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MAKING GOVERNMENT WORK

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Currently, governments at all levels — local, state and federal — face a critical problem. While struggling with budget deficits caused by stagnant economies and the political realities of beleaguered taxpayers demanding lower taxes, government must provide ever increasing services to deal with the multitude of crises including drugs, crime, AIDS, health care, homeless indigents, decaying infrastructure and the demands of public education. Even without the current economic downturn, government resources to deal with these problems would be stretched beyond capacity. In the present state of the economy, the imbalance between increased needs and diminished resources threatens the very fabric of our social systems.

Compounding the problem is the strident competition between jurisdictions for jobs — the key to their survival. Often this competition takes the form of economic incentives that further erode the tax base. For example, New York City competes with New Jersey, Long Island and Westchester County for residents and jobs; the New York metropolitan area competes with upstate New York and downstate New Jersey; the Northeast competes with the Southwest and the United States competes with Europe and Asia. Furthermore, it appears that this economic “tug-of-war” will continue to escalate. As New York City Council President, Andrew Stein, has stated, “We can no longer ask businesses and the middle class to pay ever-higher taxes to sustain a huge mismanaged work force — certainly not when other cities and regions offer more efficient government, better services and lower taxes.”¹

For any locality, the presence of jobs and taxpayers will both determine and depend on the quality of the schools, level of health care,

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1. Andrew Stein, *The Last Dinosaur*, N.Y. TIMES, June 10, 1991, at A17.

the crime rate, the extent of government services, the quality of life and the tax rate. Thus, if government cannot respond to these crises at reasonable cost, the jurisdiction will embark on a downward spiral leading to fewer residents and jobs, more crime, more drugs, further decay of the infrastructure and a diminished tax base. Such cities as Bridgeport, Connecticut,² and East St. Louis, Missouri,³ have already experienced this decline.

However, in the current economic crisis caused by massive budget deficits and escalating service needs, there may be a unique opportunity. As Chicago Mayor Richard Daley said in his budget message for Fiscal Year 1992, "[T]his budget is a wake-up call. It's time to jolt the bureaucracy, demand accountability, improve performance, and establish stricter management practices in government."⁴ Just as the U.S. private sector learned in the 1970s and 1980s that it would have to become more efficient and improve quality if it wanted to compete in the international arena, state and local governments in the 1990s must learn the same lesson. The three choices for the public sector are: to improve the quality of service delivery while simultaneously lowering the cost of providing the services; to have public sector services contracted out to the private sector; or to have the taxpayers flee to other jurisdictions.

If they are to meet the needs of their residents, and compete effectively for jobs and taxpayers, governments must use workable approaches for delivering services. Specifically, to be viable in the 21st century, government entities must implement a number of strategies regarding mechanisms for transition between administrations, improving the quality of government managers, increasing the effectiveness of the work force and eliciting the support of the media. The balance of this essay addresses these issues.

I. Hit the Ground Running

A. The Problem of Changing Administrations

Whenever publicly elected administrations change, government business grinds to a halt as the newly elected team takes over. In many situations, not only will there be a turnover of the elected officials, but new political appointees will replace most agency heads as

2. *Chapter Nine Was City's Only Hope*, PUB. FIN./WASH. WATCH, Jan. 20, 1992, vol.6, no.2, at 6.

3. See Colman McCarthy, *Raising a Stink in East St. Louis*, WASH. POST, Mar. 21, 1992, at A23.

4. Remarks by Mayor Richard M. Daley, City of Chicago 1992 Budget Address (Oct. 15, 1991).

well. Each of them, in turn, will appoint their own set of deputies. Thus, most senior management teams dissolve causing the loss of institutional knowledge and wisdom; the cost of this change in government is a tremendous loss of experience. Can you imagine the effect this would have on a private enterprise?

After the election, the new public sector team must begin from scratch. How do you work within the civil service system? What do labor agreements allow? How do you put together a budget and financial plan? Who are the individuals at the various agencies that can make things happen? The reaction of the work force, having seen many administrations come and go, is often, "Here we go again. Now we have to train a new set of managers."

