

The Business of Government

*a publication of The PricewaterhouseCoopers Endowment for The Business of Government
dedicated to improving the management of government*

FROM THE EDITOR'S KEYBOARD 1

Profiles

CHANGING ORGANIZATIONS 2

Balanced Scorecards at the Veterans Benefits Administration

Reinvention — Six Years Later

INTRODUCTION 6

INTERVIEWS 7

Conversations with two key players in the reinventing government effort:
Vice President Al Gore and Senior Policy Advisor Morley Winograd

PERSPECTIVES 16

Four experts offer their analyses of the successes and shortcoming of gov-
ernment reinvention six years out — and what needs to be addressed in
the 21st century

CASE STUDIES 22

From tax collection to mail service, a look at the ways eight federal
departments and agencies have changed the way they do business in
response to reinvention

Research Abstracts 44

The Endowment 52

Summer 1999 Grant Award Winners

[TABLE OF CONTENTS]

FROM THE EDITOR’S KEYBOARD 1

Profiles

CHANGING ORGANIZATIONS 2

Creating a Balanced Scorecard at the Veterans Benefits Administration.....2

Reinvention — Six Years Later

INTRODUCTION 6

INTERVIEWS 7

A Conversation with Vice President Al Gore.....7

A Conversation with Morley Winograd.....13

PERSPECTIVES 16

James Carroll, Florida International University16

Elaine Kamarck, Harvard University18

Donald Kettl, University of Wisconsin-Madison19

James Thompson, University of Illinois at Chicago21

CASE STUDIES 22

Department of Defense.....22

Federal Aviation Administration24

Federal Emergency Management Agency27

Internal Revenue Service30

Social Security Administration32

United States Customs Service35

United States Patent and Trademark Office.....38

United States Postal Service41

Research Abstracts 44

Managing Decentralized Departments: The Case of the U.S. Department of Health and Human Services44

New Tools for Improving Government Regulation: An Assessment of Emissions Trading and Other Market-Based Regulatory Tools46

The Importance of Leadership: The Role of School Principals48

Leadership for Change: Case Studies in American Local Government50

The Endowment 52

Summer 1999 Grant Award Winners52

by Ian Littman



This summer marked the first anniversary of The PricewaterhouseCoopers Endowment for The Business of Government. Since our creation in July 1998, we have made over 40 grants to outstanding researchers in the academic and nonprofit community. To date, we have

published 10 grant reports and one special report. Four of our recent grant reports are abstracted in this issue of *The Business of Government*.

Our special report, *Results of the Government Leadership Survey: A 1999 Survey of Federal Executives*, was released in June. The headline from the study was that nearly 50 percent of Senior Executive Service members viewed salary as a significant obstacle for recruiting and retaining government executives. We widely distributed the report and briefed numerous congressional staff members on it and the research undertaken by the Endowment on the crucial issue of pay for government's top leaders, including the President. We were gratified that some of the research presented by the Endowment was cited on the floor of the House of Representatives during congressional debate on the presidential pay raise this summer. The survey also received much attention in the press.

We were thus pleased when the President signed legislation approving the pay increases on September 29, 1999, including doubling the salary of the President from \$200,000 to \$400,000. The new presidential salary will go into effect on January 20, 2001, when the next President is inaugurated. If Congress had not acted prior to the start of the next administration, the next opportunity for a presidential pay raise would have been 2005. If no action had been taken, the Vice President, Chief Justice, and Speaker of the House would have surpassed the President in pay in the year 2003 (assuming continued annual increases for those three leaders). Congress, however, would likely have balked at paying the Vice President more than the President, creating a unique and troublesome problem of pay compression at the top of our government that would have had profound implications on federal pay across the board. A bullet dodged.

The presidential pay raise was very important on several fronts. First, the presidential pay raise was highly significant in its own right. It marked only the fifth time in the history of the nation that presidential pay has been increased. It is interesting to note that our constitutional fathers in 1789 set the pay of George Washington at \$25,000, with Vice President John Adams making \$5,000. If President Washington's salary were adjusted for the consumer price index, the salary of the president would be \$4 million today. Nearly 100 years after setting President Washington's pay, presidential salary was doubled in

1873 to \$50,000. The next pay raises took place in 1909 (to \$75,000), 1949 (to \$100,000), and 1969 (to \$200,000). Not a frequent occurrence.

Second, the presidential pay increase to \$400,000 clearly gives executive branch and legislative branch salaries room to grow over the next decade. If presidential pay had not been raised, it is unlikely that Congress would have felt comfortable raising other governmental salaries. So the \$200,000 psychological ceiling for executive-level government pay has been raised to \$400,000. The challenge facing the next administration and future Congresses will be to rethink the entire executive-level pay system. For starters, members of Congress should "decouple" their salary from executive branch salaries. The United States is the only democratic government to our knowledge that has linked executive branch and legislative branch pay.

It is my view that there is little reason for Congress to hold executive branch pay "hostage" when it decides not to give itself a pay raise. If members of Congress do not wish to raise their pay, that is clearly within their prerogative. Problems arise, however, when such actions create severe recruitment, motivation, and retention problems for members of the executive branch. As noted above, our survey found that nearly 50 percent of SES members viewed salary as a significant obstacle for recruiting and retaining government executives.

In entering this "new era" of executive pay led by the presidential pay raise, we need a new philosophy of federal pay. In a recent op-ed article, my colleagues Carl Weinberg, a compensation specialist for PricewaterhouseCoopers, and Mark Abramson, executive director of the Endowment, call for a new compensation philosophy for government. They argue that the private sector uses its compensation strategy as a strategic weapon, an offensive tool that helps an organization to survive and thrive competitively.

There are signs that Congress is beginning — in an ad hoc, piecemeal fashion — to recognize pay as an offensive weapon in recruiting, rewarding, and retaining talent. In 1998, both the Internal Revenue Service Restructuring Act and the Reauthorization of Higher Education Programs created special executive pay authorities for the IRS and the Office of Student Financial Assistance. With the IRS and the Department of Education, Congress and the executive branch have clearly started down the path of a new executive compensation philosophy. The challenge now facing government is to expand these concepts across all of government and end the practice of linking executive branch and legislative branch salaries. ■

Ian Littman is a partner at PricewaterhouseCoopers and co-chair of the Endowment's Advisory Board. His e-mail: ian.littman@us.pwcglobal.com.

Creating a Balanced Scorecard at the Veterans Benefits Administration

By Clifton Williams and Anthony Wall

The definition in the accompanying box grew from a 1992 article in the *Harvard Business Review* by Robert Kaplan and David Norton entitled "The Balanced Scorecard — Measures That Drive Performance." This seminal article detailed the concepts developed over the course of 1990 by representatives from a dozen companies that represented the spectrum of industries including service, manufacturing, and high-tech. The search for a new performance measurement system resulted in the Balanced Scorecard.

As Kaplan and Norton elaborated in their 1996 book, *The Balanced Scorecard: Translating Strategy Into Action*, "The Balance Scorecard translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system." Since then, commercial companies like Apple Computer and Advanced Micro Devices have seized the idea and implemented Balanced Scorecards.

Recently, the potential of the Balanced Scorecard was recognized by the Veterans Benefits Administration in the U.S. Department of Veterans Affairs and they took action.

Background

In April 1999, the Veterans Benefits Administration (VBA) published on its Intranet an electronic Balanced Scorecard covering the first six months of FY99. This was the realization of 18 months of effort throughout the VBA. This was also one of the first steps in an iterative process designed to lead the organization towards improved performance. VBA officials were quick to recognize the evolutionary nature of developing their Balanced Scorecard, and just as quick to state that developing the scorecard is a lot of hard work.

Balanced Scorecard: This is an organizational tool that translates an organization's mission strategy into objectives and measures organized into four different perspectives: financial, customer, internal business process, and learning and growth. It provides all employees with information they can use to affect the results the organization is achieving.

Glossary of Terms, *The Balanced Scorecard Handbook*, VBA, October 1998

The evolution of the Balanced Scorecard began as a requirement to comply with the Government Performance and Results Act (GPRA). Various Regional Office personnel within VBA had begun establishing measurement targets before GPRA, but the efforts were localized and generally not reported throughout VBA. Initially, a committee was established with the single goal of complying with GPRA, without a focus to formally develop a Balanced Scorecard. The committee consisted of Regional Office and Central Office senior managers and soon began discussing the Balanced Scorecard as the philosophical way to comply with GPRA and really add value to VBA. They began identifying performance measures, not so much as the measures they wanted for their own business line, but more defining measures that would have meaning across all business lines.

Eventually this committee developed the key measures used in the scorecard today (speed, accuracy, cost, customer satisfaction, and employee development). Shortly after the key performance measures were agreed upon, Joe Thompson, the New York Regional Office committee member, became under secretary for VBA. Thompson created a formal Balanced Scorecard Committee, chaired by Stewart Liff, director of the Los Angeles Regional Office, incorporating the early measurement work into VBA's strategic planning process. Liff explains, "Everyone in the process realized that performance measurement and strategic planning go hand-in-hand. You can't have one without the other."

Robert Epley, also a member of the initial committee almost two years before and now the VBA's director of Compensation and Pension Services, confirmed that the trigger for formalizing the committee was compliance with GPRA, although VBA managers were already understanding the value of measuring what they do and the corresponding results. The group leveraged their existing Regional Office measurement work into the philosophical discussions concerning the Balanced Scorecard. As a result, the Balanced Scorecard was chosen as the approach to measure the VBA's performance and to provide the basis for strategic planning and budgeting requirements. Epley feels VBA's scorecard success is based on: defining what each line of business does and the related results, mapping current processes, digging into their business to find out what service levels they should be achieving, identifying performance gaps, and developing initial corrective measures for stable business areas that help close the gaps.

Key Factors for Success

Based on discussions with VBA, three key factors seem to underpin their successful implementation of the Balanced Scorecard. The first factor for success is to develop a consensus on the initiative. Along with this agreement, a concurrent theme of commitment from the top leaders of the organization is vital. This means that the organization must understand the complexity of the effort needed to succeed. The second factor includes making sure the Balanced Scorecard's structure is ever evolving and flexible enough to accommodate the needs of each Regional Office while facilitating the operational comparability between locations. The third key factor is clear and consistent communication. Communication both within and outside the organization is critical throughout the implementation. Most VBA executives we spoke with agree their internal and external communications approach has significantly increased their credibility with their

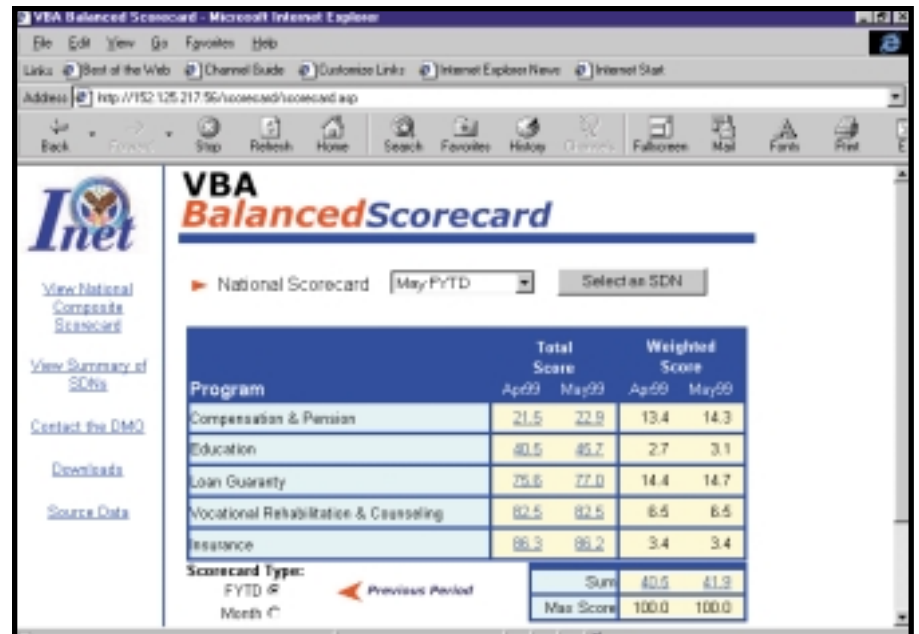
employees, and stakeholders such as Veterans Service Organizations (Disabled American Veterans, American Legion) and the Office of Management and Budget.

Consensus

VBA spent significant time developing a consensus on the goals for the Balanced Scorecard initiative, a challenge in an organization such as the VBA with its diverse business lines and dispersed workforce. "VBA is a business with five sub-businesses, and we traditionally have considered ourselves quite different," explains Epley. According to Chuck DeCoste, director of the VBA's Data Management Office (DMO), the initial critical piece was "coming to consensus at the senior level of the organization as to exactly what it is we were going to be measuring and reporting."

Epley states, "Describe what you are doing, describe what you think you ought to be achieving from it, find the gaps, look for areas to measure." In this case the VBA found that the outdated information and measurement systems overlooked three important stakeholders: veterans, employees, and taxpayers. Defining the measures for employees has been the most problematic and in some business lines it is still under evaluation. Otherwise, measurements for the veterans and taxpayers were easily incorporated into the Balanced Scorecard with customer satisfaction and cost information.

Chart 1



Leadership at the VBA felt that if they could describe measures that had meaning for all of the business lines they would be on the right track, because the measures would be at a global enough level that they would approach outcome type measures. These were the areas to target for improvements.

Flexibility

Commitment to the Balanced Scorecard needed to start at the highest levels. As Epley says, "In any organization where you're dealing with 11,000 people and 100 or more senior level managers, changing the way they look at their business is a struggle." Over the course of the first year, the framework for the scorecard was developed, but it was not etched in stone. Epley stated up front that "the scorecard that we developed was not complete. Some of it was theoretical."

Working with this initial framework allowed for refinement in the measures and allowed the organization to become familiar with the scorecard. Chuck DeCoste thought it was crucial to understand that it is an "iterative and ongoing process." Additionally, Kim Graves, also of the DMO, felt that an organization must recognize that this process really is a full-time commitment and that you've got to commit significant resources to make it happen.

Graves emphasized that "the level of complexity behind the scorecard ... cannot be underestimated." In the VBA's case the Data Management Office is responsible for the processing of all the data inputs for the scorecard. The DMO takes voluminous amounts of data, and synthesizes it in a data warehouse that makes it readily accessible and available for national use and additional analysis. The scorecards are published monthly on VBA's homepage.

Graves offers a word of caution about a "very simple thing, but something that has been a continuing problem," which is to ensure that "everybody has the same technical capabilities." DeCoste adds, "Oftentimes we'll get the scorecard produced, and people have a different machine on their desk. Something as fundamental as that undermines the real value of what you tried to create. You can build a great little house, but if you can't get in the front door because you don't have the right key, you've got a problem."

Despite these small hurdles, the Balanced Scorecard has allowed everybody to look at the same information at the same time, in the same format, and have all the background that goes into it. It puts everybody on a level playing field as far as evaluating where they stand in comparison to another regional office. Liff states, "The previous emphasis was mostly

on speed of processing, while other measures, like customer satisfaction, that help us compare offices suffered. We now have a true picture of the overall performance of offices for more reasonable comparisons." This can be seen in chart 2 taken from the web page showing comparisons between Service Delivery Networks (SDNs).

At this point in the effort, only the results are reported. In the future, the hope is to establish a mechanism for sharing best practices across the whole organization. Currently, the

Chart 2



responsibility falls on the individuals to make contacts with others to determine if there are improvements that are reflected in the Balanced Scorecard. Epley thinks the challenge to management is to share the good practices and help each other out with the operational problems.

While the measures are universal across all business lines, the weight of the measure varies by business line. The Balanced Scorecard allows for a common framework for organizational measurement as well as flexibility in the application to specific lines of business. This is illustrated in Chart 3 depicting the weights given to each measure by the five business lines.

Chart 3

WEIGHTS		Line of Business				
		Compensation & Pension	Education	Insurance	Loan Guaranty	Vocational Rehabilitation & Counseling
Measure	Speed	18%	30%	10%	10%	15%
	Accuracy	25%	20%	15%	30%	35%
	Cost	15%	10%	20%	20%	TBD
	Customer Satisfaction	22%	30%	40%	30%	40%
	Employee Development	20%	10%	15%	10%	10%

Communications

As with any change, communication both internally and externally to the organization has been a major factor. Epley says, "What the Balanced Scorecard does is make the performance more public." He continues, "I think that it's very important that anybody who's going into this type of arrangement needs to do it publicly and needs to involve more people rather than less. The employees need to understand what is going on and why. The VBA is responsible to its external stakeholders, and communications is the method to raise awareness of the efforts and the benefits that are to come. The value of the Balanced Scorecard: If you build it right, you'll move forward across the board and you will keep things in perspective."

DeCoste agrees, "It's critical throughout the process — from the very beginning, when you make a decision that you are going to create a scorecard, until the point in time that you produce it — that you have a very open, honest dialogue about what it takes to get it done."

Epley sums up the Balanced Scorecard effort in this way: "For me the interesting thing is that 18 months ago easily 95 percent of our people didn't know about this. Today, it's commonly the focus of our discussions when we get together, some of it negative, no question about that, but it's on the table for discussion all the time." Finally, Liff cautions, "The scorecard does not stand on its own, in a vacuum. It is a tool that is linked with all of VBA's management systems. The scorecard is the basis for determining whether we meet our short-term and long-term strategic goals. It will ultimately be linked to our performance appraisal and rewards and recognition systems. The key point is that all of VBA's organizational design choices must be linked if we are to have a clear line of sight, and that the scorecard is the linchpin behind all of those choices." ■

Clifton Williams is a principal consultant at PricewaterhouseCoopers. His e-mail: clifton.a.williams@us.pwcglobal.com.

Anthony Wall is a consultant at PricewaterhouseCoopers. His e-mail: anthony.wall@us.pwcglobal.com.

Reflections on Reinvention

By Mark A. Abramson



On September 7, 1999, the National Performance Review (NPR) celebrated the sixth anniversary of the publication and release of its first report: *From Red Tape to Results: Creating a Government That Works Better and Costs Less*.

The report was the result of six months of intensive effort by

an army of career public servants assigned to a variety of task forces — all examining innovative ways to improve the management of government. The report was released on the South Lawn of the White House with much hoopla and media attention. A topic — government management — long viewed as rather dull and mundane to Washington had finally made it to the big time. Vice President Gore, leader of the reinvention initiative, even made a visit to *Late Night with David Letterman* to discuss reinvention and how a new era was dawning in government.

As Vice President Gore likes to say, NPR (renamed in 1997 the National Partnership for Reinventing Government) is the longest running management reform initiative in the nation's history. Given its lengthy history (as management reform initiatives go) and the advent of a new administration in January 2001, *The Business of Government* thought it would be interesting and worthwhile to explore the impact of NPR on government. Has it made a difference? What are the lessons learned about reforming government? What should be the focus of management reform in the next administration?

To answer these questions, we decided to approach the task from several different angles. First, we interviewed Vice President Gore and Morley Winograd, senior policy advisor to the Vice President and director of NPR. Second, we invited four well-known experts to provide their perspective on the impact of reinvention and the management challenges facing the next administration. Third, we set out to visit eight agencies to find out the impact of reinvention at the ground level of government — where the public directly deals with government. Fourth, we asked eight agency heads to comment on the impact of reinvention at their organization.

