what it takes to make reinvention labs work.

MASS ORGANIZATIONAL DEREGULATION

Mass Organizational Deregulation **repeals many of the other internal rules and regulations created by legislatures, central agencies, and departments to dictate the behavior of public organizations.**

Some elected officials relish the opportunity to slaughter government's rules. In 1993, President Clinton ordered federal departments to eliminate half of their internal regulations within three years. In 1995, Michigan governor John Engler pushed for repeal of the state's school code, the 172 pages of state government rules and regulations that controlled school districts. That same year, Florida's governor, Lawton Chiles, proposed repealing half of the state's 28,750 rules. At a press conference, the governor wore a back brace so he could hoist into camera view the many pounds of state publications containing rules and regulations he wanted to eliminate.

Some government managers also catch the deregulation fever. When General Bill Creech ran the 115,000–person Tactical Air Command, he realized that administrative rules were preventing him from empowering frontline employees.

> *I called in working-level groups from operations, maintenance, supply, and the various other field activities. I then put them in a room with all the regulations that pertained to their activities and told them to get rid of at least half of them—and even more if they thought appropriate. It was a labor of love.*

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Mass deregulation thins out the thick regulatory "underbrush" that builds up over the years and becomes a frustrating thorn in the side of organizations. Clearing this brush, says Bob O'Leary, a former Chiles appointee, helps reinventors get at rules that really are in the way. "By getting all the nonsense out of the code, you get to the point where you can focus in on the issues and what really needs to be changed."

In Florida, O'Leary explains, the process of banishing rules *en masse* went through three phases. "We called the first phase 'Cleaning Out the Garage and the Closets.' Departments identified rules that didn't need to be on the books anymore, that didn't apply anymore, or were just a rewrite of a statute." Some agencies found that 30 percent of the rules were "junk," he says. So they started asking the legislature to repeal them.

The second phase, nicknamed "Squeezing the Accordion," involved cleaning up and consolidating rules and rewriting them into plain English. A benefit of the effort, says O'Leary, was that it forced agencies to ask why the rules were written the way they were; that effort led to new candidates for elimination.

The last phase, which went unnamed, involved tackling the more important rules that were still causing problems.

Mass Organizational Deregulation: Lessons Learned

1. A big push from the chief executive is critical.

Governor Engler said he wanted to repeal the entire school code. Governor Chiles, President Clinton, and General Creech said they wanted to gut half the regulations. These targets may sound arbitrary and aggressive, but setting such targets is important, because it takes a major, sustained effort to cut a path through a vast thicket of rules. By so visibly going out on a limb, the chief executive signals to everyone—department heads, central agencies, employees, legislators—that he expects the effort to be made and sustained. That helps keep up the pressure when the process bogs down.

2. Publicize early successes.

In response to President Clinton's call for mass deregulation, the U.S. Department of Labor eliminated a requirement that employees fill out daily time cards. This reduced the organization's paperwork by 14,000 documents every two weeks. When you get rid of a rule with this much impact, you should celebrate. Publicize it, and give the deregulators an award. This helps keep up the momentum behind the effort.

3. To ease resistance to mass deregulation, establish legislative-executive cooperation at the outset.

Getting rid of some rules can be almost as difficult as clearing the decks of government programs or assets. Interests that benefit from the rules resist

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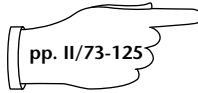
the effort. They influence legislators, who are usually already concerned that eliminating rules will let public organizations run amuck.

Governor Engler's assault on the school code produced considerable anxiety in school districts and some resistance in the legislature. Although his party controlled the legislature, lawmakers took nearly a year before finally approving a revision—not a repeal—of the code. They chopped out numerous sections of the code, but they also added significant new requirements.

The lesson is that it takes cooperation between the legislative and executive branches to get rid of external rules—that is, rules that govern citizens, businesses, communities, and others outside the bureaucracy. Elected executives should get legislative buy-in at the outset of the process, rather than assume that lawmakers will go along with whatever they come up with. One way to forge this collaboration is to establish an independent commission, jointly appointed by the executive and legislature, to fashion a package of rules for abolition. Another useful step is to require the legislature to vote yes or no on the entire package of rules, not on one rule at a time. The U.S. Congress has successfully used this method to overcome lawmaker resistance to closing military bases, as we detail in Chapter Six.

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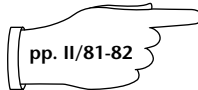
4. Save some energy for the end game.

In any mass deregulation exercise, some rules will be tougher to eliminate than others because they have the backing of central agencies, special interests, or legislators. It's important, then, not to stop the process once you've gotten rid of the easy rules. Resist the tendency to declare victory just because you've eliminated hundreds or thousands of rules. Bear down on the really important ones that are left.

5. Be vigilant: prevent regulations from creeping back into place.

After his mass deregulation effort, General Creech found that he had to stay alert for recidivism. "If commanders at lower levels added any rules, a copy came to my office for my personal attention," he recalls. "If I detected even a hint of CYA in the rule, or thought it patently unnecessary, I picked up the phone and reasoned with the rule writer."

Creech recognized that the top manager in an empowered organization should not micromanage. But fighting recentralization was an exception. "Normally I practiced a hands-off style," he says. "But I found that you have to work hard *at keeping organizations decentralized.*"

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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.

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