B. The Solution

There is an alternative. The new administration's team, i.e. the chief executive, cabinet members, finance and personnel directors and agency heads, needs to begin the process of team building after the election but before taking office. Perhaps an Outward Bound⁵ wilderness experience would be a perfect vehicle for team building, constructing ties between team members in a neutral setting and serving as a foundation for working together professionally once they assume their new roles. This trip could be funded by a foundation, excess campaign contributions or government funds.

In any event, the elected official and the new team must first establish clear goals and identify common objectives. The team then should meet with members of the outgoing administration to learn the problems and experiences of their predecessors. Next, the team should bring the work force into the process to learn about their capabilities. Finally, the team should select and promote the best as they identify, motivate and reward superior performance, and train and develop teams effectively within their own departments.

This ordered transition, with a cohesive, newly-assembled team at its core, should meld the best of the old with the best of the new, thereby avoiding the expensive, one to two year break-in period that traditionally accompanies such changeovers.

II. Develop the Top Performers

The demand for efficient, high-quality, service delivery will require

5. Outward Bound uses rugged outdoor experiences to foster teamwork and independence. See John Husar, *Jump-Start Life by Leaping for Joy*, CHI. TRIB., Mar. 3, 1991, at C1.

a cadre of motivated managers, carefully selected and developed as an investment in the future. It will require a new commitment to management training. The result will be managers who are able to solve pressing problems, rather than become frustrated by them.

A. Discretionary Hires as the Key

Top level government officials, when questioned about poor performance in their particular departments, will often place the blame on civil service rules and collective bargaining agreements which restrict their abilities to hire, fire and discipline employees. However, in nearly all levels of government, at least five percent, and often as much as fifteen to twenty percent of the work force could be employed without limitation from civil service rules (selection, discipline, promotion and layoff procedures) and would not be subject to collective bargaining contracts. Then, the first test of the managerial capability of a government should be how well the discretionary hires perform. Are they political hacks or good managers? Should experience outweigh ethnicity? Is the elected official concerned with patronage or performance?

Many believe that restrictive civil service rules and ironclad labor contracts make implementation of modern management techniques impossible. To a certain extent, this may be true — good management may be tougher to accomplish in the public sector. However, it is possible. The irony is that as long as elected officials appoint top deputies for political purposes instead of for their managerial prowess, managing the public sector properly may be impossible.

B. Plan the Human Resource Needs

While fiscal crises have forced many governments to develop sophisticated finance and budget capabilities,⁶ most governments have not developed their human resource departments and functions. While there may be long-term financial planning, there is rarely long-term human resource planning. How many employees will the government need six months from now? What about one, two or three years from now? What types of employees will the government need?

6. See Jack Egan, *Fresh Finance Plan for N.Y. Unveiled*, WASH. POST, Jan. 21, 1978, at C8; Edward A. Gargan, *State Legislators and Cuomo Agree on Spending Plan*, N.Y. TIMES, Apr. 4, 1985, at A1. During New York City's fiscal crisis of 1975 and thereafter, the Emergency Financial Control Board and the Municipal Assistance Corporation insisted that New York City adopt conservative accounting principles and budgeting methodologies. Subsequently, the State of New York and the City of Yonkers have had to follow suit.

Can the public employer train and develop its own people? If not, should they hire from local schools, other government entities or the private sector? Short- and long-term human resource planning is critical for a government to avoid constant personnel crises — too many of some employees, too few of others, and having applicants with the wrong skills and training. Proper personnel planning will aid considerably in obtaining and retaining qualified people.