We confront a mosaic of findings and different impressions when attempting to sum up the impact of reinvention. As one of our experts notes, assessing reinvention is much like the story of the three blind men each grasping a different part of the elephant. One gets a different impression depending on what part of the elephant one is grasping. That said, one can still make some generalizations about NPR, reinvention, and future management reform initiatives.

Management reform was on the agenda. The current administration deserves credit for putting management reform squarely on the agenda of department secretaries, deputy secretaries, and agency heads. While some responded more enthusiastically than others, the message was sent that management and service-delivery improvements were important and should receive attention. The creation of the President's Management Council was clearly an important step in the right direction.

Reinvention has made a difference. For the agencies that responded affirmatively to the administration's message that management was important, significant improvements can be seen in the delivery of service. Those agencies — characterized by strong agency leadership at the top fully committed to reform — have made significant improvements. Our case study of the Federal Emergency Management Agency describes the difference between the government's response to Hurricane Andrew in 1993 and its recent response to Hurricane Floyd. A variety of other profiled agencies — such as the Social Security Administration, Internal Revenue Service, and the United States Postal Service — all recognized the importance of "customers" and strove to improve the delivery of service.

Transformation takes time. While the improvements made by many of the agencies profiled are impressive, one gets the impression that those agencies are still relatively early in their journey of transformation. Change takes time and staying power, uncommon qualities in government. Both Vice President Gore and NPR Director Winograd discuss the long-term nature of culture change. While our case studies demonstrate that agency cultures are changing, it will take additional time for those changes to become institutionalized. In 2001, nearly all agencies will face a transition in their top leadership.

continued on page 34

A Conversation with Vice President Al Gore

Mr. Vice President, what do you think has been the major impact of reinvention on our federal government?

First, we've created a government that works better and costs less. We've dramatically improved customer service. The Social Security Administration, for example, was recognized in one business publication as having the best 800 phone service in the entire country — better than L.L. Bean, Disney, or Southwest Airlines.

The number of full-time [federal] employees has been reduced by more than 350,000 since President Clinton and I came into office. Today's government is the smallest since the administration of President Kennedy. Given what Americans rely on the government for today relative to the early 1960s, this is truly astounding.

Second, we've changed the culture of government. By running the government more like a business — focusing on outcomes rather than process, listening to employees, and putting a premium on customer service — we're working to create an environment where federal employees think differently about their jobs and who their customers are. The impact reinvention has had on the government itself has also helped more Americans connect with their government and helped restore their trust in government.

Which aspects of reinvention have been most successful?

Along with the culture change I talked about, our administration and the National Partnership for Reinventing Government have changed many of the basic processes of our government.

We've saved nearly \$137 billion over six years through procurement reform and other common sense changes, agency by agency.

Because of these efforts and others, federal spending is the smallest share of the economy in 25 years. Our fiscal discipline has brought spending down from 22 percent of Gross Domestic Product in 1992 to just over 19 percent in 1999. As a share of the economy, spending has declined every year under this administration and is now the lowest in a quarter century. These and other savings are the driving force behind

the budget surpluses we're enjoying now — surpluses that are reducing the debt and strengthening the economy.

We've made the government smaller, as I said earlier. And we've established the first-ever customer service standards for the federal government. We've created partnerships between agencies and private sector organizations to achieve broad outcomes like hiring welfare recipients and giving them real work that enhances their lives and our economy.

We've used information technology to make the government more accessible. You can now download hundreds of forms and conduct many secure transactions over the Internet. Through the use of e-file, 29 million Americans filed their 1998 taxes electronically.

We've also improved the processes of government by eliminating over 16,000 outdated pages of the Code of Federal Regulations. Individual agencies have eliminated over 640,000 pages of their own internal regulations.

What have been the biggest barriers to reinvention?

It's never easy to move bureaucracies, to change attitudes, or to buck history. But as we move from the industrial age to the information age, one of our biggest challenges is to change the thinking of those inside and outside the government who from the outset said it couldn't be done. Government reform efforts going all the way back to the turn of the century haven't fared so well. What we set out to do six years ago was nothing short of instituting fundamental change that would be difficult, if not impossible, to reverse.

We knew that in this world of dramatic change, one of the biggest barriers to reform would be the machinery of government itself. For decades, it had been stuck in the past, wasting too much money, often ignoring the taxpayer, coping with outdated systems and archaic technology, and, most of all, eroding the confidence of the American people that government can make change work for them. We knew these obstacles would take time — a decade or more — to overcome. That's why this reinvention effort is now going strong at six years — we never intended to just release a report and then



go back to business as usual. So that broad goal of creating real and lasting change has, in and of itself, come up against some pretty formidable institutional barriers.

One of the first things we did with the help of Congress was pass the Government Performance and Results Act (GPRA), which requires agencies to develop strategic and performance plans, including performance measures, and to issue annual public reports on their progress. Next year, we're encouraging agencies to include balanced scorecard measures — bottom line business results, customer satisfaction, and employee satisfaction — as part of their reports. The strength of GPRA is that it forces agencies to think realistically about their mission and what they can accomplish, to set specific goals, and then to be held accountable — much like a corporate CEO.

Having said that, I believe our greatest challenge remains making reinvention a permanent part of our government's culture, and that's what we'll be focusing on over the next 15 months.

What is your vision of the government of the 21st century? What additional changes are still needed in the reinvention of government?

Government in the next century will be more technology-driven and customer-focused. That means we have to develop the government's human capital for the 21st century. Information technology is making it easier for Americans to interact with their government, which is a welcome change. But at the same time, technology and the media are making the government even more accountable to the people we serve. That means government agencies will have to find new and innovative ways to serve customers and to market themselves to the public.

Successful businesses not only create products and provide services their customers want, they're careful to design their products and services to be convenient for their customers.

That's so basic to the success of any business that customers take it for granted. There's no reason why Americans shouldn't be treated just as well — just as efficiently — as a customer at a private business is treated. For the 21st century, that means making the concept of reinvention a permanent part of the landscape.

There's still an enormous amount of work to do. Two years ago, we crafted a strategy designed to forever change government operations. We set out to focus on "High Impact Agencies" — those with the most direct interactions with individuals and business — through initiatives like "Plain Language" communications.

We want to create more partnerships — both between agencies and between agencies and private sector and nonprofit organizations — to achieve positive outcomes for people that no one agency can achieve alone. We want to change the way agencies evaluate their performance by using GPRA and business results and customer and employee satisfaction mea-

tures. For the 21st century, we want to create an electronic government — to do for the government what “amazon.com” did for shopping. And we want to continue empowering federal workers, the real heroes of reinvention.

How many years will be required to institutionalize reinvention as “the way government does business”?

It’s hard to even guess a precise date by which we can say that reinvention has been achieved at a government-wide level, that it’s ingrained in the management strategies of every government organization. But I do think we’re well on our way. In fact, we’re so far down the road that I think it would be almost impossible to go back to the days before reinvention was put into motion. Some agencies are already there. A few years ago, for example, the Federal Emergency Management Agency was itself commonly considered a disaster. Now it is widely praised for its effective and compassionate response to disasters. I mentioned that the Social Security Administration, to take another example, was recognized by Dalbar Associates as having the best 800 phone service in the entire country — better than L.L. Bean, Disney, or Southwest Airlines. The same with the Internal Revenue Service — it will have been completely transformed in just a few years. There are many other places in the government right now where you can walk in and get good service and go home and say to your family, “It’s beginning to happen. There’s a difference.”

Other agencies still have a lot of work to do. We know how much more remains to be done, and we’re keenly aware that we’re not there yet. But that day will come, I think, in a few more years.

What is your impression of the quality of today’s civil servant? Are additional changes required in how government recruits, retains, and manages its workforce?

Some of the most talented, creative, hard-driving, and successful managers that I have ever encountered anywhere come from the civil service. It’s important to remember that career civil servants have by and large led this reinvention effort because the first thing we did was ask them what they thought needed to be changed. They are the real heroes of reinvention — the people who’ve really buckled down and made this whole enterprise work.

I truly believe that the negative image some people have of government workers comes from a broken system that doesn’t let them do their jobs the right way. Many times they aren’t allowed to even use their common sense, much less be bold and innovative. Customers — taxpayers — were often nothing but an afterthought. There’s no question that is changing. And more federal workers are contributing wonderful, creative ideas about how to redeem the promise of self-government and make it work the way it should.

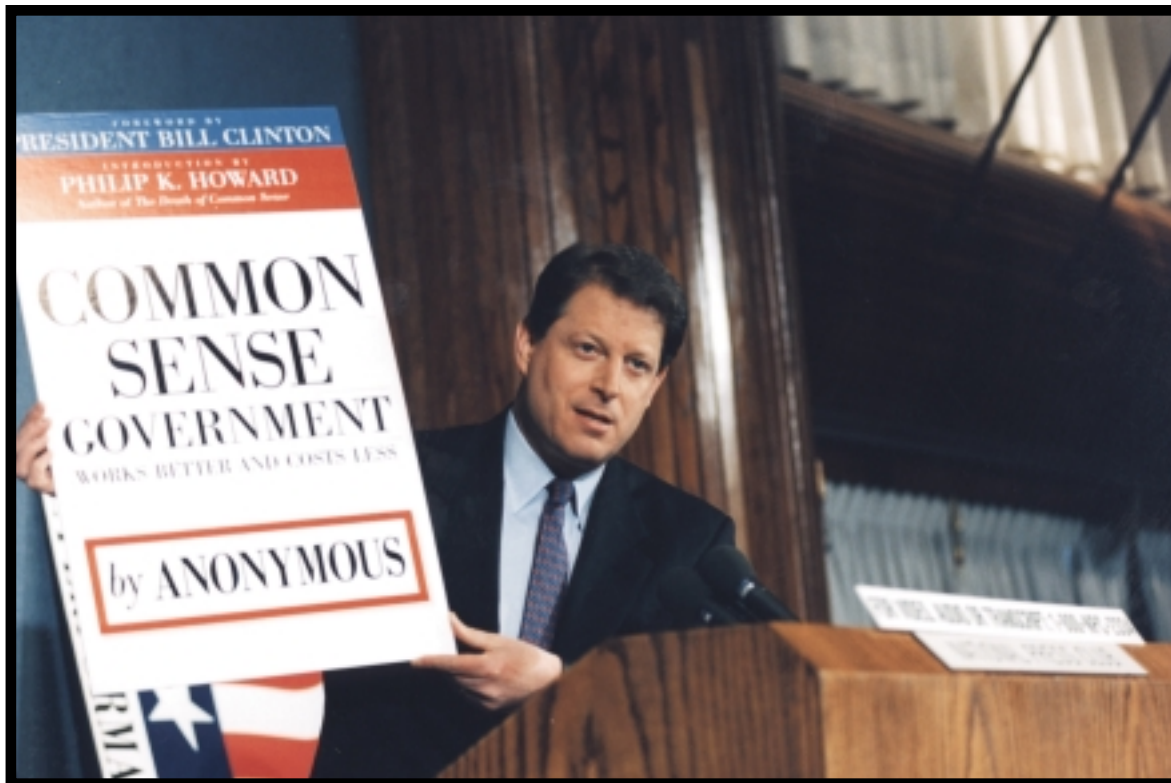
To get the best and brightest, we have to keep streamlining recruitment and offering more incentives to retain quality employees. Most agencies now are using resumes in place of a long and cumbersome application form.

Beyond modernizing the way we recruit and hire federal employees, we have to change how they’re managed. In 1993, when we started our reinvention effort, fully one-third of the entire federal workforce — 660,000 federal employees — controlled, checked-up on, supervised, or audited the other two-thirds. Imagine if a business tried to operate like that. Our original recommendations were to reduce the number of supervisors, cut the number of headquarters staff, and trim the number of management control positions. These general management goals drove the downsizing effort I talked about earlier.

The American public’s interaction with government generally occurs with the front lines — not with headquarters staff here in Washington. As agencies continue to streamline their management structures, their resources should be focused on service delivery at the front line level. The Customs Service eliminated its regional offices and put more staff on the front lines at seaports and airports. The National Park Service cut its central staff by one-quarter and moved hundreds of employees out to serve park visitors.

We need to permit flexible pay systems so pay can be more performance-oriented. We need to let agencies come up with better and more innovative ways to get and keep a high-quality workforce.

There’s another way we can manage the federal workforce to get better results for Americans — strong labor-management partnerships. When labor and management form partnerships to solve problems, implement change, and resolve other



worksite issues, agencies serve their customers better and save money. Partnerships like these are already saving millions of dollars in productivity costs and avoiding litigation costs by using Alternative Dispute Resolution principles. The U.S. Mint in Philadelphia saw the filing of formal employee grievances go down by 65 percent between 1993 and 1997.

How would you rate government's success in utilizing the latest technology to improve the delivery of government services? What additional technological improvements in the delivery of services do you foresee?

Overall, I think the government has done a very good job of using information technology to deliver services, particularly providing information through the Internet. Obviously, a quick survey of agency and department websites will show that some have taken the concept more to heart than others have. More services are now available by using a touch-tone telephone — think of the IRS “tele-file” system. I mentioned before that 29 million taxpayers in 1998 used it in place of the traditional 1040 EZ form. It takes about eight minutes and has an error rate only a fraction of that for paper returns. The Social Security Administration lets beneficiaries order their personal benefits estimates simply by filling out a form on screen — it takes about five minutes.

Now we need to move beyond simply providing information and give people a chance to conduct transactions with their government. For example, in addition to downloading applications and other forms, having the customer actually fill out more forms — simple and in plain language, of course — and submit them online. We’re seeing this with student loan applications and in some aspects of the Department of Defense’s procurement process already.

Is the government going to follow the private sector into the E-biz world? Do you envision government doing more business on the Net?

A resounding “yes” to both questions! It’s already happening and can’t help but accelerate as more Americans gain Internet access. More and more people will come to expect that they’ll be able to log on to a computer and get what they need quickly and easily — much as they do now with websites like “amazon.com.”

As government conducts more of its business over the Internet, I envision agencies providing services based on a “holistic” view of their customers. Our Access America initiative embodies the customer-focused approach to government. Early this year we launched “Access America for Students” so college students could file taxes electronically, apply for stu-

dent loans and renewals, change addresses online, make national park reservations, and get information about veterans' educational benefits, campus admissions and services, and local businesses. The point is that simply using the Department of Education's website, as good as it is, won't cover a lot of the unique needs of college students — the targeted customers. We also have expanded the Access America website for seniors. And we plan on doing the same thing for working families, providing them access to the government services they need to succeed.

NPR strongly advocated the creation of performance-based organizations (PBOs). What are the advantages of creating PBOs and what is the likelihood of additional PBOs being created in the years ahead?

Under the PBO concept, organizations commit to clear objectives, specific, measurable goals, customer service standards, and targeted improvements. One major advantage of PBOs is that by making these commitments, they can have a customized and flexible management system and a competitively hired chief executive whose pay depends on the organization's performance. They're freed from red tape and other kinds of personnel, procurement, and budget restrictions so they can provide services more efficiently.

Not all agencies are suited to be PBOs — the basic scientific research offices at the National Institutes of Health, for example.

But others, like the Patent and Trademark Office, the U.S. Mint, and even our Air Traffic Control System, are good candidates and are part of the first phase of our long-term plan to develop other government PBOs. Last year, Congress approved the first PBO — the Office of Student Financial Assistance at the Department of Education. With that logjam cleared, I would hope we would see many more PBOs approved by Congress in the near future.

How do you envision government interacting with its citizens in the year 2005?

That's not far off, but I'm optimistic that the connection between Americans and their government will, hopefully, be much stronger. Information technology is a powerful tool for



About Al Gore

Al Gore was inaugurated as the 45th Vice President of the United States on January 20, 1993.

Vice President Gore serves as an advisor to President Clinton, a Cabinet member, President of the U.S. Senate, a member of the National Security Council, and head of a wide range of administration initiatives. He co-chairs five separate bi-national commissions: the Gore-Chernomyrdin Commission on Energy and Space Cooperation, the U.S.-South Africa Bi-national Commission, the U.S.-Egyptian Partnership for Economic Growth and Development, the U.S.-Kazakhstan Joint Commission, and the U.S.-Ukraine Bilateral Commission. Vice President Gore works with his counterpart in each of these countries to coordinate joint activities in the areas of economic development, education, energy, the environment, business, and science and technology, among others.

To help create a federal government that works better and costs less, Vice President Gore heads the National Partnership for Reinventing Government. He also is President Clinton's advisor on regulatory review.

He is the author of *Earth in the Balance: Ecology and the Human Spirit*, and he leads the administration's initiatives to develop a new generation of vehicles, stabilize climate change, increase sustainable development, and promote environmental technologies.

Vice President Gore received a degree in government with honors from Harvard University in 1969. After graduation, he volunteered for enlistment in the U.S. Army and served in Vietnam. Returning to civilian life, Vice President Gore became an investigative reporter with *The Tennessean* in Nashville. He attended Vanderbilt University Divinity School and Vanderbilt Law School.

Vice President Gore began his career in public service in 1976 when he was elected to represent Tennessee in the U.S. House of Representatives (1977-1985). He was elected to the U.S. Senate in 1984 and was re-elected in 1990 (1985-1993).

strengthening that connection. Initiatives we started nearly three years ago are designed to allow anyone who wants to do business with the government electronically to do so. Evolving forms of information technology will be crucial in changing Americans' experience with their government. They will be able to access information to solve problems themselves through the Internet, over the telephone, or with neighborhood kiosks.

On a broader, more philosophical level, I hope the relationship between the people and government will be more seamless in terms of day-to-day living. I alluded to this earlier, but I think every American should have the expectation of being treated by a government agency the same way they would be treated by a private business. They pay for such service through their tax dollars just like they pay for groceries at the local supermarket. I think as that link becomes more explicit and the connection becomes stronger, citizens' interactions with government will only continue to improve.

Although it helps our discussion here, I sometimes find it strange to talk about citizens "interacting" with government as if they were distinct and alien entities. The government is the people and vice versa — in a great democracy there is no difference between the people and the government. Our government is our people. We are a self-government.

So reinvention must be based on this guiding principle — that we can achieve our highest democratic ideals only by using practical approaches to unleash the energy of ordinary citizens so they can use information and work with government to solve their own problems. For that to happen, we can't think of there being a firewall between citizens and government. Most of what we should be doing is creating the conditions and giving people the tools to make their lives as dynamic as the nation and world we live in.

How do you envision the relationship between the private sector and the public sector in the next century?

I believe that the more government starts to operate like a business, the better the relationship will be between the private and public sectors. That relationship in far too many cases is still too adversarial and we want to keep working hard to change that. We shouldn't be living in a country where private enterprise views the government as its enemy.

At the same time, we know that not everybody is going to necessarily play by the rules. But our experience shows that most businesses will. Agencies are proving the point by working with new partners, agreeing on goals, providing room for innovation, and giving all the help they can to those who want to comply. Our philosophy is that regulatory time

shouldn't be wasted on the good guys, but instead focused on the cheaters.

To many people, the federal government is not the President or the Vice President or Congress. It's the person who shows up on the doorstep to check out the bank records, or safety in the factory, or the integrity of the workplace, or how the nursing home is being run. But we can protect the public without placing burdensome regulations on businesses. We've already done a lot to make the regulatory system more cost-effective and fair.

Take OSHA, for example, the Occupational Safety and Health Administration. What we've found there is that a balanced approach — a mix of enforcement, partnership, rulemaking, and outreach — protects the safety and health of America's workers. And job-related injury, illness, and fatality rates are all down significantly.

At every stage in the history of this country, our government has always had to change to meet the needs of changing times. Often this change was precipitated by a foreign or domestic crisis that demanded action. These last years of the millennium — a time of peace and prosperity for our country — are no less a time of great change. Information and other technology, scientific advances, the global marketplace, and the 24-hour news cycle mean that we have to adapt. We have to be a government that is smaller and more entrepreneurial, one that provides a whole lot less hassle and that realizes that most people out there in the private sector want to do the right thing — and we need to help them do it. ■

A Conversation with Morley Winograd

Senior Policy Advisor to Vice President Al Gore and Director of the National Partnership for Reinventing Government

What has been the impact of the National Performance Review and its successor, the National Partnership for Reinventing Government?

NPR has had a major impact on the way government does business. It has released energy into the federal government workforce. It has challenged federal government employees to look at new ways of solving problems. It has also streamlined the ways that government does business. NPR has also worked to focus the government workforce on improved customer service.

In the long run, the biggest impact of NPR has been the change in culture that it has created within the government. This culture change will probably be NPR's lasting legacy. It will be more important than the many processes of government which NPR also changed.

The culture change shifted the way people think about their jobs. Employees started to think more about accomplishing the mission of their agencies. They started focusing on the strategic goals of their organization. The culture change was also reflected in the way they did their jobs. They started to involve customers more and focused on improving the delivery of services.

What are the linkages between culture change and improved performance?

The theory behind reinvention is that you must change the way people do their job in order to change the culture. At the same time, you must continually think about how this will be accomplished, while at the same time serving your customers. A good example of an organization that faced this type of challenge is the Internal Revenue Service (IRS). As a result of

reinvention, the IRS underwent an organizational transformation. They reorganized into customer groups that put the customer first. Their new mission statement was aimed at involving employees and customers. Each group within IRS now has a clear set of performance goals and objectives, as well as plans for how they are going to serve their customers. They also made improvements in their information technology. The IRS organizational transformation is a good example of doing it all. Their cultural change has changed their processes.

CULTURE CHANGE MUST HAPPEN IN ORDER FOR THE PROCESSES OF GOVERNMENT TO CHANGE IN A SIGNIFICANT WAY. YOU CANNOT SUSTAIN A PROCESS CHANGE UNLESS THE CULTURE HAS ALSO CHANGED.

Another example is the Department of Education's Office of Student Financial Aid. They are working toward an organizational transformation using the IRS model. Their goal is to become a performance-based organization that will improve customer satisfaction, while at the same time reducing the overall cost of delivering student aid.

Still another example is the Federal Energy Regulatory Commission. In this age of deregulation, FERC started to rethink everything that they did. They also re-examined their use of information technology.

One more example is the Food and Consumer Service at the Department of Agriculture. They became very clear about their goals and emphasized empowering their employees. They gave their employees license to improve.

Culture change must happen in order for the processes of government to change in a significant way. You cannot sustain a process change unless the culture has also changed.

What is NPR aiming to accomplish within the remaining 15 months of this administration? What remains to be done?

NPR is currently working on five strategies of change that will keep us busy over the next year.

- **Performance Measures.** We believe that performance measures can be used as a means of communicating management expectations. We will be working on the continued implementation of the Government Results and Performance Act and our government-wide employee surveys. We will also be working on the balanced score-
- **Expansion of Electronic-Government.** This will involve the creation of virtual government agencies, and pushing the high-impact agencies to get more involved in e-government. There is still much to be done in this area, and NPR is continuing to promote electronic procurement and access to information using electronic means. We have made an excellent start with Access America, which we hope will continue to expand to reach more and more groups of citizens.
- **Connecting American Citizens with Government.** One of NPR's goals is to improve communication between government employees and their customers — the American people. We would like to continue working toward improving the level of trust that American citizens have in their government.

[NPR] HAS RELEASED ENERGY INTO THE FEDERAL GOVERNMENT WORKFORCE.... IT HAS STREAMLINED THE WAYS THAT GOVERNMENT DOES BUSINESS.

NPR has made much progress in terms of these strategies, but there is still much to be done. We are also continuing to work with Congress to pass legislation that can assist us in continued reinvention.

card concept that uses performance measures to assess customer satisfaction, employee satisfaction, and business results. We will be working closely with agencies that are implementing balanced scorecards.

- **Partnering for Outcomes.** This requires challenging agencies to focus on outcomes that they cannot accomplish alone. We are aiming to continue to promote partnerships and cooperative working relations between both government agencies themselves, as well as state and local governments and private organizations. One example is food safety, which involves several federal agencies. We want to continue working toward creating a "hassle-free" government which will include more "one-stop centers." Another example is the Environmental Protection Agency, which is working to create partnerships to provide incentives to reduce pollution with their Project Excellence.
- **Working with High-Impact Agencies.** NPR continues to work in partnership with the 32 high-impact agencies to assist in areas such as transforming them into customer-focused agencies, using a balanced scorecard approach, and expanding their e-government capabilities. The 32 agencies were selected because of their direct impact on citizens.

What do you think government will look like in 2004?

The Internet will have the single biggest impact on the way government operates and delivers services. By 2004, most government purchasing will be done online. Services to individuals, such as Social Security, will be delivered through the Internet. Routine interactions with the government will be electronic, and as a result, I think that people will feel much more connected with services being delivered over the Internet. The electronic delivery of services will also allow the government to do more with less, making for a smaller, leaner government.

By 2004, government salary structures will be performance based, rather than merit based. I also envision virtual communities that will be built around communities of interest. These communities will be places where people can come together to interact with government based on common interests and goals, similar to what we are now seeing with Access America for Seniors and Access America for Students.

What will it take for this to happen?

In order for these types of transformations to happen, there must be both personal and executive leadership. The Vice President has done an excellent job of taking on the executive

leadership role necessary for these kinds of goals to be realized. He has created and shaped the reinvention movement. Congress has helped by passing the Government Performance and Results Act, yet they still take a micro-management approach on the day-to-day workings of government, which is not consistent with reinvention. We must continue institutional support of NPR, while working with Congress to promote legislation that will fulfill NPR's reinvention goals and strategies.

What are some "lessons learned" about large-scale change from NPR's six years of experience with this type of change?

We have learned that the federal government workforce is very interested in reinvention and in improving their delivery of services to customers.

Reinvention is about releasing energy into the federal government workforce. In order to do this, you must use both large- and small-scale tactics. By large scale, I mean legislation and executive orders. Executive orders are necessary, but they cannot be the only thing. Small-scale tactics such as reinvention labs and awards programs are also necessary and important.

There are always individual initiatives that have less impact than you had hoped, but overall I am pleased with our initiatives. Another disappointment is that we have not worked better with the Congress in passing legislation that would have promoted NPR initiatives and strategies. We need to continue to work with Congress.

NPR is proud of the labor management partnerships that were created by NPR in an effort to release the energy of federal employees. I don't think we have yet seen the full potential of that partnership. ■



About Morley Winograd

Morley Winograd was appointed a Senior Policy Advisor and Director of the National Partnership for Reinventing Government (NPR) by Vice President Al Gore in December 1997. As head of NPR, Mr. Winograd spearheads Vice President Gore's efforts to "reinvent government," a process that has been in motion since NPR's inception in 1993.

Mr. Winograd has been involved in Democratic politics for more than 25 years. He served as Chairman of the Michigan Democratic Party from 1973 to 1980, and worked with the Association of State Democratic Chairs from 1979 to 1980. In 1988, he began working with leaders of the Democratic Leadership Council on the development of the first Information Age political agenda. That year, Mr. Winograd chaired Al Gore's presidential primary campaign in Michigan. As a member of the Democratic Leadership Council in 1991, Mr. Winograd served as parliamentarian at the National Convention in Cleveland. In 1996, he helped found the Institute for the New California, a think tank devoted to aligning the state's governing system with requirements for the Information Age.

Mr. Winograd began his career in the communications industry in 1979 with Michigan Bell and rose up through the ranks to become sales vice president for AT&T's Western Region Commercial Markets. Nationally recognized for his innovative approach to sales, he created the AT&T University of Sales Excellence Program.

Throughout his career, Mr. Winograd has worked to apply business principles to government problems, combining a theoretical approach with practical know-how. He is co-author with Dudley Buffa of *Taking Control: Politics in the Information Age*.

Mr. Winograd holds a bachelor's degree in business administration from the University of Michigan.

An Agenda for Reforming Federal Management in the 21st Century

By James D. Carroll

The National Performance Review (NPR) produced many significant improvements in federal management, but left much to be done by the next administration. Although cast in sweeping rhetoric, the NPR was — in essence — focused primarily on redirecting management practices in the executive branch.

The next administration faces a highly complex task if it wishes to develop a comprehensive federal management reform agenda for the 21st century. The next agenda:

- will involve structural questions affecting the federal government as a whole and will not be limited to the question of executive branch operations,
- must focus on the interactions and relationships among the branches of government and other key actors in our political system,
- will require the cooperation of all three branches of government, as well as intergovernmental, intersectoral, and international cooperation.

The new realities of the 21st century government will shape the next agenda. The accompanying box summarizes these new realities and the corresponding management agenda for the 21st century.

The Rise of the Entitlement State

The first new reality is the decline of the traditional administrative state and the rise of the entitlement state. The core of this development is the decline of discretionary policy and program structures and processes, and the rise of mandatory policy structures that resemble algorithms in their form and operation. These mandatory policy and program structures de-emphasize managerial discretion in program policy and administration.

Changes in the form of federal spending over 40 years indicate the shift from the traditional historical administrative state to the mandatory entitlement state. The data on direct

New Realities and the Next Management Agenda

Reality

The rise of the entitlement state

Congress as co-manager of the administrative branch

The evolving Constitution: constitutional federalism

Agenda

Revitalize management capacity and professional/technical judgment in budgeting, planning, and program operations in mandatory programs.

Sort out congressional and executive roles through a collaborative/cooperative process.

Sort out the roles and responsibilities of levels and types of government and non-government entities and establish a framework for a new public management and new methods of constitutional management.

spending understate the extent of the transformation, because several other forms of mandatory “spending” such as tax expenditures and insurance and loan guarantees often are omitted. In fiscal year 1962, 63 percent of federal spending was discretionary in that it was appropriated on an annual basis in response to the President’s budget proposal. In fiscal year 2000, only 33 percent of spending is discretionary. The remainder is legally committed under entitlement, debt instrument, and other devices.

The administrative state of the 1930s and thereafter was based on a problem-solving model of public management. In this model, in response to constituent and interest group pressures, politicians defined problems in legislative form. They then assigned the problems to agencies. The agencies’ managers and technicians then exercised their skill, judgment, professionalism, and discretion in planning, budgeting, and otherwise defining and acting upon a problem. In the entitlement state, the President and Congress establish program structures that constrain managerial discretion as well as future legislative discretion. Budgeting rules, particularly the Budget Enforcement Acts, have reinforced the emergence of

these algorithmic structures and processes. The challenge for the next agenda for public management is to determine how the entitlement state can be configured to allow the exercise of managerial judgment and skill.

Congress as Co-manager

The second new — and in some respects old — reality is the emergence of Congress as a co-manager of the administrative branch. The phrase “administrative branch” includes many organizations and entities that technically may not be part of the executive branch, such as government corporations and regulatory commissions.

While the story of congressional involvement with administration begins with the Constitution itself, three factors are strengthening Congress's influence over administration. The first is the increase of entitlement, tax expenditure, insurance and loan, and other “automatic” programs mentioned earlier. Few if any analysts have acknowledged or examined the massive intrusion into management effected by Congress by the program structures and other provisions of the entitlement state.

The second factor is Congress's role in the budget process. Since adoption of the Budget and Impoundment Control Act of 1974 and establishment of the Congressional Budget Office, Congress has often been a strong if not predominate partner. The Budget Enforcement Acts have also been a factor.

The third factor is the aggressiveness of Congress in establishing a new, although somewhat fragmented, framework for federal management in the 1990s. While Presidents have been active in the debate, the administrative framework set forth by Congress includes the following pieces of legislation: the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, the Government Management Reform Act of 1994, the Paperwork Reduction Act of 1995, the Clinger-Cohen Act of 1996, the Debt Collection Improvement Act of 1996, the Federal Financial Management Improvement Act of 1996, and a host of other legislation establishing inspectors general, processes of credit reform, and other management processes and requirements.

The management reform agenda for the next administration is for the executive and Congress to sort out who is responsible for what in agency and program management.

The Evolving Constitution

Contemporary changes in constitutional law are imposing another new reality upon federal management. Federal managers increasingly must understand the Supreme Court's actions in order to act effectively and legally. In the 1990s, the Supreme Court has taken three actions that significantly affect federal management and require careful assessment of the legal implications of a projected course of action. Con-

cern for program “results” under the Government Performance and Results Act must be complemented by concern for the constitutional/legal results of an activity.

First, the Court has held that privatization and related forms of the new public management are subject to constitutional scrutiny. Neither the federal government nor state and local governments can avoid the requirements of due process of law, equal protection of the law, and other basic constitutional provisions and legal constraints by resorting to privatized, new public management arrangements.

Second, the Court has launched a fundamental re-examination of the distribution of powers in the federal system, focused on questions of the limitations of the federal government's powers. Recent decisions pose profound questions of the responsibilities and powers of federal officials. To their dismay, more managers than ever who want certain policies and requirements enforced may discover that managing means litigating.

Finally, the Court has continued to hold individual public administrators liable in money damages for their failure to consider the constitutional implications of their actions under federal civil rights legislation and other provisions of law. In doing so, the Court has built on over two decades of earlier work.

The management reform agenda is to develop new public management frameworks that enable public managers to function effectively in this new constitutional framework.

The Future

The National Performance Review was an ambitious attempt to redirect federal management. While it accomplished much, it postponed the examination of some fundamental realities that future efforts to improve federal management will have to address. Perhaps most important, the next management reform agenda must involve all three branches in the attempt to improve federal management. Federal management is no longer limited to just the executive branch of government. The next management reform agenda must actively include all three branches of government, as well as a host of other actors in the political system who have a legitimate interest in the management of government. A large task indeed. The National Performance Review got us started on management reform. The next administration must continue and expand NPR's management reform agenda. ■

James D. Carroll is professor, College of Urban and Public Affairs, Florida International University.

The Impact of Reinventing Government

By Elaine Ciulla Kamarck

From the very beginning, the Clinton/Gore administration's effort to reinvent government faced the following dilemma. The civil servants drafted to staff the new initiative were interested in making the government work better. The political appointees in charge of the effort (me) wanted the government to cost less. The debate between "works better" and "cost less" went on for some months. Finally, Vice President Al Gore resolved the debate. The title of the first report of the National Performance Review (NPR) was *From Red Tape to Results: Creating a Government that Works Better and Costs Less*.

MOST FEDERAL EMPLOYEES NOW UNDERSTAND THAT WHILE THE PUBLIC ISN'T TECHNICALLY THEIR "CUSTOMER," THEY ARE SUPPOSED TO TREAT MEMBERS OF THE PUBLIC AS IF THEY WERE.

In the years since those intense debates leading up to the first report, the wisdom of that decision has proven itself time and time again. No serious governmental reform effort can ignore performance and no serious governmental reform effort can ignore cost. And no matter what else people say about it, the Clinton/Gore administration's effort to reinvent government is serious. Even the General Accounting Office, in a report that was not overwhelmingly positive, said, "The bottom line is NPR is a serious and sustained management and improvement initiative."

With that simple sentence the NPR has already exceeded the expectations of most historians who, familiar with the predecessors of NPR, expected a large report, a fair amount of hoopla, and then radio silence. This had been the fate of prior management reviews in prior administrations. The fact that a young, ambitious, activist President had made this

effort one of the central tenets of his New Democrat message and had handed it over to his even younger and equally ambitious Vice President did not persuade anyone that the issue itself was a loser.

And yet the Vice President, to the surprise of many, stuck with it. He could have published the report, taken his bows, and moved on. Some urged him to do just that. He didn't. He visited agencies, ran Cabinet meetings, called Senators and Congressmen when key pieces of legislation were on the floor and fought internal battles. And after a while the accomplishments began to add up.

The first "buy-out" bill, passed in 1994, helped the non-defense agencies begin their own downsizing by giving those agencies the same legal authority as the defense and intelligence agencies. By the end of 1998, the federal civilian workforce was

365,000 positions smaller than it had been at the beginning of the Clinton administration and the cuts were not just in the defense establishment but in every other part of the government as well. Two major procurement bills passed with the aid of some forward-looking Republicans who understood that the military was being strangled by the cumulative weight of procurement rules and regulations.

In 1995, many federal regulatory agencies began a profound change in their thinking — working with the business community to try and meet (and sometimes exceed) the public goals in the laws they enforced, and in the meantime getting rid of useless, redundant, and archaic rules and regulations. Changes in Medicare fraud and abuse enforcement, recommended by the NPR, resulted in very large savings. Most of the agencies that deal with the public adopted customer service standards, and most federal employees now understand

continued on page 20

Reinventing REGO

By Donald F. Kettl

House Government Reform Committee Chairman Dan Burton (R-IN) used the recent release of a General Accounting Office report to savage Vice President Al Gore's "reinventing government" (REGO) campaign. Gore, he said, had exaggerated the success of his effort. "Instead of reinventing government," he charged, "it looks like they were reinventing accounting rules."

Burton's charges were nothing new. The Republicans have constantly attacked Gore's claims of budget savings in the six-year REGO effort. With the presidential election campaign speedballing ahead, those charges will surely accelerate. Gore has become so closely identified with REGO — he regularly jokes that REGO is "Gore spelled sideways" — that it provides an acid test of the candidate-as-manager.

Gore proudly points to the fruits of his efforts: \$137 billion in budget savings, 350,000 fewer federal employees, and 16,000 pages of red tape eliminated. The Republicans have claimed, with support from the GAO, that some claims are unsubstantiated, double-counted, or exaggerated because the savings would have occurred anyway because of the end of the Cold War.

The administration undoubtedly made some accounting mistakes in totaling REGO's cost savings. It's a fair debate about how much credit Clinton and Gore deserve for reducing the Departments of Defense and Energy, where post Cold War changes have radically transformed their operations. But the battle cuts more deeply, to the heart of REGO's political paradox: What attracts the most political heat — especially the cost savings — is hardest to measure. On the other hand, more subtle process improvements, especially REGO's impressive procurement reforms, are easier to document but have little political juice. In fact, a careful look at REGO leads to three conclusions.

First, REGO is real — if uneven. Even a casual look at the dramatic transformation of the Federal Emergency Management Agency's disaster response, the Social Security Administration's customer service program, and the General Service Administration's transformed role as the federal government's landlord provides clear proof that REGO has dramatically changed some federal programs and agencies.

REGO, however, has not penetrated all parts of the federal government. Agencies that invested relatively little in reinventing government often reaped big problems for which reinventing processes turned out to be the answer. Indeed,

WE CANNOT SUBSTANTIALLY REDUCE THE COST
OF GOVERNMENT UNTIL WE DECIDE TO HAVE LESS
GOVERNMENT, AND REGO CANNOT DO THAT.

one of REGO's biggest failures was the administration's inability to get more of its own political appointees to buy into the effort — until political disaster struck. That, in fact, is the story of Internal Revenue Service Commissioner Charles Rossotti's aggressive effort to reinvent the agency after fierce congressional attacks in 1997.