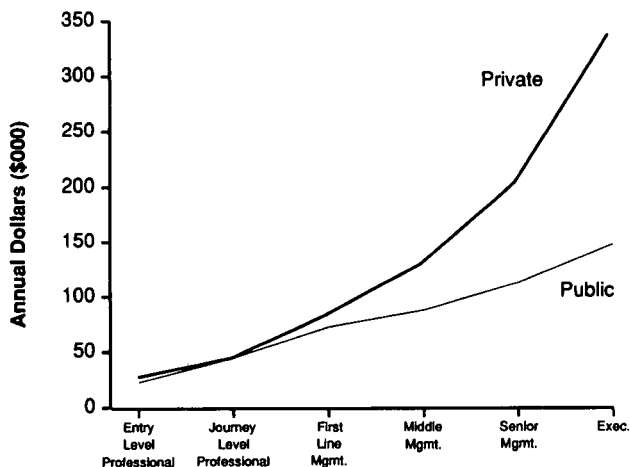
III. Compensate the Work Force Appropriately

The costs of salaries and fringe benefits consume more than half a government's budget. To attract and retain qualified employees, the salary and fringe benefit structure must be appropriate. The public sector compensates many jobs at rates inconsistent with the realities of the labor market. For example, in some cities, sanitation workers' salaries are high because of successful collective bargaining by powerful unions; this results in the attraction of hundreds of applicants for each job opening.⁷ Meanwhile these cities pay below the market rate for engineers. This practice makes it difficult to attract and retain engineers in the public sector.

Figure 1⁸ illustrates the dissimilarity of pay practices in the public and private sectors. Jobs of increasing difficulty and complexity are displayed along the horizontal axis, and total cash compensation (base salary plus bonus) is shown on the vertical axis.

7. See Calvin Sims, *Dinkins Gains Tentative Pact on Sanitation*, N.Y. TIMES, Feb. 14, 1992, at B1.

8. HAY MANAGEMENT CONSULTANTS, HAY COMPENSATION REPORT (1991).

Public Sector Salaries vs. Private Sector Average**Total Cash Compensation****Figure 1**

LAB-RESEARCH.DWP

In the illustration the public sector line is “flat,” with little increase in compensation as job difficulty increases. Viewed in relation to the private sector pay practice, the public sector rates are competitive for entry and journey level professionals, begin to lag at middle management levels, and fall dramatically behind the private sector total compensation for upper management and executives. Two factors cause this situation — the upward pressure on the salaries of entry level professional jobs created by high-paying unionized jobs, and the informal “cap” on executive salaries (i.e., “no one gets paid more than the governor”).

These two pressures squeeze the salaries of the middle managers. For them, there is little monetary reward for taking on bigger assignments and larger roles. It is a wonder the public sector can hire any private sector managers and benefit from their managerial talents and business savvy.

A. The Skilled Trades

Because of state and local laws,⁹ the skilled trades are often the

9. See, e.g., N.Y. LABOR LAW § 220 (McKinney 1990); Davis Bacon Act, 40 U.S.C. §§ 276a-276a-5 (1988).

beneficiaries of an unnecessarily generous compensation structure. Commonly, the public sector pays the same base wage rate for an electrician or plumber as the unionized private sector. However, beyond this prevailing wage rate, the public sector worker generally receives a more generous health benefit and pension plan combined with substantial time off from work for sick leave, holidays and vacation.

As a result, the government employer's cost per hour of work for a public sector skilled trades worker substantially exceeds the private sector equivalent. Add to this cost structure the fact that the private sector skilled trade worker often gets paid for less than forty hours per week and fifty-two weeks per year due to the intermittent and seasonal nature of his or her work. Therefore, the public sector total cost for these skilled workers is too high.

In Figure 2,¹⁰ a city paid its truck drivers the same hourly wage rate as the private sector paid. However, due to the high cost of public sector benefits, the city paid ten percent more per working hour than the private sector employer. If the city could bring employment cost down to the level of the unionized private sector, it could save millions.