Second, although proponents and critics of REGO alike have battled over its cost savings, the only real way to cut government substantially is to cut government programs. REGO has unquestionably saved substantial — if disputed — amounts of money. But the federal workforce has been cut by more than 12 percent and that feat cannot be repeated. Easy process improvements have been made, and the job only gets harder from here.

Big reductions in the cost of government come from deciding to have less government, as other governments around the world have found as well. In the United States, though, we spent the 1990s debating the size of government and ended up concluding that voters pretty much like the government they have — they just don't want to pay for it. We cannot substantially reduce the cost of government until we decide to have less government, and REGO cannot do that.

Third, even though REGO has produced relatively modest cost savings, whoever is elected president in 2000 will have little choice but to continue it. The federal government needs to work hard to improve the way citizens connect with government and the way programs perform.

That, in turn, sharpens the political paradox of REGO. As cost savings become harder to produce, the political will to invest in the effort could wane. But without ongoing efforts to improve government's basic processes, more IRS-style disasters will surely develop. The next president squarely will face the inescapable task of reinventing REGO.

One major impetus for continuing emphasis on management and reinvention will be the Government Performance and Results Act, an ambitious law that requires all federal agencies, starting in 2000, to produce annual performance plans, along with outcome measures on how well the plans are met. While GPRA has attracted relatively little attention outside the beltway, it has the potential for improving the way everyone — elected officials, government managers, the media, and citizens — talks about what government does and how well it does it.

Ongoing budget pressures coupled with citizens' lack of trust in government give us little choice but to attack the political paradox. The next president won't have much money to spend on new programs, but he (or she) will face the unavoidable task of making government work better and working to restore public trust in democratic institutions. Reinventing REGO is one key to that door. ■

Donald F. Kettl is professor of public affairs and political science at the University of Wisconsin-Madison and a non-resident senior fellow at the Brookings Institution.

The Impact of Reinventing Government

continued from page 18

that while the public isn't technically their "customer," they are supposed to treat members of the public as if they were. But as we were fond of reminding people during the first term of the Clinton administration — the federal workforce was practically the size of the entire state of Arkansas. It is, therefore, not surprising that, six years into the effort, large areas of the federal government remain decidedly unreinvented.

Indeed, serious reinvention efforts at one of the government's largest agencies — the Internal Revenue Service — began only recently. And, given the complexity of governmental change in a federal system, it is not surprising that more than one branch of government is necessary for change to occur. The NPR never asserted otherwise.

Finally, there is no doubt that the NPR has saved money. As we move into an election year, Republicans will try to throw a fog of confusion around the actual savings numbers. But even they can't ignore the fact that in the past six years the federal government has balanced the budget and created a surplus without withdrawing from significant portions of governmental activity. This fact alone is testament to a new attitude in the bureaucracy, a recognition of the fact that they, like their counterparts in the private sector, will be for the foreseeable future under constant pressure to do more with less. The themes of the reinventing government effort — a collection of management techniques, information technology adaptations, and other new ways of thinking drawn from the private sector and adapted to the public sector — will make continued productivity increases in the government possible.

The real measure of the reinventing government effort will not be, however, in money saved or in performance enhanced. As Vice President Gore reminded us constantly, the real measure of our success will be "to restore America's faith in self-government." Reinventing government was not and is not an easy initiative to explain to the public. It will never yield itself to a campaign bumper sticker or a television commercial's tag line. But it is the essence of good government. From time to time we would try to explain this effort to a skeptical public. The official language of Washington, D. C., didn't exactly cut it: FTEs cut, bills passed, regulations obliterated. But closing agricultural field offices in the suburbs, getting rid of the official tea taster, and killing off the Naval Academy's dairy farm drew enthusiastic nods of approval. Maybe that's why, slowly but surely, after a 30-year decline, trust in the federal government is increasing again. And for those of us who care about American democracy, that is the most important outcome we could have. ■

Elaine Ciulla Kamarck is director, Visions of Governance for the Twenty-First Century, John F. Kennedy School of Government, Harvard University.

Grasping the Elephant — NPR from a Middle Management Perspective

By James R. Thompson

Don Kettl once compared the process of assessing the National Performance Review (NPR) to the three blind men, each grasping a different part of an elephant, attempting to ascertain the whole. Certainly this metaphor captures a fundamental truth about NPR, which is that how it looks depends upon which piece of it you have a hold of. My own investigation into NPR has been predominantly from the perspective of federal managers in the middle and lower reaches of the bureaucracy. According to the initial NPR report, this group was to be a primary beneficiary of reinvention: They were to gain flexibility in personnel, procurement, and budgetary matters. They were to be freed from many internal rules and regulations. There were to be fewer high-level staff to interfere in their operations.

Recently, I spent time talking with officials in the Social Security Administration (SSA) to assess the extent to which these objectives have been achieved. SSA has often been touted by NPR as an exemplar of reinvention, perhaps most notably with regard to the service provided on its 800 number, rated by one group as the best 800-number customer service of any private or public organization surveyed. SSA further qualifies as one of NPR's "high-impact" agencies because of the extensive contact with the public. It is characterized by a mass-production technology that appears well suited to reinvention nostrums. Many of the SSA district office and payment center managers with whom I spoke, however, commend reinvention as a concept but bemoan some of the outcomes of NPR.

These middle management officials perceive few gains in authority with regard to the resources they manage. Due in part to NPR's own downsizing initiative, the hiring of new personnel has been severely constrained. When vacancies

occur, there is an elaborate, centrally controlled process by which it is determined where the position will be allocated. To receive overtime allocations, managers have to specify the workload to be completed and workers have to "stroke tally" every work item processed. Managers have gained some ability to move budgetary funds between accounts with the important exception of the funds allocated for personnel purposes, which in most offices constitute about 90 percent of the total. Simplified procurement procedures, while helpful, represent a relatively minor factor in a manager's work life. Many of these managers are embittered by the loss of supervi-

ONE APPARENT TACTICAL ERROR — WHICH FUTURE REFORMERS MAY WANT TO CONSIDER — WAS THE FAILURE TO MOBILIZE MIDDLE MANAGERS AND ENLIST THEIR SUPPORT AND ASSISTANCE IN IMPLEMENTING THOSE CHANGES OF WHICH THEY WERE TO BE THE PRIMARY BENEFICIARIES.

sory positions pursuant to the NPR directive that the supervisor-employee ratio be halved from 1:7 to 1:15. Managers contend that it is the supervisors who help guarantee the quality of the work being done, provide the "slack" that allows extra assistance to be provided poorly performing employees, and permit public outreach activities. They bemoan the "one size fits all" mentality that lay behind the 1:15 directive, arguing that the peculiarities of each agency's mission and work technology should have been considered. The directive was premised in part on the organization of employees into self-directed teams, but at SSA, the union representing field office personnel has resisted the teaming concept. The result is that management is stretched extremely thin and morale is low.

continued on page 45

[CASE STUDIES]

Department of Defense: Reforming Acquisition

By Anne Forster

In the opinion of Stan Soloway — director of the Department of Defense Reform Office (DRO) and deputy under secretary of Defense (Acquisition Reform) — the National Performance Review (NPR) provided the basis for an “intellectual coming together of the minds” with regard to Defense acquisition reform. “Had it not been for the National Performance Review, I don’t think that the partnership between the leadership of the White House, the Congress, and the Department of Defense that we are now seeing would have occurred.”

A major emphasis of the Department of Defense (DoD) over the past six years has been centered on streamlining the acquisition process either through reform legislation or policy change aimed at compressing cycle times, reducing program costs, and more effectively leveraging commercially available technologies and practices. All are meant to change fundamentally how Defense conducts its business, with major elements of the plan in line with government acquisition reform efforts to streamline, simplify, and focus on results. The first installment of federal acquisition reform was the 1994 Federal Acquisition Streamlining Act (FASTA), followed by the Federal Acquisition Reform Act (FAR) and the Information Technology Management Reform Act (known as the Clinger-Cohen Act) in 1996.

Soloway indicates that senior leadership in the current administration, spearheaded by the efforts of Vice President Gore and the National Performance Review, with the support of Congress, put acquisition reform on the front burner. This focus led directly to the creation of the Defense Acquisition Reform Office. Soloway notes that efforts in acquisition reform have resulted in a realignment of the defense acquisition workforce and defense suppliers toward increased customer focus and communications with soldiers, sailors, and airmen.

The Clinger-Cohen Act, for example, led the department to focus on defining customer needs and to limiting the volume and detail pertaining to the development of contract specifications. Specifications are now tailored to meeting

REINVENTION ACCOMPLISHMENTS Department of Defense

Streamlined Internal Operations

- Office of the Secretary of Defense’s staff has been reduced by 33 percent
- Headquarters staff in the services and defense agencies has been reduced by 30 to 40 percent
- Defense acquisition workforce has been reduced by 50 percent

Acquisition

- DoD initiated the use of Government Purchase Cards to simplify purchasing and payment, provide better services, and decrease costs. In 1998, 90 percent of all supplies or services were procured with a Government Purchase Card, up from 50 percent in 1996.
- Acquisition reform and best value contracting were used to deliver a high-quality survival radio tool at a lower cost and in less time, while meeting all user requirements.
- Working in cooperation with contractors, DoD implemented an improved contract management system. The result was lower internal costs for both DoD and contractors, as well as improved DoD oversight.

customer needs and allowing for more flexibility in how the private sector might meet those needs. In addition, the department creates and distributes draft requests for proposal (RFPs), encourages more open communication of their needs, and has emphasized the development of performance-based requirements in contracting. The FAR legislation allowed for improved debriefings to defense suppliers with regard to the award of procurement contracts. These improvements in discovery have resulted in fewer protests, more substantive proposal efforts, and quicker start dates once a contract has been awarded.

One continuing concern expressed by industry, according to

Soloway, has been the Department's continued misinterpretation of the concept of data sharing. The private sector feels that government withholds data while expecting maximum data sharing from them. Historically, DoD has funded research and has been legally entitled to proprietary ownership of all contract data and information. These days, however, because the department seeks to use commercial off-the-shelf products as appropriate, they are not necessarily entitled to such proprietary privileges. DoD is seeking to create more long-term alliances with suppliers in order to transition through such issues to the satisfaction of both parties.

As a result of NPR and the Defense Reform Initiative, the department has reduced the size of the Office of the Secretary of Defense's staff by one-third, has reduced headquarters staffs in the services and defense agencies by 30-40 percent, and has reduced the size of the defense acquisition workforce by 50 percent over the last 10 years. "It's not just the numbers, it's the kind," says Soloway, referring to the mix of personnel that has been revamped as a result of defense reforms. "We have redefined the membership of the acquisition workforce."

Soloway also offers "clearly documentable results," such as a decrease in the cost growth of major programs, a reduction in cycle times, and the institution of customer-friendly programs such as the purchase card.

In hindsight, Soloway offers the following insights on the implementation of initiatives over the past five or six years. "Change of this magnitude has to be enterprise-wide and must be institutionalized with a focus on process. As we created change and pushed it forward, perhaps we did not give enough attention to the tools available through change management." Consequently, Soloway and the Defense Reform Office are considering creating a change management center that would provide professional expertise to organizations within the department that wish to innovate, but that need tools to help them overcome cultural and institutional barriers to change. Soloway emphasizes that through this revolution in business affairs, the department would continue to address remaining barriers and concerns that may inhibit the Reform Initiatives' progress in ways that would foster a spirit of cooperation between DoD and its private sector partners. ■

Anne Forster is a principal consultant at PricewaterhouseCoopers. Her e-mail: anne.e.forster@us.pwcglobal.com.

Stan Soloway on Reinvention at DoD *Deputy Under Secretary of Defense (Acquisition Reform), and Director, Defense Reform, Department of Defense*



The Defense Reform Initiative is DoD's unprecedented and sweeping effort to re-engineer DoD's business operations and support activities to better serve the warfighter. While Acquisition Reform is its most well-established segment, Defense Reform also

includes logistics transformation, financial management reform, enhanced use of and access to information technology, the quality of life for America's military personnel, and much more. Perhaps most significantly, the reform movement at DoD is focused on adopting best business practices in all of DoD's operations and enabling access to the widest possible array of new technologies, much of which today are being developed in the commercial world.

Although there is much more to do, Defense Reform has had a major impact on the department, including: military specification reform; statutory and policy changes enabling greater access to commercial products and more open communications between DoD and its suppliers; electronic commerce; the past performance initiative; use of the purchase card for over 98 percent of purchases under \$2,500; and the advent and use of integrated product teams to develop, produce, and manage weapon systems.

[CASE STUDIES]

Federal Aviation Administration: Reforming Acquisition

By *Stephenie Goddard and Michael Spiegelman*

The Federal Aviation Administration (FAA) has undergone significant changes in the last few years. Recently the FAA recognized in an awards ceremony the many reinvention teams throughout the agency who saw where change was needed and made it happen. One of those teams recognized was the team that chartered acquisition reform.

For years, executives at the FAA's Office of Research and Acquisition (ARA) had wanted to reform the way acquisition management was practiced at the FAA. At the time, the acquisition process was cumbersome and relied heavily upon the Federal Acquisition Regulations (FAR). In the fall of 1995, Congress enacted legislation to enable the agency to change its outdated acquisition management system.

The Goals

From the beginning, ARA wanted to make the procurement and acquisition process more efficient and instill a process that employed decision making based on good business sense. They established some simple but ambitious goals:

- Cut the time required to make contract awards by 50 percent; and
- Reduce the procurement lifecycle costs by 20 percent.

To achieve these goals, ARA decided to re-engineer the entire acquisition management process. At the same time, executives wanted to empower the procurement and acquisitions staff to make decisions at the individual level. They wanted "to give individuals the ability to make proper business decisions" and provide "a lot more flexibility in making those decisions," says Dennis DeGaetano, deputy associate administrator for Research and Acquisition.

Changing the Way the Agency Does Business

From the beginning, ARA "recognized the need for input from industry," since they would be customers of the new procurement process. The ARA staff talked with private sector associations to identify potential interested parties to participate in this process redesign.

REINVENTION ACCOMPLISHMENTS Federal Aviation Administration

- The development of a new Acquisition Management System has reduced the time to acquire systems and services by 50 percent and the cost by 20 percent.
- Using the Internet to announce job vacancies has reduced the time to distribute announcements from three weeks to one day.
- Managers are able to recruit people 80 times faster using a new hiring system that provides more flexibility in hiring, pay, and placement.
- Guidance for operations through the automated flight service stations was reduced from 23 directives to just one. Facility operations were streamlined and improved by reducing the role of management in daily operations and empowering front-line employees to make more operational decisions.
- FAA uses Global Positioning System (GPS) technology to achieve more efficient, reliable, and safe management of the airspace, as well as savings due to more precise routings, fuel savings, and increased airport efficiency.
- In 1995, FAA established an incentive program for aviation maintenance technicians to continue safety education, in partnership with NASCAR. The first year the program had 113 participants, and has increased to 16,000 participants in 1998, representing over a million hours of safety training.

During this re-engineering effort, ARA also wanted to make use of procurement expertise beyond what was available at the agency. So they created a blue ribbon panel of procurement experts from academia, the government, and the private

sector. "The panel provided a different perspective and new ideas," and "they challenged our way of thinking," says DeGaetano. They suggested that the agency look beyond just procurement redesign to revamping the entire acquisition life-cycle and further ensuring that FAA personnel skills would be aligned with the new system.

Reengineering the Process

To ensure that all issues were addressed by the reform, ARA leadership formed three teams, consisting of about 20 to 30 people in total, to create the new Acquisition Management System. The first team looked at the big picture: How did the FAA define needs, and how can a new system best meet those needs? The second team re-created the procurement process, utilizing the expertise of their blue ribbon panel. The third team examined existing processes to identify those that could be integrated into the new system. The three teams were cross-disciplinary, including staff with positions ranging from lawyers to engineers and representatives from other FAA lines of business apart from ARA.

The teams were expected to be leaders in the change process by sharing ideas and making decisions without waiting for senior management. ARA also created a lessons-learned database, the FAA Acquisition System Toolset (FAST), and interviewed participants in the change process to ensure that the teams learned from each other's successes and failures. This database also includes an electronic library of acquisition and procurement information and guidance.

When creating the new process, the team members periodically asked themselves, "Do the steps as spelled out in the FAR add value to the process?" notes David Langford, a team member. They found a lot of steps that just didn't make sense and eliminated them. One of the team members modeled the old FAR process and found that if every rule was followed, it would take approximately 38 years to design, develop, and field new equipment.

A Corporate Perspective

To give a framework to their new ideas, the teams took a "corporate level" look at agency needs and how funds could be used and projects prioritized to meet these needs. The procurement team "embedded a lot of flexibility" into the new process, using the private sector as a model. While they still needed to do the documentation required of a federal agency, they were able to design a more streamlined system.

The result: The new process could be described in a 150-page document, much shorter than the 8,000-page extensive Federal Acquisition Regulations. One of the biggest changes, however, went beyond process: The new Acquisition Management System empowered procurement staff to make decisions and use their own judgment.

Changing Expectations

Empowering the staff was a big change from the old way of doing business. The thought is that empowerment will encourage teamwork and lead to faster procurements. Therefore, integrated product teams (IPTs) are critical to the success of acquisition management. These IPTs are cross-functional teams with responsibility for ensuring a successful procurement. Additionally, to help the FAA take advantage of the change resulting from acquisition reform, the blue ribbon panel suggested taking a look at the skills of staff involved in acquisition management to ensure that ARA staff had the right people with the right skills to make the new system work. The result was the Intellectual Capital Investment Plan (ICIP).

As part of this program, ARA assessed its procurement workforce to identify what skills would be needed for the new process, and then studied its current workforce to see how staff skill sets matched up. Needless to say, they found a gap — many current staff were used to the old rule-bound system and didn't have the skills to take charge with the newly designed process. Through training, information sharing, and personnel reform, ARA has gradually developed its workforce to be able to take advantage of the process changes. The biggest change was that "many people became — almost overnight — innovative," says DeGaetano. Though not everyone was able to adapt, and many are still testing the waters of what they can now do, many procurement personnel were eager to use their new flexibility.

Making Waves

The results of the new system looked promising, but the FAA wanted to try to measure success. To meet the goals established in the beginning, ARA needed to prove that the time it took to contract awards would take half of what it used to, and that costs were going down by 20 percent. The first measure wasn't too difficult. Now, three years after the re-engineering, DeGaetano estimates that the average time needed to make an award has dropped from between 12 to 18 months to six to eight months.

However, the program staff has found it harder to measure cost savings. They wanted to focus on the end product: How much could they reduce the cost of actually fielding a new system? At first they tried to benchmark against the cost of old projects, but found that technology had changed so much that it was difficult to compare procurement of new systems to those procured and developed years ago. They settled on reducing the amount of "cost growth" — how much a system costs above what was agreed to or budgeted in the beginning. They theorized that if the process was finding better contractors, then they would be less likely to have cost overruns. Measured against this standard, DeGaetano found that the new process was saving the agency nearly 20 percent of what it used to spend through lower cost growth. However, this

measure still seems to be difficult to communicate and utilize going forward.

A final measure of success can be found in the feedback that ARA has received. According to DeGaetano, most contractors are more satisfied with the process, though there is sometimes less consistency because contracting officers have more independence. However, shorter award times, and more open communications from contracting staff, have saved money for contracting firms by allowing them to devote less time to the procurement process.