10. Hay Management Consultants.

FIGURE 2

TRADES COST COMPARISON

	CITY Truck Driver	PRIVATE Class I Teamsters
PUBLIC SECTOR		
Base Rate	\$37,544	
Health/Welfare	\$6,092	
Pension	\$5,177	
TOTAL EMPLOYER COST	\$48,813	
HOURS OF WORK		
Scheduled Work Year	2080	
Vacation	104	
Holidays	80	
NET HOURS WORKED	1,896	
PRIVATE SECTOR COMPARISON		
BASE RATE	\$18.05	\$18.05
BENEFITS COSTS		
Health/Welfare		\$2.70
Pension		\$1.30
Training		
Vacation & Holidays		
Other		\$0.01
TOTAL BENEFITS COST		\$4.01
TOTAL PACKAGE		\$22.06
Social Security (7.65%)		\$1.38
TOTAL EMPLOYER COST PER HOUR WORKED	\$25.74	\$23.44
CITY AS % OF PRIVATE	110%	

B. Managerial and Executive Positions

The most significant examples of underpaid employees are the upper management and executives. In the private sector, managers will often receive six figure salaries with generous bonuses. Often public sector management salaries are artificially low due to constraints set by the salaries of elected officials, or the belief that the public would not tolerate highly paid senior public sector managers. Because pay is better in the private sector, good managers reject such positions in government. This tendency results in promoting ineffective managers and minimally qualified executives for critical public sector jobs that require experienced senior managers with a proven track record.

There are, however, some recent encouraging developments in this area. The salaries of school superintendents and heads of transit authorities have broken through traditional public servant salary limits. For example, the New York City Schools Chancellor and the head of the Washington, D.C. Metro transit system both receive compensation packages totaling more than \$200,000 per year.¹¹ Except for these relatively few exceptions, however, much of the public sector salary structure at the higher levels makes little sense; therefore, effective service delivery will require significant change.

Just as the government leaders must preach quality and effective service delivery with religious fervor, they also must insist on a salary structure that allows for the hiring and retention of qualified and effective executives. Salaries and benefits that are clearly above private sector equivalents must be brought down. Flexibility must be granted in some critical areas. Finally, where salary improvements are necessary to attract and retain high level personnel, accountability for quality performance must override outdated notions regarding compensation for public sector managers. They are no less entitled to financial rewards for an inadequate performance than their counterparts in the private sector.

C. The Pay For Performance Dilemma

Many believe that pay for performance¹² is the panacea. However, there are several general problems with pay for performance in the public sector. First, if the government has performance standards that are not properly value-based, it may be rewarding the wrong ac-

11. Telephone interviews with New York City Board of Education and Washington Metro Area Transit Authority representatives.

12. Pay for performance refers to variable salary based on the evaluation of an employee's performance against stated objectives for the job. See Paula Dwyer, *The New Gospel of Good Government*, BUS. WK., January 20, 1992, at 66.

tivity and behavior. For example, if you pay for the weight of garbage collected, the sanitation workers may water down the trash. If you give overtime pay for court appearances during a police officer's time off, the most frequent arrests may occur at the end of a work tour. If you pay attorneys for their court success rate, your senior and most able attorneys may shy away from the difficult cases.

Second, a considerable effort in time and energy will be needed to establish a complex pay for performance structure. More productively, this time and energy should be dedicated to building teamwork, understanding customer needs, establishing the correct performance criteria and moving forward on the new crusade — constant public sector service quality improvement.

However, once the public sector makes progress toward improving quality service, there is little doubt that some pay elements should be tied to the performance of individuals, teams and departments, if it can be done simply and fairly. In exchange for what the public perceives as improved quality service, the public would more likely accept increased salaries. For example, the State of Michigan created an incentive for the manager of an \$18 billion public pension fund that offered a cash payout and deferred bonus if the fund outperformed the market averages.¹³ The City of New York paid a daily bonus to sanitation workers when two workers did the same work as three worker teams.¹⁴ These performance based incentives should be extended throughout government entities to improve service quality.