While the FAA has made great strides in acquisition reform, it is also important to note significant improvements in other areas. Some of these include: Free Flight Phase 1 (FFP1), regulation and certification reform, and personnel reform. The Free Flight program has used collaborative teams and partnerships to devise innovative solutions to a complex air-traffic situation. Regulation and certification reform has implemented innovative approaches to the FAA's core mission of aviation safety by increasing training, enhancing procedures, and improving the design and manufacturing of approvals. Lastly, personnel reform has changed the way that staff are recruited and rewarded, streamlining the hiring process and piloting a plan to enable divisions within FAA to create more flexible pay systems that are competitive with the private sector. "We are moving to a system that is results-focused and market-based," notes Glenda Tate, FAA's assistant administrator for Human Resources.

As stated by Jane F. Garvey, administrator of the FAA at the Reinvention Awards Ceremony: "Reinvention is a big idea. We must revitalize public service, regain the initiative, and restore confidence of the American people. Big ideas require large efforts to realize their potential." The FAA truly has a lot to show for their efforts, resulting in great improvements and change in the way they do business. ■

Stephenie Goddard is a principal consultant at PricewaterhouseCoopers. Her e-mail: stephanie.a.goddard@us.pwcglobal.com.

Michael Spiegelman is a principal consultant at PricewaterhouseCoopers. His e-mail: michael.spiegelman@us.pwcglobal.com.

Jane Garvey on Reinvention at FAA *Administrator, Federal Aviation Administration*



I'm very pleased about the success of the National Partnership for Reinventing Government (NPR) and proud of FAA's reinvention activities in this endeavor. This effort is helping make the FAA work better, cost less, and get results that Americans care about, which is the whole idea behind Vice President

Gore's reinvention initiative. What NPR is doing is asking ordinary people to produce extraordinary results, and those at FAA have done just that. As a result, they have had a significant impact on our primary mission – the safety, security, and efficiency of the nation's aviation system. The changes they have wrought have meant saving millions in taxpayer dollars.

NPR has been a catalyst for better management and technical innovation, and a driver for greater focus on customer service. It has helped us take customer service and innovation to new levels. We've focused on listening to our customers and aligning our goals with their expectations, so we get the results the customers need. It has enabled us to seize opportunities to manage better and do more with less by implementing the best practices in the private and public sectors. Concrete results include halving the time to let contracts. It has meant FAA has become competitive with private industry in its personnel recruitment, retention, and compensation. It has allowed us to think outside the box for significant gains in aviation safety. Reinvention is a banner reminding us at every level of government to encourage, expect, and support radical, fundamental improvements in the way we do business.

[CASE STUDIES]

Federal Emergency Management Agency: Customers, Partnerships, and Technology

By Steve Hagerty and George Gorski

August 24, 1993: Hurricane Andrew strikes Florida. There are widespread newspaper accounts about the failure of the federal government to respond quickly to the needs of Florida residents. Three hundred thousand people are displaced from their homes, 250,000 people evacuated, and total estimated damages reached over \$30 billion. The assessment, according to major newspapers across the nation: *Where's FEMA? Who's in charge? Where's the government when you need it?*

Fast Forward... September 1999: Hurricane Floyd is detected off the coast of Africa. It is monitored closely by the National Oceanic and Atmospheric Administration, FEMA, and the states. One week prior to landfall, FEMA activates its Red Team, a special unit prepared to respond immediately to disasters. The state and local offices of emergency services attempt to mitigate potential loss to life and property by communicating daily with the media and the public. Two days prior to landfall, over 2 million people are told to evacuate. A day before landfall the governors of the soon-to-be-impacted states request emergency disaster declarations. The president of the United States approves the declaration before landfall, ensuring immediate help to the victims, including individuals, businesses, and governments. The assessment, according to major newspapers: *Three Cheers for FEMA. Public Interest, Public Good. A True Turnaround.*

The contrast between 1993 and 1999 can be described as stunning. An agency that was once described as useless, slow, and unresponsive is now described as innovative, collaborative, and a model of good government. According to George Haddow, deputy chief of staff of FEMA, much of the credit goes to James Lee Witt, President Clinton's appointee and director of the agency since 1993. "For the first time in the agency's history, FEMA is managed by a former director of a state emergency services office (Arkansas) who knew first-hand how FEMA's problems were affecting a state's ability to recover from natural disasters."

In line with the changing times and Vice President Gore's National Performance Review, Witt immediately re-focused

REINVENTION ACCOMPLISHMENTS
Federal Emergency Management Agency

Always Focus on the Customer

- Elimination of a paper-driven process resulted in the distribution of checks to disaster victims within seven days instead of 30 days
- Housing assistance is provided to customers within eight days of application, down from 20 days in 1992
- Customer service surveys show 87 percent satisfaction rating for individual assistance applications

Forming Successful Partnerships

- Through partnerships with voluntary, state, local, and other federal agencies, FEMA will act to meet the needs of catastrophic disaster victims for water, food, and shelter within 12 hours after the presidential disaster declaration, with the intent to coordinate provision of these basic needs within 72 hours

Using Technology in a Smart and Efficient Way

- 85 percent of all disaster applicants utilize an automated telephone process that reduces the level of assistance needed at disaster application centers
- Computerized application forms have increased accuracy, reduced application-processing time as well as reduced the cost of processing an application by 75 percent
- FEMA inspectors use laptop computers to download property addresses to be inspected and upload disaster data to a central processing point

the agency. Rather than primarily focusing its efforts on nuclear-war preparedness, Witt made responding to victims of

James Lee Witt on Reinvention at FEMA Administrator, Federal Emergency Management Agency



FEMA's reinvention strengthened partnerships, refocused employees, enhanced customer service, and made disaster aid flow more efficiently. Yet disasters still occur — some so severe they threaten the sustainability of the affected communities.

So FEMA took reinvention to the next level — turning the agency into a leader in disaster prevention and, through Project Impact, articulating a national vision of disaster-resistant communities.

In Oakland, California, neighbors developed wildfire resistant strategies, and in Tulsa, Oklahoma, a huge flood buy-out program saved countless lives and endless devastation.

During Hurricane Floyd, elevated homes that once would have flooded stayed dry, and propane tanks that once would have polluted floodwaters stayed put.

FEMA's major policy shift toward prevention is changing the way America deals with disasters. But it could not have happened if we had not looked internally first and reinvented the way FEMA serves customers.

natural disasters the agency's central focus. To do this, the agency applied three fundamental aspects of Gore's National Performance Review: One, always focus on the customer. Two, form successful partnerships. And three, use technology in a smart and efficient way.

Always Focus on the Customer

According to Larry Zensinger, director of Human Services, the agency re-engineered all of its programs with the customer in mind. To address the agency's slow response to Hurricane Andrew, it created the Mobile Operation Division. Rather than having to send and set up equipment at each disaster site, it created Mobile Emergency Response (MER) units that can be mobilized and operational immediately after a disaster. These units, which provide telecommunications, operational support, life support, and power generation, are responsible for helping to establish the immediate coordination between federal, state, and local agencies and eliminating immediate threats to health, life, and safety that exist after a disaster.

Form Successful Partnerships

With an underlying focus on its customers, FEMA has entered into meaningful partnerships with other federal agencies, local emergency management agencies, state emergency management offices, national emergency management organizations, and the private sector. These partnerships have paid off through quicker response time, a more coordinated response to disasters, and less confusion over who's in charge. In fact, a recent blue ribbon report cited the U.S. Fire Administration for its ability to effectively coordinate with hundreds of fire marshal offices around the nation. According to Richard Marinucci, acting chief operating officer, "The enhanced partnerships have come about due to a cultural change within the administration. We have decentralized decision making where appropriate to empower our employees and their counterparts at partnering organizations to solve problems immediately, thereby providing faster and better service to our customers. We have gone from a bureaucratic agency where people were afraid to make decisions to one that embraces leadership and decision making."

Use Technology in a Smart and Efficient Way

Robert Adamcik, FEMA's deputy associate director for Response & Recovery Directorate, believes the application of new technology within the agency has increased its ability to deliver disaster assistance faster, cheaper, and better. "The

Disaster Assistance Program at FEMA implemented new technologies to streamline the registration of disaster applications, conduct property inspections, process information, and disburse checks for disaster-related housing needs." Haddow agrees with Adamcik and believes that FEMA has made technology decisions based not on the technology itself but on its resultant effect on our customers. As a result, today:

- 85 percent of all disaster applicants utilize the Teleregistration process — an automated telephone process that reduced the level of assistance needed at disaster application centers. Prior to this implementation, victims had to wait four or five days before they could register for disaster aid at a local disaster application center. Today that registration can be done within a matter of minutes from the resident's home.
- Application forms have been computerized, which has increased accuracy and reduced time to process applications. The cost of processing an application has been reduced from \$56 to \$14, a cost savings of 75 percent.
- FEMA inspectors now utilize laptop computers to download property addresses to be inspected and upload disaster data to a central processing point. Prior to this, inspectors were sent to the property addresses by the United States Postal Service. This often would result in inspections that took weeks to schedule.
- The Central Processing Center has eliminated a paper-driven process. As a result, the agency can distribute checks to disaster victims within seven days instead of 30 days.

Lessons Offered

The turnaround of FEMA and its use of the National Performance Review as a tool to bring about this change offers four valuable lessons.

- **Change must be initiated, endorsed, and supported from the top down.** In the case of FEMA, Director James Lee Witt initiated and effectively communicated, both through his words and his actions, the outcome he wanted: a continuous focus on customer service.
- **The past performance of an agency is not necessarily an indicator of how it will perform in the future.** In fact, a good way to measure your agency's ability to change may

be to ask yourself: "Do I have an unfailing vision for how this organization should operate? Is this vision shared by the leaders of the organization? Can we, the leaders, effectively communicate this vision or goal and empower our employees to make it happen?" In the case of FEMA, those ingredients of change existed, even though many were skeptical that the agency could be turned around.

- **A partnership is more than a word.** It is a way of working together to achieve mutually agreed upon outcomes. FEMA, more so than most agencies, relies on strong partnerships to coordinate the federal government's response to natural disasters. This means constant communication at the leadership level, regular training for the employees, shared information, and a respect for the role of each agency. An effective partnership makes it easier for both agencies to achieve their goals.
- **Technology should be viewed as a tool to achieve an organization's goals.** Technology in and of itself should not be the focus, but rather how it will improve customer service, reduce cost, or share knowledge — whichever are the driving forces behind an organization. ■

Steve Hagerty is a principal consultant at PricewaterhouseCoopers.
His e-mail: steve.hagerty@us.pwcglobal.com.

George Gorski is a consultant at PricewaterhouseCoopers.
His e-mail: george.gorski@us.pwcglobal.com.

Internal Revenue Service: Improving Customer Service

By James E. Cook and Jay Tansing

For The Internal Revenue Service (IRS), like many federal agencies, “putting customers first” requires a commitment to fundamental cultural change that transcends organizational, process, and technology issues. The IRS, under the leadership of Commissioner Charles Rossotti, has taken up this challenge, developed a plan for reinvention, and has made some initial progress toward achieving this goal. To understand the significance of these steps, it is important to consider how this process started, the accomplishments to date, and the major modernization steps that lie ahead.

The major impetus behind this fundamental shift to a customer-centric culture was the National Performance Review (NPR). At the time, Robert Wenzel, then-chief operating officer of the IRS (currently, deputy commissioner, IRS Operations), was tapped to participate on the NPR team. It was obvious from the start that NPR could have a significant impact on the IRS. However, it was also recognized that making this happen would be no small task. To demonstrate the commitment to improve performance, Vice President Al Gore and then-Treasury Secretary Robert Rubin launched an NPR study on improving customer service at the IRS on May 20, 1997. As a result, an IRS Customer Service Task Force, comprised of 60 IRS employees and managers, as well as members from the Department of Treasury, National Treasury Employees Union (NTEU), and the NPR, was established to develop a strategy for customer service improvements.

Since this process began, the IRS Restructuring and Reform Act has reinforced the NPR recommendations and added the broad support of Congress to the plan for reinvention.

Measuring Performance

The IRS traditionally measured performance through enforcement activities and monetary collection goals. Districts, service centers, and employees were evaluated against goals, which were closely aligned with enforcement measures. Consequently, the level of customer service and customer satisfaction declined. The IRS was focusing its activities on the 15 percent of its customers that evaded taxes instead of providing excellent service to the 85 percent of taxpayer community that were voluntarily meeting their tax obligation.

REINVENTION ACCOMPLISHMENTS The Internal Revenue Service

IRS redesigned their organization structure to better fit the needs of the following specific groups of taxpayers:

- **Wage & Investment Taxpayers.** The W & I Operating Division will serve approximately 116 million taxpayers. W & I taxpayers file a Form 1040 tax return.
- **Small Business/Self-Employed Taxpayers.** There are approximately 40 million small business/self-employed taxpayers who are fully or partially self-employed individuals with more complicated tax issues.
- **Large & Mid-size Business Taxpayers.** This operating division will serve corporations, sub-chapter S corporations, and partnerships with assets greater than \$5 million.
- **Tax Exempt & Government Entities.** This operating division will serve the needs of three very distinct taxpayer segments: Employee Plans; Exempt Organizations representing over 1.5 million tax exempt organizations; and Government Entities.

IRS is making filing and paying easier:

- taxpayers can use a personal computer, tax preparation software and a modem to prepare an electronic tax return;
- taxpayers can get refunds in half the time as when filing on paper, and even faster with direct deposit;
- taxpayers can take advantage of Tele-File to file a simple federal tax return using a toll-free number and a touch-tone telephone;
- taxpayers participating in the e-file program can simultaneously electronically file their federal and state returns;
- taxpayers can make Federal Tax Deposit payments by phone, computer, or through a service offered by their financial institution.

The transition to a customer-centric organization has included a shift away from performance measures that are geared toward enforcement activities, to standards such as courtesy, timeliness, clarity, and accuracy of information. These new

goals and measures are reflected in a new set of job descriptions, developed in cooperation with the NTEU. The IRS has also begun using customer feedback to improve operations and is evaluating how world-class private sector firms, such as American Express and FedEx, measure the level of service provided to customers.

One of the key recommendations of the task force was a “balanced scorecard.” IRS is implementing a scorecard that balances three key measures:

- business results;
- customer satisfaction; and
- employee satisfaction.

American Express uses customer satisfaction measures such as timeliness and professionalism to evaluate management. IRS is implementing similar measures using independent customer and employee surveys. The surveys collect customer feedback on the IRS’s performance and assess how customers and employees view the agency. The IRS is using the information they get from the surveys to create service standards, ensure accountability, and recognize customer service.

Better Service to IRS Customers

The IRS has taken important steps in providing new means and methods to provide assistance to taxpayers. The fundamental principle behind these changes is to provide access at times and places that are convenient to taxpayers.

The IRS traditionally located customer service centers in downtown locations in federal, state, and local government buildings. Taxpayers needed to contend with downtown traffic and drive long distances to simply obtain forms and get help. The agency is solving this problem by opening service centers in locations that are more convenient to customers, such as shopping centers. IRS recently joined the General Services Administration as a tenant in the first “Government Store” in a San Jose, California, shopping mall. The store is open seven days per week and has the same hours as all other mall stores.

In addition to improved methods of assisting taxpayers, the IRS has begun to provide an equal emphasis on pre-filing as well as post-filing support to taxpayers. The goal is to make it easier to meet their tax obligation and resolve problems if they occur. Changes such as expanding the role of the taxpayer advocate, shifting the reporting relationship to eliminate the potential for bias, and increasing accessibility to the public are all supported by NPR and the Restructuring and Reform Act. Also, the IRS has made strides in improving the filing process utilizing technology to make filing and paying taxes easier and more secure (see insert box).

Charles Rossotti on Reinvention at IRS *Commissioner, Internal Revenue Service*



For many Americans, the Internal Revenue Service is the only federal agency they must deal with on a regular basis, and the results of our modernization efforts will directly affect their lives. With so much at stake, and

with the IRS Restructuring and Reform Act as our mandate, we have made some concrete and exciting plans, and have taken some first steps toward achieving our goals.

The progress we have made has been remarkable. We began with a commitment to protect taxpayer rights and to improve customer service. This has meant rewriting the job descriptions for nearly every employee and manager to reflect these goals. We have also made some much-needed improvements in service. We provided longer hours of operations at convenient locations, increased options for filing and paying electronically, improved access to the taxpayer advocate and problem-solving days to resolve particularly difficult cases.

While these changes have been positive for taxpayers and represent real progress, much more reinvention lies ahead. The first step in this process will be the creation of four new operating divisions that will provide highly tailored services to meet the needs of different taxpayers — wage and investment, small businesses and self-employed, large and medium sized business, and tax-exempt and government entities. As these divisions become operational, it is our hope that taxpayers’ routines will not be disrupted, but that they will notice significant improvements in the quality of service.

We are creating an agency dedicated to service, and, hopefully, one people trust. While these changes will not happen overnight, they will happen. And the past is a constant reminder that we all have a stake in its success.

continued on page 43

Social Security Administration: Listening to Customers and Employees

By Jim Plews and Lauron Noble

When compared to such companies as Southwest Airlines, Xerox, Disney, and Saturn Corporation, could a federal agency be ranked best overall in service? A Dalbar, Inc., study says yes. The Social Security Administration (SSA) was ranked number one in attitude, accommodation of the customer, and employees' knowledge. These accomplishments reflect the results of the Social Security Administration's drive to reinvent itself.

Looking back, the Social Security Administration recognizes that one of the main benefits received from Vice President Gore's National Performance Review initiative was its intense focus on improving customer service. Traditionally, SSA had emphasized customer service by striving to achieve the service it perceived the customer desired, without truly listening to the customer. Reinvention helped SSA focus on "listening" to the customer.

Feedback from the customer aided SSA in both defining customer expectations and rating SSA's progress in meeting those expectations. Surveys, letters, and focus groups are now continuously used to gather this information. As a result of this initiative, SSA learned its customers value the following:

- Knowledgeable, responsive, and concerned employees;
- One-stop shopping — one person handles a beneficiary claim;
- Prompt service to an 800 number; and
- Quick decisions and actions on beneficiaries.

In response to this customer feedback, SSA began determining ways to improve the services it delivers to customers. Employee training began that focused on how employees can better answer questions. SSA management understood that employees cannot change the outcome as to whether the applicant receives or is denied benefits since eligibility to SSA programs is defined by the laws governing SSA. What SSA found, however, was that what was important to customers was the quality of their direct personal experience in dealing with the agency.

REINVENTION ACCOMPLISHMENTS Social Security Administration

- Developed a comprehensive new program of data-collection activities to improve the way SSA listens to its customers
- Expanded 800-number service offerings, adding such features as:
 - multiple automated options for convenience and faster access to agency services
 - direct links to bilingual agents for non-English-speaking customers
 - "next available agent" call routing for faster, more efficient access
 - "immediate claims taking" for filing retirement and survivors claims over the phone
- 95 percent of callers to 800 numbers were served within five minutes
- 93 percent of callers reached SSA on their first attempt
- Eliminated the requirement that working retirees file end-of-year earnings reports; earnings are now verified from information already provided by employers
- Partnered with public and private sector organizations to simplify and speed up disability claims processing. SSA now takes claims on-site at several hospitals and local agencies throughout the country
- Reduced labor disputes and appeals through union-management partnership
- Began using "plain language" in written communications to the public; recent improvements include the "Social Security Statement" and cost-of-living-adjustment notices
- In 1998, 14 million wage reports were submitted electronically; in 2000, SSA will have the capacity to accept 40 million electronically

Listening to the Customer

When SSA began teleservice centers (TSC), the teleservice representatives (TSR) were able to answer short, quick questions, but were not capable of processing a beneficiary's application or handling more complicated issues. Therefore, most of the customers were being transferred to a claims representative, causing the beneficiary to repeat the situation. By "listening" to the customer, SSA learned that customers were frustrated having to repeat their story to each new SSA employee to whom they were transferred. As a result, additional training was initiated to broaden the work teleservice representatives can complete. The majority of calls are now completed by one employee.

In the past, lack of technology also hindered employees' ability to serve the customer. If a customer called a TSR and had a question on a notice he or she had just received, the TSR could not view a copy of the notice. Instead, the TSR needed to ask the beneficiary to read the notice over the phone. SSA has now implemented a system where the TSR can access online the notice sent to the customer. This enables the TSR to provide a more efficient and accurate answer.

Reinvention also encouraged SSA to focus on improving its 800 number service. SSA discovered that its 800 number was not user-friendly because beneficiaries received busy signals and experienced long wait times. SSA is currently working towards having customer calls answered within five minutes or less at least 95 percent of the time. To help reach this goal, SSA is implementing a system that will transfer calls between teleservice centers so that customers do not have to wait for a representative in one center if there are TSRs available at another TSC. Taking the TSC a step further, SSA added a Spanish 800 number and a 24-hour automated teleservice to improve customer service and timely processing. Approximately 27 percent of callers currently use the automated service.

The SSA website has also contributed to providing customers with easy access to information. In 1994, when the site was established, there were only a few thousand "hits." In 1999, SSA is expecting 9 to 10 million "hits." The SSA Internet team was one of the first winners of a Hammer Award presented by Vice President Gore. As a result, the members of this team were requested to assist another agency in the establishment of that agency's website. SSA continues to look for ways to improve Web service including integrating the website with the 800 number, providing customer information online, and collecting customer information online.

Providing customers with concise, plain-language correspondence was also a focus of reinvention. SSA has provided two-day training for employees who frequently provide written correspondence to the public. A one-day written correspondence training course is provided for employees who correspond with the public on a less frequent basis. A bulletin and training tape was created to reinforce the importance of using plain language. SSA is looking to introduce written correspondence training for all employees and is currently determining the best method to provide this.

To improve SSA's capability for collecting customer complaints, compliments, and suggestions, SSA has developed a "Talking and Listening to Customers" initiative. Front-line employees were included in the design of the initiative. SSA is hoping to pilot this innovative initiative to capture customer comments with the goal of continuing to improve customer service.

Listening to Employees

In addition to customer feedback, SSA tapped into its own employee base, realizing it had a wealth of information. To make use of this resource, SSA began interviews and focus groups with employees. From these meetings they learned more about what customers expected as well as more efficient ways to perform tasks. There is a suggestion box for employees to share any ideas they may have that would improve customer service. Employees also attend information sessions that supply them with the necessary resources to answer questions concerning SSA. By creating a more informed workforce, SSA will increase the likelihood of a more informed public, which will ultimately increase customer satisfaction.

In working with employees, SSA must also work closely with its union — the American Federation of Government Employees (AFGE). Prior to reinvention, it was not uncommon for a negotiation to span several years and end at an impasse. As a result of the Vice President's initiatives on labor-management relations, SSA established a Partnership Agreement with AFGE as a new mechanism to work out their differences. This significantly reduced the amount of time it takes to reach an agreement and settle disputes. The decrease in unfair labor practice charges is also evidence of the partnership between SSA and the AFGE. The number of unfair labor practice charges was 382 in FY 1993 and decreased to 131 in FY 1998. This partnership between government and labor requires the establishment of trust between management and the unions.

SSA realizes this way of business is better for the agency, better for employees, and better for individuals who pay for the program — the taxpayers.

SSA is continually looking for ways to improve the service it offers to its customers, both the internal and external customer. The institutionalization of reinvention within SSA — focusing on improving customer service, adding value to employees, and creating a more efficient business environment — is a major cultural change. SSA and its customers have NPR to thank. ■

Jim Plews is a principal consultant at PricewaterhouseCoopers. His e-mail: jim.plews@us.pwcglobal.com.

Lauron Noble is a consultant at PricewaterhouseCoopers. Her e-mail: lauron.noble@us.pwcglobal.com.

Reflections on Reinvention

continued from page 6

The challenge facing the next administration will be to find ways to keep the momentum of change going and to fight the danger of slippage and a return to the old ways of doing business.

Improved service delivery will continue to receive top priority in the next administration. As one of the executives interviewed for this issue of *The Business of Government* noted, “There is simply no turning back.” The next administration will continue to be under pressure from the public to improve its delivery of services. Just as the public has come to expect a high level of customer service in the private sector, improved customer service in government will create a desire for even better government service in the future. In addition, the continued revolution in technology, e-commerce, and the Internet will make even greater improvements in service delivery possible.

If one looks out to the year 2020, it can be speculated that the Clinton/Gore administration might be best remembered in government circles for starting down the long road of significantly improving the management of government. It will be the job of future administrations to keep up the momentum to provide better service to the American people. ■

Mark A. Abramson is executive director, The PricewaterhouseCoopers Endowment for The Business of Government. His e-mail: mark.abramson@us.pwcglobal.com.

Kenneth S. Apfel on Reinvention at SSA *Commissioner, Social Security Administration*



Social Security has entered the “reinvention revolution” in a big way. We are reinventing our agency by asking customers, “What would make the process more responsive to your needs?” And we listen to their answers.

Improvements include linking callers to bilingual agents, and filing retirement and survivors claims — both through our 800 number. Additionally, we’re reinventing disability claims processing. We’re even reinventing how we communicate, following Vice President Gore’s “plain language” initiative.

In support of this, we have held two-day classes for large-volume writers at the agency and are planning shorter classes for other writers. We have created a simple five-page writing standards guide, along with action plans. We truly believe, with more than 26 million people visiting our field offices and 70 million calling our 800 number annually, that writing in a way that is easy for our audience to understand is essential to our efforts at Social Security to serve the public and serve it well.

At Social Security, we know these changes have made us a top federal agency. We look forward to continuing improvements in delivering customer-responsive, world-class service.

[CASE STUDIES]

U.S. Customs Service: Making Reinvention A Way of Life

By Craig Petrun

While the U.S. Customs Service is one of the oldest agencies of the federal government, having been established in 1789, it has become one of the most nimble and customer-oriented organizations within the government. Customs plays a very important role in the federal government and is a major source of revenue, bringing in more than \$20 billion dollars per year to the government. During the last six years, Vice President Gore's reinvention efforts have stimulated the creation of many new streamlining initiatives across the Customs Service.

The emphasis that reinvention placed on creating a streamlined government that is more efficient and focused on customer service fit well with the Customs culture and history of trying to play a proactive role in meeting its customers' needs. According to Robert Trotter, assistant commissioner of Strategic Trade, "Customs can't stand still and do business like it used to. One thing we have learned from our business customers is that we have to be strategic and stay ahead of the needs of our customers." As a result of this attitude and spurred on by reinvention and other recent legislative reform, including the Customs Modernization Act, the Customs Service has been engaged in significant organizational change all throughout the 1990s. In 1995, Customs was restructured into a three-tiered structure composed of people, processes, and partnerships, with the focus on service delivery at their ports of entry.

The focus of the U.S. Customs Service is best captured in its recently revised mission statement: "We are the guardians of our Nation's borders — America's Frontline. We serve and protect the American public with integrity, innovation, and pride. We enforce the laws of the United States, safeguard the revenue, and foster lawful international trade and travel." This new mission statement, when compared to the previous one ("... to ensure that all goods and persons entering and exiting the U.S. do so in compliance with all U.S. laws and regulations"), reflects an increased emphasis on customers and improving service through innovation and integrity.

The current mission requires Customs to balance its trade facilitation efforts with those required to ensure the safety and integrity of borders against illegal trade and narcotics-related

REINVENTION ACCOMPLISHMENTS United States Customs Service

- Increased seizure of narcotics by 45 percent and drug proceeds by 59 percent with zero cost to taxpayers
- Increased efficiency of drug enforcement operations on the Southwest border led to a 133 percent increase in the number of illegal drugs captured from FY 1994 to FY 1998 with less than a 30 percent increase in staff.
- Significantly reduced the time employees spent reviewing paper invoices by initiating a Paperless Manifest. Participating carriers saved over \$100,000 and the Customs Service saved \$165,000 annually.
- 98 percent of staff travel payments made by electronic funds transfer
- 99.4 percent of staff travel vouchers processed within 15 days of receipt
- Most international air passengers cleared through inspection in 30 minutes or less

activities. In order to carry out its mission, Customs has organized around three primary processes (Trade Compliance, Outbound, and Passenger), several strategic objectives (i.e., reduce entry of narcotics and related money-laundering activities), and key field support areas (i.e., Financial, Technology, and Human Resources). In all of these areas, Customs has taken a proactive and strategic posture in addressing the needs of its customers with an emphasis on reinventing itself.

One indicator of the seriousness with which Customs has embraced the reinvention focus can be seen in the number of Hammer Awards it has received since the initiation of the program. Hammer Awards are given by the Vice President to

Raymond Kelly on Reinvention at the Customs Service

Commissioner, United States Customs Service



The U.S. Customs Service is striving to build an agency that is firmly grounded in professionalism and fairness. We've strengthened integrity by improving discipline and accountability. We've clarified roles and responsibilities throughout the agency. We've improved passenger operations

by offering travelers better information about our mission and our procedures, by giving them means to comment on our services, and by utilizing technology that reduces our need for invasive searches.

Change at the U.S. Customs Service will continue to focus on providing efficient, courteous service while ensuring that the rights of the travelling public are protected. With the right reforms, we will enhance our capabilities both to facilitate and enforce.

recognize significant reinvention initiatives. In total, the Customs Service has earned 37 Hammer Awards since the program's inception.

Major Customs Reinvention Initiatives

Enforcement: Operation Brass Ring. A major success for the Customs Service and the federal government, Operation Brass Ring was initiated to improve the efficiency and effectiveness of its narcotics enforcement effort. This was a joint cooperative effort between the Office of Field Operations, Office of Investigation, the National Treasury Employees Union, and the trade community. During this six-month operation, which was conceived using strategic problem solving techniques, Customs seized 45 percent more narcotics (47 percent more marijuana, 32 percent more cocaine, and 13 percent more heroin) than during the same time period in 1997. This effort also led to the seizure of \$40.5 million in drug proceeds, an increase of 59 percent. What makes these figures even more interesting and impressive was that the cost to taxpayers was zero. Operation Brass Ring was based on innovations developed within the organization and increased teamwork on the part of components within the Customs Service. In addition to Operation Brass Ring, the efficiency of drug enforcement operations on the Southwest border also has increased with a 133 percent increase in the number of illegal drugs captured from FY 1994 to FY 1998 with less than a 30 percent increase in staff.

Trade Compliance. In the area of trade compliance, Customs has conducted several major initiatives all aimed at improving their efficiency and customer service. According to Bob McNamara, deputy assistant commissioner, Office of Field Operations, "Customs has completely re-engineered its cargo processes to carry out the Customs Modernization Act and implement a shift to account-based processing. In total, 25 account managers now handle 159 accounts representing 25 percent of all imports by value. The Customs Service also embarked on a risk management program, which uses compliance measurement results to allow it to more accurately determine baseline levels enforcement threat and the effectiveness of its voluntary compliance program for major importers. According to Robert Trotter, "This will allow us to focus more on results — instead of just searching shipments we can target those that are a high risk of containing violations."

Industry Partnerships. The Customs Service sees their ability to work with voluntary partners within industry as critical to its efforts of improving the efficiency of its services. A good example of this is the Hammer Award given to the Customs Service for its initiative to create a "Paperless Manifest" process with sea carriers. In order to accomplish this goal, a team of Customs Service employees worked closely with sea carriers to clearly define the responsibilities of industry and the Customs Service to implement electronic manifest preparation, transmission, and accountability requirements. This effort led to tangible benefits for both government and industry. For example, carriers participating in this effort estimated their annual cost savings to be more than \$100,000 per participating carrier. The Customs Service estimated its savings to be \$165,000 annually for the paper manifests of the participating carriers and a significant reduction in the amount of time employees spent reviewing paper invoices.

Internal Operations. The same focus and determination that the Customs Service has used with industry customers has also been used internally. For example, the Office of Finance has reinvented their financial processes. According to Dean Grothe, director, Management and Planning Division, Office of Finance at the Customs Service, "We were one of the pioneers in the travel area — using an automated travel system to improve service and lower the costs of providing this service." This innovative use of technology enabled Customs to pay almost 98 percent of their travel payments by electronic funds transfer (EFT) and process 99.4 percent of all of their travel vouchers within 15 days of receipt.

In addition, Debbie Spero, assistant commissioner for Human Resources, states, "The Office of Human Resources has been committed to using this strategic-partnering approach to improve the efficiency and effectiveness of HR services provided to headquarters and field locations. We recently developed a new National Quality Recruitment Program and Standards, which addresses the vulnerabilities in our hiring practices and includes the use of electronic interfaces (Internet and interactive voice response) to streamline the application process. This process includes a battery of written tests, an integrity assessment, and oral interview examination and creates a pool of superior candidates that will improve Human Resources responsiveness in fulfilling critical field positions as they are needed."

While the Customs Service has made significant strides in improving and streamlining its performance, as an organization it realized it cannot stand still. Like those who would try to circumvent the legal and lawful entry of trade or passengers into or out of the United States, the Customs Service knows that they must also continue to adapt and change even more quickly. The determination of Customs to continually improve and streamline how it delivers services can best be summarized by a recent address by Commissioner Raymond W. Kelly:

"I want the Customs Service to be second to none in terms of service to the trade community. I want it to be second to none in service to the public, and second to none in terms of law enforcement anywhere in the world. I want the Customs Service to be the trade community's dream and the drug trafficker's nightmare." ■

Craig Petrun is a principal consultant at PricewaterhouseCoopers.
His e-mail: craig.j.petrun@us.pwcglobal.com.

[CASE STUDIES]

United States Patent and Trademark Office: Improving Processes for Customers

By Susan Mitchell

When the reinvention movement began six years ago, agencies were challenged by Vice President Gore to improve performance in three areas: partnerships, the use of information technology, and customer service. The goal was to create customer-oriented, results-driven agencies where the public will see the difference.

The Patent and Trademark Office (PTO) has met this challenge, successfully transforming itself into a technologically innovative and responsive agency that works better internally as well as with its customers. This has been no small task for an agency facing huge growth in the number of patent and trademark applications while simultaneously seeking to find qualified staff to process the applications.

The agency-wide reinvention program began in 1995, with the creation of an internal staff group of 140 people from all levels and divisions of the agency who created a *Concept of Operations* — a report about how operations and processes could be improved at PTO. Reinvention came at a time when the agency needed to step back from this growth and push towards innovation, and evaluate its processes. This is what the *Concept of Operations* did. The *Concept of Operations* outlined the operational issues that needed to be addressed in order to improve how PTO delivered services to its customers, including application cycle time and customer and employee satisfaction.

For example, one of PTO's goals is to decrease the time it takes to process a patent to 12 months by 2003. PTO plans to do this by increasing the number of patent examiners, increasing training opportunities for examiners, and of course, by automating portions of the process.

When thinking about automating the patent process, Nick Godici, acting assistant commissioner for patents, says, "We looked deeper than just automating processes. Our goal was to first improve the process and then automate it." This involved a thorough examination of all the processes.

REINVENTION ACCOMPLISHMENTS

United States Patent and Trademark Office

Reducing Patent Processing Time

- Average cycle time for patent applications decreased to 12.2 months
- Filing receipts now sent within 30 days
- Ability to prepare and send electronic acknowledgment of patent application to customers upon receipt of application
- Developed prototype of electronic patent application process

Improved Trademark Filing

- Customers can:
 - Electronically file trademarks over the Internet
 - Access the trademark application filing form on the PTO website
 - Track trademark application and registration status information on the Internet

Improved Customer Service over the Internet

- Provides access to significant databases over the Internet for use by customers including:
 - Over 1 million registered trademarks dating back to 1870
 - Full text of over 2 million patents dating back to 1976
 - Patent document images for all patents dating back to 1976
- Customers can order PTO information products over the Internet

PTO Reinvention Laboratory

In March of 1998, PTO created its Reinvention Laboratory, which brought to life the suggestions contained in the *Concept of Operations*. The Reinvention Lab was to be the testing ground for ways to reinvent the patent application process. The goals of the Reinvention Lab were to:

- improve the quality of patent examinations;
- examine alternative staffing schemes for patent examiners and technical support staff that could expedite the examination process and improve workflow;
- encourage teamwork, collaboration, and increased communication among patent staff; and
- improve customer and employee satisfaction.

The Reinvention Lab was in operation for 12 months, during which time many valuable lessons were learned. Those involved realized that technical support staff could perform tasks traditionally performed by examiners. This would allow examiners to focus on the more technical and legal aspects of the process. This change would also allow technical support staff to increase their skills, take on more responsibility, and be involved in more challenging work. The result was not only increased staff satisfaction, but also increased efficiency in the process. Plus, they noticed a positive culture change. The environment evolved from isolated units that simply handed work off to each other, to a more collaborative workplace, with increased communication between all people in the group. The lessons learned in the Reinvention Lab pilot program will be expanded to three centers in January 2000.

Automating the Patent Process

PTO has made great strides in developing technology that will enable full electronic filing of patents. Currently, all incoming patent applications are scanned into a database, resulting in a searchable Internet database of all patents dating back to 1976. In fiscal year 2001, PTO plans to expand the offering of patent information to include patents dating back to 1790. This technology is also available for trademarks.

PTO's ultimate goal is to have software that will be downloaded from the PTO website, allowing the full patent applications process to happen over the Internet, without compromising the security of confidentiality of an applicant's data. Patent filers will be able to obtain the status of their application at all points in the application process, as well as have access to general information about PTO and a phone list of patent examiners. The site will be secured by Public Key Infrastructure technology. PTO hopes to have full electronic patent processing by 2003.

Automating the Trademark Process: E-Trademarks

Since October 1998, PTO began offering Trademark Electronic Application System (TEAS). TEAS allows customers to complete trademark applications over the Internet, and then submit the application directly to PTO over the Internet or print out the application and mail it to PTO. The technology used by PTO allows users to attach files electronically, so that an application can also be used as a sample of your trademark. TEAS also allows for electronic payment and electronic signature.

In the first month, the Trademark Office received 300 trademark applications. To date, over 17,000 trademark applications have been filed electronically. The system has been successful with new as well as existing PTO customers. Bob Anderson, acting assistant commissioner for trademarks, thinks that one of the system's greatest successes has been in reaching people that might not have otherwise considered obtaining a trademark.

Electronic filing for trademarks has meant savings in manpower, improved customer services, and savings in processing time and cost. And the feedback from employees has been very positive. When asked, employees said that they found paper processing to be boring and tedious. The move to electronic filing has helped PTO to focus on abolishing those kinds of jobs.