D. The Hidden Costs of Poor Compensation Practices

In a structure that overpays some workers while not permitting sufficient pay for others, governments often consider contracting out work to the private sector. Interestingly, the need to pay higher salaries for a few senior managers may be as strong a motivator to contract out work as the need to pay lower salaries to the rank and file workers. Since the wage and benefit structure in the public sector is out of sync with the private sector, where skilled trades receive wage and benefit packages larger than their private sector counterparts, and senior management and executive personnel are compensated at less than half the rate of their private sector counterparts, the ability to attract, retain and motivate an effective public sector work force will be greatly diminished.

13. Elder Witt, *Sugarplums and Lumps of Coal*, GOVERNING, Dec. 1989, at 28 (If Michigan's pension fund performed well enough, the manager would earn \$130,000, twice his regular pay.)

14. NEW YORK CITY MAYOR'S MANAGEMENT REPORT xix (Sept. 1981).

Management must negotiate with the unions to establish a more economically feasible compensation practice. If the wage and benefit cost structure is too high and if the union refuses concessions, management must resort to using outside contractors. In addition, even in times of great fiscal constraint, management's public posture must be that some salaries must increase significantly to attract and retain certain other workers needed to provide quality service delivery. "We must have the tools to improve government. If we do not succeed, vote in a new team at election time."

E. Health-Care Costs as a Factor in Compensation

Finally, an equitable and competitive public sector compensation scheme requires a health benefit cost structure consistent with those provided in the private sector. All employers, private and public, face staggering health benefit cost increases that averaged fifteen to twenty percent per year for the last three years.¹⁵

However, the public sector has a special problem. Many public sector employers pay a larger proportion of the cost of health benefits than the private sector. About seventy-five percent of public sector employers have "paid-in-full" health coverage for employees and their dependents, while less than twenty-five percent of private sector employers have similar "paid-in-full" coverage.¹⁶ When both spouses work, one for the private sector and one for the public sector, the private sector spouse's plan usually requires a contribution for dependent health care, for a plan with higher deductibles and lesser benefits. In this situation, the private sector spouse will reject health coverage and use the benefits provided the spouse in the public sector. Thus, the public sector employer will bear the cost of health benefits for the entire family.

Therefore, if the public sector does not adopt the same defensive health benefit cost structure as the private sector, it could conceivably subsidize private sector employers' health costs. In this era of rapidly escalating health costs, failure to rationalize the health benefit cost structure with those provided in the private sector increases the costs of government, without increasing the level of service to the public.

IV. Commit to Quality

Can the public sector manager deliver on the promise to provide first class services? To be successful, this commitment must be felt by

15. HAY/HUGGINS BENEFITS REPORT (1989, 1990, and 1991).

16. HAY/HUGGINS BENEFITS REPORT (1991).

the elected official and must be transmitted to every level within the government. Department heads must have strong managerial skills and understand that their jobs depend on providing improved quality in services with reduced costs. Efficiency and productivity must be preached with the fervor of a religious crusade, starting with top management and their staff. The delivery of first quality service must be "Job Number One" for every government employee. Constant service quality improvement must be the theme. The question that the taxpayers must be asked daily is "How are we doing?". If the answer is "Not very well," then both appointed and elected officials must pay the price — searching for another job in the private sector.

A. Learn a Lesson From the Post Office

Perhaps the most recognized example of the failure of customer service is in the post office. Who has not seen people create long lines behind a single open window while another post office employee, in full view, is engaged in some incomprehensible activity? It is no wonder that we have private delivery systems! The development and prosperity of these businesses prove that the public is quite willing to pay a premium for quality service. How much extra would a taxpayer pay to avoid a two hour wait for a new driver's license?

The government has to develop a customer relationship with its service users. That is, the government must treat the taxpayers as customers. Service recipients must be polled regularly. What do they like? What do they believe can be improved? Properly run private enterprises understand that you must follow up with customers to hear what they like and dislike about a recent purchase. Some governments have adopted similar programs with great success. For example, the Madison, Wisconsin Police Department will ask complaining witnesses about the quality of the services they receive in addressing their complaints.¹⁷ At first blush, the idea sounds risky, but a complaining citizen is a customer and government must find out when their customers are satisfied and when they are not in order to further improve the system.