Focus on Customer Service

Throughout reinvention, PTO has looked for feedback both internally and externally. Regular meetings are scheduled to meet with PTO customers and employees.

One of the challenges of PTO is their diverse customer base and how to reach them to get feedback. PTO customers include patent and trademark lawyers, individual citizens, and independent inventors. PTO is constantly looking for mediums within which they can have interactive, open dialogue with their customers.

Since 1997, the Biotechnology Customer Partnership has been conducting quarterly meetings to provide a forum for sharing information, identifying problem areas, and collaborating with customers to find solutions to problems. The forum allows customers to tell PTO how they are achieving their customer service goals. John Doll, director of biotechnology, says that historically there has been conflict between internal and external patent examiners. In order to diffuse that conflict, internal patent examiners were given customer service training as a tool to work with external patent examiners. Staff were trained on how to provide customer service, as well as given tips and action items around customer service. As a result, staff are equipped with the skills to better serve their customers. They listen, communicate, and provide answers, not just policies. "Now when telling a customer, 'no,' they understand that they must tell them why they are saying no." This has made the customer more satisfied, but has also improved morale for PTO staff.

PTO also regularly meets with customers in focus sessions, town hall meetings, open house technology fairs, and round-table discussions. The goal is to create partnership with their customers, and work with them to continually identify areas for improvement.

Reinvention: Lessons Learned

Ed Kazenske, deputy assistant commissioner for patents, found that one of the toughest issues the PTO faced was the culture change that occurred as a result of the process changes. It was a challenge to adjust, and to keep staff involved and continually up-to-date on these changes.

Kazenske also noticed that staff were skeptical about their ability to meet the performance goals set forth by the agency. But as they move closer to achieving these goals, more people are buying into the programs and the reinvention goals. Anderson says, "Part of the success of these programs is that staff no longer talk about if a program will work, but rather how it can be adapted throughout the agency."

"You cannot be successful if you are not willing to take risks," says Anderson. "There has to be people in the organization who are willing to take risks. Everything that we have accomplished has required us to take a gamble — and a few people who have been willing to put themselves out there."

Anderson remembers being told by Acting Assistant Secretary of Commerce and Commissioner for Patents and Trademarks Todd Dickinson that in order to reach their reinvention goals — that they had permission to do whatever they had to do as long as it was legal and within the budget. Anderson says that this put pressure on the managers responsible for reaching these goals to get the job done.

Further, Anderson believes that being labeled a high-impact agency by NPR has helped PTO to focus on their goals. He has learned that if you want performance, you must first put a goal on the table. This gives people the focal point that they need in order to excel.

This sentiment was echoed by Edward Kazenske, who found that "people want to do a good job. If you tell staff where you want to go as an organization, and give them goals, they will want to go there too."

Jim Lynch, comptroller, thinks that PTO would have eventually made these improvements, but feels that the high-impact agency label from the Vice President has helped them to stretch their efforts and focus on outcomes. Lynch also notes that, "The Government Performance and Results Act says you have to put a value on your goals, and this initiative has helped us to do that." Nick Godici adds, "We really pushed ourselves. Reinvention helped us to do that." ■

Susan Mitchell is a consultant at PricewaterhouseCoopers. Her e-mail: susan.mitchell@us.pwcglobal.com.

Todd Dickinson on Reinvention at PTO *Acting Assistant Secretary of Commerce and Acting Commissioner for Patents and Trademarks*



One of the underlying goals of the National Partnership for Reinventing Government (NPR) is improving customer service. At the Patent and Trademark Office, improving the quality of the products and services we offer is what we are all about.

For example, our customers can now submit trademark applications electronically and pay filing fees with credit cards. *Yahoo!* Magazine has named this system one of the most useful sites on the Internet. We also enable customers to check the status of their patent application over the Internet. By consolidating 17 Patent Examining Groups into six Technology Centers, we have reduced patent pre-examination time by over 100 days since 1998.

To reach out to independent inventors and entrepreneurs, we sponsor a nationwide Saturday Seminar Series and partner with the National Guard Bureau's Internet-based "distance learning" services to enhance the public's access to a wide array of intellectual property information.

In order to attract and retain the finest employees, we have instituted an electronic job application system, reducing processing time for a certified list of candidates from 30 days to eight days. Through the PTO University, we also offer our employees free certificate and degree programs through institutions such as George Mason University.

In the spirit of NPR, we are undertaking an array of other initiatives to make the PTO a more "user friendly" agency. By all accounts, it is working. Here is feedback from just one satisfied customer. Susan Free of Sun Prairie, Wisconsin, wrote us, "Once again, thanks for restoring my faith in at least one branch of government."

[CASE STUDIES]

The United States Postal Service: Customer-Focused Change

By Sue Deagle

The U.S. Postal Service has an auspicious 200-year history of tying our nation together through written communication. As the Postal Service entered the 1990s, the environment in which it had so long existed began to change. The Postal Service faced altering dynamics in its marketplace, including the effects of competition and advancing technology on its core business. Instead of clinging to old ways of working derived from its history as a public entity, the Postal Service chose to change and rise to the challenge unfolding in its environment. Although this directional shift coincided with the introduction of the National Performance Review in 1993, the true impetus for change at the Postal Service was the environment itself and its new focus: customers and service.

When Marvin Runyon became the Postmaster General in 1992, the rumblings of change had already begun. His predecessor, Tony Frank, had taken the bold step of measuring and publicly reporting not only how the USPS was doing in providing first-class mail service to the nation, but also measuring customer satisfaction with overall mail service. Runyon then applied various private sector management principles to the way business was done and helped generate a new way of thinking about this business-like public service entity. In 1999, it is easy to see how the Postal Service has grown and changed, focusing now on its customers, its employees, and the success of its business.

Postal Service management began many initiatives in the early 1990s to increase the focus on the customer and to improve internal business processes within the organization. People across the organization in varied functional areas, such as Retail, Corporate Treasury, Quality, and Government Relations, began to gradually adapt to the challenges facing the Postal Service. The renewed focus on the quality program is just such an example.

Quality efforts existed prior to the early 1990s. However, in 1994 the Postal Service re-energized its quality effort by bringing on a leader with private sector experience to head the quality movement. The Postal Service chose a distinctly private sector tool — the Baldrige assessment — to deter-

REINVENTION ACCOMPLISHMENTS United States Postal Service

- Achieved fourth consecutive year of positive net income in 1998
- Achieved 15th consecutive quarter of service improvement for local first-class mail, with an overall 1998 score of 93 percent on time delivery
- Reduced debt from \$9.9 billion in 1992 to \$6.5 billion in 1998
- Controlled expense growth to under 5 percent for the last seven years
- Reduced waiting time in retail units, with 80 percent of customers served in five minutes or less, and 60 percent of customers served in three minutes or less
- Consistently improved customer satisfaction measurements

mine how well they were doing overall and in different areas of the organization as compared to top-performing companies. As a result of the Baldrige assessment, the Postal Service was able to choose specific areas to work on and improve, developing new goals for the entire organization. As Robert J. Scanlon, manager, Core Process Support, in the headquarters quality area, notes, "One of our key success factors was deploying a consistent set of narrowly defined measures across the Postal Service." He says identifying this set of goals, indicators, and targets for everyone has created an atmosphere where Postal Service employees are all "moving in the same direction." Scanlon also indicates that providing staff and managers with incentives to motivate improvement, along with the tools enabling them to drive these improvements, contributed to the success of the organization as a whole.

Another area that has evolved with the increased customer focus of the Postal Service is the Retail Product and Services

William J. Henderson on Reinvention at the Postal Service

Postmaster General, United States Postal Service



The United States Postal Service is heading into the next century with the best performance, planning, technology, and management systems in our history.

When the decade began, the Postal Service lacked a coordinated method of managing its entire operations. Today, we rely

upon a Baldrige-based performance system to drive consistent improvement by focusing the energies and resources of this vast organization on common goals and targets. As a result, our performance has been in a word: revolutionary. In many ways, the mail has become the gateway to the household, a channel for commerce and communication that binds the nation together.

group. With close to 40,000 retail outlets across the nation, this group, under manager Kaye DeShields, has worked to transform what were formerly referred to as "lobbies" into true retail outlets that put customers first. DeShields indicates that one of the biggest challenges the Postal Service faces is "walking the talk when you say customers are first." The retail group has "walked this talk" by examining products and service options that will meet and exceed customer needs, as well as providing the enhanced access to postal services these customers seek.

During this process, the Retail group constantly must judge the strategic fit and business reasons for potential initiatives, and balance the constraints the Postal Service is under with the ability to implement new ideas. Examples of Retail's changes include improved layouts in the outlets allowing customers access to self-service purchasing and clerks who can assist them with more complex transactions and provide value-added services. Retail has also expanded sales opportunities within their units by increasing their available product line. Kaye DeShields expects her continued challenge to "walk the talk" to include facilitating innovative access and providing continued convenience to postal customers.

Groups that traditionally had more of a support role in the postal infrastructure have also evolved in the past six years. Two examples of this are Corporate Treasury and Government Relations. Stephen M. Kearney, treasurer of the Postal Service since 1990, says he and his peers "saw the writing on the wall that we could not continue business as usual." Kearney focused on doing business a different way within his department. An example of this difference is the Postal Service's cash management strategy. As many as 5,000 banks across the country handled cash and checks from all the retail outlets. Under Kearney's leadership, this number was winnowed down to 24. Corporate Treasury also changed to follow a common private sector practice of minimizing excess cash and keeping zero cash balances on hand, thereby reducing expenses and benefiting the bottom line.

The Government Relations office has also responded to this evolutionary environment. Deborah Kendall, manager, Legislative Policy and Strategy Development, is herself an example of this response. Kendall was hired into her position in 1998, bringing with her substantial experience working in a subcommittee setting on Capitol Hill. Her experience as a previous "customer" of Government Relations provides the Postal Service with even better insight into how best to conduct its legislative relationships. Her group is more proactive

than ever at including its congressional stakeholders in dialogue about the issues it is facing. Kendall indicates that "we serve every person in the U.S. and touch lives every day" and therefore receive much scrutiny from Congress.

Forming a positive and proactive relationship with the "Hill," as well as becoming an integral part of decision making at the Postal Service, are just two of the ways the Government Relations department has changed over the years.

With all of this talk about customers being first, how has customer service actually changed in the past six years? Lizbeth Dobbins, manager, Customer Satisfaction Measurement, can address that question. Dobbins manages a group constantly measuring not only the performance of the Postal Service, but also the direct satisfaction of its customers. She has seen overnight first-class mail delivery performance grow to 93 percent on time, and 2-to-3-day product performance grow to 88 percent. She has also seen great improvements in the Postal Service's customer service measures. "Every piece of mail creates a bond with the customer," Dobbins says, "and every employee is an ambassador to the customer." With the organization understanding these truths more and more, the focus on service and putting the customers first continues to flourish. "Everything we do begins and ends with the customer," Dobbins says.

Conclusion

Change has been an evolutionary process over the past six years at the Postal Service. While "reinvention" has driven change at other federal agencies, the postal environment and the focus on the customer have been the primary drivers for this organization's internal reinvention. The changes from enhanced retail outlets to improved performance and internal management clearly reinforce the fact that customers do come first. And the push for change has not stopped. As Treasurer Stephen Kearney says, "The whole mindset at the Postal Service has changed. The battle was how to convince your manager to try something new. Now the battle is to keep up with all the changes your management wants you to implement." It is easy to see the changes that have already occurred and the new challenges that lie ahead to continue meeting Postmaster General William J. Henderson's goal of being a "low cost, high quality service provider." ■

Sue Deagle is a principal consultant at PricewaterhouseCoopers.
Her e-mail: susan.deagle@us.pwcglobal.com.

Improving Customer Service

continued from page 25

The IRS runs the nation's most heavily used 800 number, recently reaching 100 million annual phone calls. However, high volume came with inconsistent customer service. The IRS looked to the private sector and other government agencies, such as the Social Security Administration, for examples of good customer service over the telephone. In response, the IRS has expanded telephone service to 24 hours a day, seven days per week. Performance measures have also been implemented with the goal of providing service with an access rate of 85 to 90 percent and an accuracy rate of 96 percent.

The agency is opening additional temporary community-based locations during peak season to make publications and forms available in banks, libraries, shopping malls, and other locations that customers frequent. IRS has also developed alternative ways to distribute tax forms and publications electronically through CD-ROM technology, fax-on-demand, and the Internet.

Modernizing the IRS - The Reinvention Ahead

As an extension of the significant enhancements already made, the IRS has established plans and embarked upon a major modernization effort. This modernization effort consolidates a restructuring of the IRS with delivery of improved information technology. The organizational restructuring is based on a fundamental strategy of aligning service and support organizations and people with specific groups of customers. The benefit is an enhanced ability to focus on the unique needs and concerns of a very specific set of customers, and to deliver products and services highly aligned with the respective customer group's needs (see insert box).

The technology modernization initiative is aligned with the organizational modernization to ensure that new IT systems will be made available, when needed, to support the near-term and long term business goals and objectives. This is a long-term effort, reflecting the IRS's commitment to completing this pivotal change in philosophy.

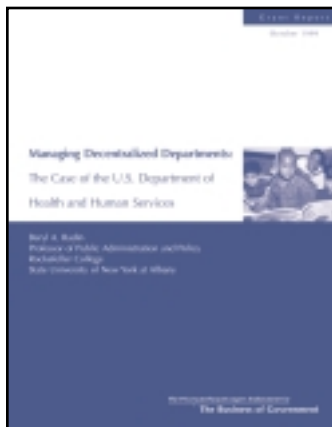
Together, these plans are important not just for their details but because they reflect the new IRS—one that listens to its customers and responds to their needs. ■

James E. Cook is a principal consultant at PricewaterhouseCoopers.
His e-mail: james.e.cook@us.pwcglobal.com.

Jay Tansing is a principal consultant at PricewaterhouseCoopers.
His e-mail: jay.tansing@us.pwcglobal.com.

Managing Decentralized Departments: The Case of the U.S. Department of Health and Human Services

By Beryl A. Radin



Since its creation in 1953 as an amalgam of several existing agencies, the U.S. Department of Health and Human Services (HHS) has struggled with the appropriate balance between centralized functions in the Office of the Secretary and autonomy to the various agencies and bureaus contained within its boundaries. Over the years, the pendulum has swung back and forth between emphasis on centralization

and decentralization as either implicit or explicit management strategies.

The current secretary, Donna Shalala, has adopted a conscious management strategy that is very different from those attempted in the past. She has begun with the assumption that the Department contains many decentralized elements and that it is not possible to change them. She describes the Department as composed of units that have their own history, needs, cultures, and constituencies. She has used the professional credibility of the subunits within the office (especially those dealing with the health world) as an important source of public and political support. She has downsized the Office of the Secretary and delegated many different functions to the operating components.

The research found that the approach used by Secretary Shalala involved four elements that are of interest to managers in a variety of settings, as well as future HHS leaders. The four elements involve the attributes found in the political appointees themselves, the organizational framework that currently defines the Department, the management strategies and approaches that have been undertaken, and the Department's response to external pressures.

The Department that has operated during the Clinton administration has been led by a Secretary who is extremely com-

fortable serving as an advocate for the program units, supporting their agendas, and relying on personal relationships and policy discussions instead of formal bureaucratic processes to arrive at decisions. She has worked to establish an Office of the Secretary that does not second-guess or micro-manage the program components. She is at ease developing a general direction for the Department through a strategically defined set of policy initiatives.

The system that has been put in place is flexible enough to respond to demands for centralization as well as decentralization when issues emerge from public concerns or crises, articulated by the Congress, the White House, and the press. It is robust enough to respond to a variety of situations that may emerge when individual actors look at issues from a political rather than a programmatic lens.

The experience of managing HHS as a largely decentralized Department does attest to the possibility of adopting a management strategy that provides an alternative to a traditional, centralized command and control mode. ■

To Obtain the Full Report

Electronic Version

- In .pdf (Acrobat) format at the Endowment website: endowment.pwcglobal.com

Hard Copy

- E-mail the Endowment at endowment@us.pwcglobal.com
- Fax the Endowment at (703) 741-1076
- Call the Endowment at (703) 741-1077



About Beryl A. Radin

Beryl A. Radin is Professor of Public Administration and Policy at Rockefeller College at the State University of New York at Albany. She served as a Special Advisor to the Assistant Secretary for Management and Budget, U.S. Department of Health and Human Services, for the academic years 1996-98. Before joining the Albany faculty in 1994, she was Professor of Public Administration at the Washington Public Affairs Center of the University of Southern California's School of Public Administration from 1978 to 1994.

Her publications have focused on management and policy issues within the U.S. federal government. Her books include *New Governance for Rural America: Creating Intergovernmental Partnerships*, with Robert Agranoff, Ann Bowman, C. Gregory Buntz, Steven Ott, Barbara Romzek and Robert Wilson, University Press of Kansas, 1996; *The Politics of Federal Reorganization: Creating the U.S. Department Of Education* with Willis D. Hawley, Pergamon Press, 1988; and *Implementation, Change and the Federal Bureaucracy: School Desegregation Policy In HEW (1964-68)*, Teachers College Press, Columbia University, New York, 1977. Her new book, *Beyond Machiavelli: Policy Analysis Comes of Age*, will be published by Georgetown University Press in 2000.

Dr. Radin was the President of the Association for Public Policy Analysis and Management, the national public policy organization. Her professional activities also involve the American Political Science Association, the National Association of Schools of Public Affairs and Administration, and the American Society of Public Administration.

Dr. Radin received her Ph.D. in Social Policies Planning from the Department of City and Regional Planning at the University of California at Berkeley.

Grasping the Elephant

continued from page 21

Some managers decry what appears to them a perversion of reinvention ideas for political ends. Because of the positive attention garnered by the 800 service, no effort has been spared to ensure that the stated objective of answering 95 percent of all 800 calls within five minutes is achieved. Phone service at the local office level, which has not been made a priority, is poor. Further, during periods when the 800 calls are heavy, workers in the Payment Service Centers are switched from their regular work to man the phones, and payments to citizens may be delayed as a result. In an ironic twist, say the managers, those whose payments are delayed end up calling the 800 number to find out why.

It is dangerous to generalize from the experience of one group of managers or one agency. In previous research on the reinvention lab program, I found many encouraging examples of units where reinvention principles were successfully applied to improve service. In fact, I concluded that the laboratory concept has promise as a general model for inducing change. But these seeds will only grow in fertile ground or upon careful tending. Where the laboratory program has had the greatest effect is in those agencies that have been under the greatest external threat (as with the General Services Administration) or where outstanding leadership has emerged (as at the Veterans Benefits Administration). Elsewhere, the status quo appears to prevail, with many of NPR's key interventions effectively dampened during the process of implementation. Recent surveys by the Merit Systems Protection Board and by NPR itself reveal some negative attitudes toward the reforms by rank-and-file federal employees.

To point out that NPR may have fallen short with regard to some key objectives is not to impugn the motives of its sponsors. The Vice President and his staff appear to have been sincere in their attempt to remold the structure and culture of the executive branch in ways that enhance the quality of work life of federal employees. There are a variety of possible explanations why the program has fallen short, but one apparent tactical error — which future reformers may want to consider — was the failure to mobilize middle managers and enlist their support and assistance in implementing those changes of which they were to be the primary beneficiaries. In the absence of such an initiative, supporters of the status quo, including most prominently those in staff units and at central office locations, appear to have prevailed in many key agencies. ■

James R. Thompson is assistant professor, Public Administration Program, University of Illinois–Chicago.