Next, government agencies must understand that their sister agencies are also customers. In government, employees spend countless hours figuring out how to circumvent the standard operating procedures. For example, they view rules and regulations of the personnel department as obstacles, not aids to hiring employees. To prevent

17. Joseph Sensenbrenner, *Quality Comes to City Hall*, HARV. BUS. REV., Mar.-Apr. 1991, at 74.

these systems from becoming bureaucracies, each department must regularly ask its customer departments what can be improved. Those who use the system must be satisfied with the service. Procedures must be workable rather than impediments to progress.

B. Establish Proper Service Measurements

Critical to improving service is establishing the right measurements and asking the right questions. To improve quality, service standards and performance indicators must be established that yield improved service when the standards and indicators improve. All too often, the government sets up a series of measurements that have nothing to do with quality, e.g. the number of lane miles paved. This measure has nothing to do with how long the repaired roads last, nor does it suggest the number is sufficient to ensure good road surface quality. It also does not show how many more miles need to be paved or suggest the number of traffic snarls caused by daytime as opposed to nighttime repairs. Similarly, the number of arrests made may have nothing to do with the police department's real objective — to protect life and property. In fact, a private sector review of New York City government showed that of the 2200 established measures for city agencies, eighty percent dealt with work volume; only twenty percent dealt with effectiveness, productivity and cost.¹⁸

Government service delivery is a chain which includes the government employee who is in daily contact with the public, all of the government employees who provide services for other government employees and all of the contractors who provide goods and services for the government. As a team, each link in this chain must be able to ask the right questions, analyze the right data, understand what can be improved and generate the ideas and approaches for improvement. When focused on improving service delivery, the relevant standard of measurement is "Are all of us together providing quality service to the public at a reasonable cost?". As a team they must strive to achieve the taxpayer response: "You are doing better and better and better."

V. Elicit the Support of the Media and the Electorate

The best performers and managers in government will rise to the top if the prerequisite for reelection of the administration is quality service delivery, and if the electorate is informed. For instance, if the

18. *The Mayor's Private Sector Survey: The New York City Service Crisis—A Management Response* (Sept. 1989).

voting public learns that public sector programs in Milwaukee, Phoenix and New York State provide better services at lower costs, and they learn that those types of programs can be applied by their own local governments, the overtaxed, under-serviced voters will demand these changes. The taxpayers will require elected officials to be effective managers. The taxpayers will insist that the administration use every opportunity to bring expert managers into the government.

The news media can help. For example, some officials are much better managers than others. However, while the media will castigate the poorer managers, little is said of the good performers. As another example, some government departments are quite effective. The work of these government entities must be showcased. Newspapers, magazines, radio and television must give extensive coverage to the mayors who have established effective governing teams. The news media must trumpet stories of governors who promote excellence, quality and the drive to win performance awards. Department heads that run effective customer service operations (the antithesis of uncaring bureaucrats) must become local heroes. If the success stories are consistently publicized, the public will begin to ask, "Why can't our elected officials and managers be as effective?"

VI. Conclusion

For a city or state government to be viable in the last decade of the 20th century, elected leaders must view modern management as a crusade. The work force must receive fair and equitable compensation, and all must be committed to constant quality improvement. Newspapers, magazines, radio and television must report the success stories and the failures. Taxpayers must understand that government services can improve, and the leaders must be held accountable. The government in the City of Phoenix has committed to winning every public sector quality and efficiency award they can.¹⁹ Milwaukee has committed to innovation.²⁰ These same programs and approaches are possible throughout the public sector. However, it will not happen unless an educated electorate demands it and the elected officials understand the stakes.

19. Interview with Donald J. Borut, Executive Director of National League of Cities (Feb. 1991).

20. *Milwaukee: The Public Sector Pacesetter*, HUMAN RESOURCE EXECUTIVE, Apr. 1990, at 1.