New Tools for Improving Government Regulation: An Assessment of Emissions Trading and Other Market-Based Regulatory Tools

By Gary C. Bryner



Critics of environmental regulation argue that current pollution control policies are inefficient, and that it is too costly to impose nationwide standards on sources of pollution that differ according to local conditions. They believe it makes little sense, from an economic perspective, to require all sources to comply with these regulations, even though the cost of compliance varies considerably across

sources. Regulations that mandate specific control technologies lock industries into existing equipment and processes, and fail to create incentives for industries to develop new, cleaner, more efficient technologies.

One of the most important and popular remedies for the ills that many believe plague environmental regulation is the use of market-based approaches to regulation. The purpose of this report is to examine the use of emissions trading in air pollution regulation, the most widely used market-based regulatory tool, discuss its strengths and limitations in regulatory programs, and suggest when and how emissions trading might best be employed in environmental regulation.

Market-based regulatory tools, particularly emissions trading programs, promise to dramatically reduce the cost of achieving environmental goals, while giving regulated industries more flexibility, and to streamline the tasks of regulatory agencies. In emissions trading, polluters are allocated a limited number of allowances, or units, of emissions for release into the environment. Companies can either make the changes necessary to stay within the limits or buy allowances from others. Tradable emission permits can be saved or banked for future use, or sold by polluting companies as long

as limits on total emissions are not exceeded. Polluters have an incentive to reduce their emissions beyond their allowances so that they can generate revenues through the sale of their excess allowances. Total emissions can be reduced over time by decreasing the number of allowances distributed to pollution sources.

Emissions trading programs were the basis of the national acid rain program that reduced emissions from coal-fired power plants, and are part of many state programs to achieve national air quality standards and other environmental goals. Emissions trading and other market incentives will continue to play a central role in dealing with problems such as acid rain and ozone depletion, and are expected by many to be a central element of whatever efforts the United States and other countries undertake to achieve the goals agreed to under the Kyoto Protocol for climate change.

Emissions trading makes sense in addressing some regulatory tasks, such as giving sources more flexibility by allowing them to meet facility-wide emission limits rather than imposing standards on each source. Emissions trading may be a critical element in generating political support for new regulatory initiatives.

However, the popularity of emissions trading poses a risk: It may be seen as a panacea for the problems of regulation and be used in situations where its disadvantages outweigh its advantages. Emissions trading, if not carefully designed and integrated with other regulatory requirements, can create problems such as high concentrations of pollutants in some areas, particularly those where low-income residents live. Trading may undermine the power of moral arguments that pollution should be reduced and challenges the principle that all sources of pollution should reduce emissions. It may fail to create incentives for the development or dissemination of new control technologies. Trading requires emissions monitoring equipment and processes that may simply not be in



place. It requires regulatory officials and managers of regulated facilities to take risks with new approaches to regulation.

Experience suggests that emissions trading programs work best when they are based on accurate emissions information, are built on emission limits that give adequate protection to environmental quality and natural resources, are stable, predictable, and rigorously enforced, and are combined with requirements that sources make some minimum emissions reductions. In addition, emissions trading programs need to be seen as a stepping-stone to other policies that increase the extent to which the true costs of production are included in the prices charged, and they need to create more effective incentives to reduce pollution and encourage economic activities that are ecologically sustainable. ■

About Gary C. Bryner

Gary C. Bryner is director of the Natural Resources Law Center and Research Professor of Law at the University of Colorado School of Law. He has also been a professor of political science at Brigham Young University, where he directed the Public Policy program. He is a graduate of the University of Utah (economics), Cornell University (government), and Brigham Young University (law). He has been a guest fellow at the Brookings Institution, the National Academy of Public Administration, and the Natural Resources Defense Council. He has taught courses in policy analysis, environmental regulation, natural resources policy, international development policy, social policy, and the policy making process. Bryner is the author of *Bureaucratic Discretion: Law and Policy in Federal Regulatory Agencies* (1987); *In Search of the Republic: Public Virtue and the Roots of American Government*, with Richard Vetterli (1987, 1995); *Blue Skies, Green Politics: The Clean Air Act of 1990 and its Implementation* (1992, 1995), *From Promises to Performance: Achieving Global Environmental Goals* (1997); *Environmental Politics: Domestic and Global Dimensions*, with Jacqueline Vaughn Switzer (1998); *Politics and Public Morality: The Great American Welfare Reform Debate* (1998); and *U.S. Land and Natural Resources Policy* (1998).

To Obtain the Full Report

Electronic Version

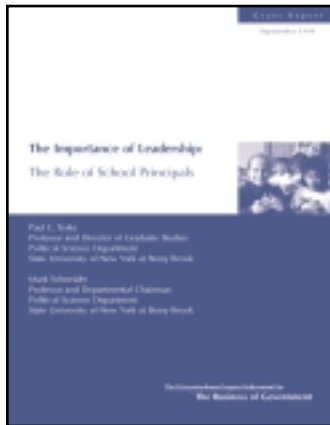
- In .pdf (Acrobat) format at the Endowment website: endowment.pwcglobal.com

Hard Copy

- E-mail the Endowment at endowment@us.pwcglobal.com
- Fax the Endowment at (703) 741-1076
- Call the Endowment at (703) 741-1077

The Importance of Leadership: The Role of School Principals

By Paul E. Teske and Mark Schneider



Many inner-city schools are performing poorly. Measurable outputs, such as test scores and graduation rates, are low, while schools are often unsafe. But some schools still manage to provide a high-quality education for their students. How do they succeed?

In this study, we examine leadership as a factor in the creation of good schools. We interviewed

a set of eight principals of high-performing public schools in New York City. We found several common dimensions to their leadership that appear to be important factors in developing high levels of school performance. Although we did not choose our schools randomly — and eight is a small sample of the nearly 1,000 public schools in New York City — we identify a set of patterns that we believe are associated with success.

We found that many of the inputs into education often emphasized in today's reforms were not critical to the success of these schools. For example, money was not a central issue for most of these successful principals — although they all would like additional resources, the problems they faced were not overwhelmingly resource-based. And, while parental involvement was important to some principals, other principals recognized limits on how much parents could help. Even more interesting was the range in the size of these highly successful schools: Some of these schools were large (1,400 in one elementary school) and others were small (200 students). Similarly, some had relatively small class sizes, while others had large and overflowing classes. In addition, some of these schools were "choice schools" in which parents and students actively sought admission, but most were traditional neighborhood schools drawing students from defined catchment areas.

In contrast to the great variability in these conditions, based on our observation of these successful schools, we argue that autonomy and strong leadership are essential ingredients to high performance, and we identify four commonalities across the actions of the principals we studied that contributed to their successes:

- Controlling staff hiring and development practices is critical to creating an effective community.
- Experience matters. All these principals had considerable time in the system.
- A coherent educational mission throughout all grades in the school helps mobilize the staff and the school community, though which theme is selected may matter less.
- High expectations for students, not just in rhetoric but also in practice, was common to every principal and they all expected everyone in the school community to live up to high standards and enforce those high expectations.

While many of our findings support previous studies on what makes an effective leader, the autonomy the principal is given or is able to assert is often neglected in the literature. Thus, we recommend that large bureaucratic school systems must grant principals greater autonomy, particularly as principals prove capable of generating success.

We believe that reforms can achieve greater autonomy while preserving accountability. For example, under a system of greater parental choice, principals would remain not only somewhat accountable to actors above them in the educational hierarchy, but they would also be held directly accountable to parents and students who can "vote with their feet." And the increasing use of nationally normed tests and standards provides an objective test of the success of schools and their principals. Given these standards, we can give principals more autonomy to experiment with a variety of ways of meeting standards.

Though the type of excellent principals we interviewed are often said to be in short supply in New York City, there is no inherent reason for this shortage. Presently, principals are paid little more than experienced teachers, so such teachers have little incentive to take on greater responsibility, and New York City principals are paid far less than their suburban counterparts. Greater autonomy and more rewards for success are likely to encourage more effective leaders to emerge and to stay in New York City and other urban public schools. ■



Paul E. Teske (left) and Mark Schneider (right)

Paul E. Teske is Professor and Director of Graduate Studies in the Political Science Department at SUNY Stony Brook, where he has taught for 12 years. He has written widely about public policy, regulation, and school choice. With Mark Schneider and Melissa Marschall, he is co-author of a forthcoming book on school choice. Dr. Teske earned his B.A. from University of North Carolina-Chapel Hill and his M.P.A. and Ph.D. degrees from Princeton University's Woodrow Wilson School of Public and International Affairs.

Mark Schneider is Professor and Chair of the same Department, where he has taught for 22 years. He has published numerous articles and several books on urban politics, public entrepreneurs, and school choice. Dr. Schneider is currently working on a large project studying the Internet as a means of delivering school-based information to help parents choose the schools their children attend. He earned his B.A. from Brooklyn College and his Ph.D. from University of North Carolina-Chapel Hill.

To Obtain the Full Report

Electronic Version

- In .pdf (Acrobat) format at the Endowment website: endowment.pwcglobal.com

Hard Copy

- E-mail the Endowment at endowment@us.pwcglobal.com
- Fax the Endowment at (703) 741-1076
- Call the Endowment at (703) 741-1077

Leadership for Change: Case Studies in American Local Government

By Robert B. Denhardt and Janet Vinzarnt Denhardt



This study examines the experiences of three highly regarded local government leaders previously profiled in *The Pursuit of Significance*. The managers are Robert O'Neill, then city manager of Hampton, Virginia, and now county executive of Fairfax County, Virginia; Phil Penland, formerly of Deland, Florida, and now city manager of Altamonte Springs, Florida; and Jan Perkins, previously city manager of Morgan

Hill, California, and now city manager of Fremont, California. All three are once again engaged in leading dramatic transformations of their local governments.

Robert O'Neill was widely heralded for his innovative approach to leading change as the city manager of Hampton, Virginia through the 1980s and early 1990s. A little over two years ago, O'Neill was hired as county executive of Fairfax County, Virginia, a county of nearly a million people in the Washington, DC area. O'Neill arrived in Fairfax just after the county had been through a fiscal crisis. The culture of the organization was one that seemed content with operating on a day-to-day basis, largely reacting to the board of supervisors. Moreover, the county government was organized in a fairly traditional top-down structure, with communications across departmental boundaries being relatively rare. O'Neill's challenge has been to bring about a massive shift in the culture of the organization, emphasizing open communications throughout the organization, significant involvement of county employees in major decisions, and building more effective linkages with the community.

Another innovator, Phil Penland, has been the city manager of Altamonte Springs, Florida, for 16 years, having previously served as city manager in nearby Deland. Over the course of his tenure in Altamonte Springs, Penland and the city have developed a reputation for innovation and excellence that is

the envy of other local governments in the area. Indeed, the *Orlando Sentinel* recently referred to Altamonte Springs as the "premier" city government in the area. Phil Penland's role in creating a solid governmental foundation and then encouraging an extraordinary degree of creativity and innovation is undeniable. Descriptions of Penland's work tend to center on two or three especially important or signal efforts that helped set a tone or establish the culture of change and innovation that characterizes the city of Altamonte Springs today. But what is most striking is the way in which Penland has encouraged a culture in which change is seen as a positive value rather than something to be feared and in which all employees are actively involved in pursuing innovations that make the city work better.

Fremont, California, is a relatively young city, created through joining five unincorporated areas into one jurisdiction about 45 years ago. Yet, despite its youth, Fremont is a large and diverse community of nearly 200,000, the fourth largest in the Bay Area. Jan Perkins came to Fremont as assistant city manager in 1992, after serving as city manager of Morgan Hill, California. After about 10 months, the manager she worked with was fired and she became acting city manager, then city manager. At that time, Fremont, like many other California cities, was suffering from both economic difficulties and from the state's efforts to pull back the property tax as a source of local government revenue. Yet, while city employees were being laid off and services were being curtailed, citizen demand for quality public services remained high. More important, however, in Perkins' mind, was the fact that citizens had lost confidence in their government. For both these reasons, Perkins and other city officials in Fremont recognized that something dramatically different had to be done. Since that time, Perkins has led a transformation that has centered on building more effective customer service, working internally and externally through the use of interest-based bargaining, and significantly involving citizens in every aspect of the city's governance.

Based on these case studies, we developed a model of leadership for change that posits a series of five steps to be under-

taken by those wishing to successfully bring about change in their communities. They are:

- assess the organization's environment and the need for change.
- plan strategically, though pragmatically, for change.
- build support for the change process both through conversation and through modeling the change process in their own behavior.
- implement specific changes, but in doing so encourage a broader positive attitude toward change and innovation.
- institutionalize the change.

Cutting across these issues, we point out the importance of the manager's learning capacity, especially with respect to knowing themselves and their values, knowing their community, knowing their organization, and knowing their governing body. Finally, we suggest that the form of leadership exhibited by these managers differs significantly from the traditional top-down, internally focused approach frequently employed in public administration in that it is much more open, free-flowing, engaging, and collaborative, yet firmly committed to the ideal of service to the community. ■

To Obtain the Full Report

Electronic Version

- In .pdf (Acrobat) format at the Endowment website: endowment.pwcglobal.com

Hard Copy

- E-mail the Endowment at endowment@us.pwcglobal.com
- Fax the Endowment at (703) 741-1076
- Call the Endowment at (703) 741-1077



Robert B. Denhardt is Professor in the School of Public Affairs at Arizona State University and Visiting Scholar at the University of Delaware. Dr. Denhardt is a past president of the American Society for Public Administration, and the founder and first chair of ASPA's National

Campaign for Public Service, an effort to assert the dignity and worth of public service across the nation. He is also a member of the National Academy of Public Administration and a fellow of the Canadian Centre for Management Development. Dr. Denhardt has published 14 books, including *Theories of Public Organization*, *Public Administration: An Action Orientation*, *In the Shadow of Organization*, *The Pursuit of Significance*, *Executive Leadership in the Public Service*, *The Revitalization of the Public Service*, and *Pollution and Public Policy*. He has published over 50 articles in professional journals, primarily in the areas of leadership, management, and organizational change. His doctorate is from the University of Kentucky.



Janet Vinzant Denhardt is Professor in the School of Public Affairs at Arizona State University. Her teaching and research interests lie primarily in organization theory and organizational behavior. Her book (with Lane Crothers), *Street-Level Leadership: Discretion and Legitimacy in Front-Line Public Service*, was recently published by

the Georgetown University Press. In addition, Dr. Denhardt has published numerous articles in journals such as *Administration and Society*, *the American Review of Public Administration*, *Public Productivity and Management Review*, and *Public Administration Theory and Praxis*. Prior to joining the faculty at Arizona State, Dr. Denhardt taught at Eastern Washington University and has served in a variety of administrative and consulting positions. Her doctorate is from the University of Southern California.

[AWARD WINNERS]

Summer 1999 Grant Award Winners

In July 1999, The PricewaterhouseCoopers Endowment for The Business of Government announced the award of seven grants. All research grant award winners will produce a monograph on their topic that will be published by the Endowment.

Dr. Robert Agranoff

*School of Public and Environmental Affairs
Indiana University, Bloomington*

David George Frederickson

*School of Public and Environmental Affairs
Indiana University, Bloomington*

Project Title: "The Government Performance and Results Act"

Description: This research will evaluate the implementation of the Government Performance Results Act across five federal health-care agencies, resulting in an analysis of how different policy tools in different agencies affect performance goals, the way each does its respective business, and the connection between performance measures and program activity.

Louis M. Brennan

*Department of Management, Division of Business Administration
Merrimack College*

Gena Vega

*Department of Management, Division of Business Administration
Merrimack College*

Project Title: "Evaluating the Management of Telecommuting in the Public Sector and Potential Private Sector Applications"

Description: This research will analyze and evaluate telecommuting in the public sector, with a focus on how two federal agencies implemented and managed telecommuting. The result will be recommendations of best practices and suggestions for improvement.

Colin Campbell

*Georgetown Public Policy Institute
Georgetown University*

Project Title: "Institutionalization of Corporate Strategic Planning in the United States Air Force"

Description: This project will analyze and evaluate corporate strategic planning employed by the United States Air Force. The analysis will cover the legacy left by the inception of corporate strategic planning in the Air Force in 1994 and identify how the current leadership is adapting to the dynamic world.

James D. Carroll

*College of Urban and Public Affairs
Florida International University*

Project Title: "Beyond the National Performance Review: The Management Agenda for the Next Administration"

Description: This research will review three central elements of federal management and arrive at an agenda for improving federal management for use by the next administration. The three

areas that will be examined are strategies for management development and innovation, organizational forms and processes to pursue the strategies, and specific challenges in major subject areas such as civil service reform and information technology management.

J. Pari Sabety

*Technology Policy Group
Ohio Supercomputer*

Steven I. Gordon

*Technology Policy Group
Ohio Supercomputer*

Project Title: "Measuring a State's Digital Economy: Lessons and Application"

Description: This research will describe the new tools and methodologies needed to measure a state's readiness for global electronic commerce. The result will be an evaluation of the measurement process including problems and challenges in deploying a statewide measurement effort. The state of Ohio will be used as a prototype for the research.

Robert Maranto

*Department of Leadership, Foundations, and Policy
Curry School of Education
University of Virginia*

Project Title: "Beyond a Government of Strangers: How Career Government Executives Can Improve Political Leadership"

Description: This research will review orientation procedures for political appointees and interview current political appointees from federal government agencies, resulting in a description of the current system and recommendations on how to improve the process in the future.

Fred Thompson

*Atkinson Graduate School of Management
Willamette University*

James R. Thompson

*Public Administration Program
University of Illinois – Chicago*

Project Title: "Future Directions for Reform of the Federal Executive Establishment: Lessons Learned from the National Performance Review"

Description: This analysis of the future direction of administrative reform in the United States will employ a Delphi Inquiry System to generate discussion about the future course of administrative reform.

The PricewaterhouseCoopers Endowment for
The Business of Government

Through grants for research, thought leadership forums and the SES leadership program, and sabbaticals, The PricewaterhouseCoopers Endowment for The Business of Government stimulates research and facilitates discussion of new approaches to improving the effectiveness of government at the federal, state, local, and international levels. All grants are competitive.

Founded in 1998 by PricewaterhouseCoopers, the Endowment is one of the ways that PricewaterhouseCoopers seeks to advance knowledge on how to improve public sector effectiveness. The PricewaterhouseCoopers Endowment focuses on the future of the operation and management of the public sector.

About PricewaterhouseCoopers

PricewaterhouseCoopers (www.pwcglobal.com) is the world's leading professional services organization. Drawing on the knowledge and skills of 150,000 people in 150 countries, we help our clients solve complex business problems and measurably enhance their ability to build value, manage risk and improve performance. PricewaterhouseCoopers refers to the US firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

For additional information, contact:

Mark A. Abramson

Executive Director

The PricewaterhouseCoopers Endowment
for The Business of Government
1616 North Fort Myer Drive
Arlington, VA 22209

(703) 741-1077

fax: (703) 741-1076

e-mail: endowment@us.pwcglobal.com

website: endowment.pwcglobal.com

PRICEWATERHOUSECOOPERS 

The PricewaterhouseCoopers Endowment for

The Business of Government

1616 North Fort Myer Drive
Arlington, VA 22209-3195

Bulk Rate
US Postage
PAID
Permit 1112
Merrifield, VA