REINVENTING GOVERNMENT:
WHAT A DIFFERENCE A STRATEGY MAKES

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Reinventing public institutions is Herculean work. To succeed, you must find strategies that set off chain reactions in your organization or system, dominoes that will set all others falling. In a phrase, you must be strategic.

By strategy, I do not mean detailed plans. There is no recipe you can follow to reinvent government, no step-by-step progression to which you must slavishly adhere. The process is not linear, and it is certainly not orderly. Things rarely go as planned; reinventors must constantly adjust their approaches in response to the resistance and opportunities they encounter.

Rather, by strategy, I mean the use of key leverage points to make fundamental changes that ripple throughout the bureaucracy, changing everything else. Reinvention is large-scale combat. It requires intense, prolonged struggle in the political arena, in the institutions of government, and in the community and society. Given the enormity of the task and the resistance that must be overcome, the reinventor's challenge is to leverage small resources into big changes. Being strategic means using the levers available to you to change the underlying dynamics in a system, in a way that changes everyone's behavior.

To use but one example, former British Prime Minister Margaret Thatcher did not start out with a full-blown strategy to reinvent the British state. She came into office in 1979 determined to make it smaller, privatize many functions, and force the bureaucrats to be more efficient. But unlike her American counterpart, Ronald Reagan, she learned from the failure of her "jam the bureaucrats" approach. She also had more time in office. In her third term, she began to apply a consistent philosophy of extending choice and competition to public services and decentralizing authority so providers had the flexibility to respond to their customers' needs.

Thatcher put together a team of trusted civil servants—her "Efficiency Unit"—who came to understand the real problems that lay behind public sector performance. In her ninth year in office they articulated a set of systemic changes that applied her philosophy to core government functions. It took them a long time to get there, and they made many mistakes along the way, but they managed to find a series of key levers:

- privatization of functions better performed by businesses operating in competitive markets;

- uncoupling policy and regulatory functions ("steering") from service-delivery and compliance functions ("rowing");

- multi-year performance agreements between departments and operational agencies, which exchanged managerial flexibility for heightened efficiency and accountability for results;

- decentralization of authority to units responsible for work;

- public-private competition, through "market testing;" and

- accountability to customers through choice, customer service standards, and customer redress.

My colleagues and I in the Public Strategies Group have found these same levers used again and again, in every country, state, province, city, county, or school district that has undertaken serious reinvention. Why? Because these are the levers that change the framework within which organizations and people work. "It is usually not possible to command large organizations to make painful changes in long-settled routines," explains Ted Kolderie, one of the reformers who brought public school choice to America. "It is possible, however, to redesign the

institutional arrangement in which they operate, so that they come to perceive these changes as necessary and desirable, in their own interest."[i]

Business Professors Michael Beer, Russell Eisenstat, and Bert Spector made the same point in a 1990 *Harvard Business Review* article entitled, "Why Change Programs Don't Produce Change."

> *Most change programs don't work because they are guided by a theory of change that is fundamentally flawed. According to this model, change is like a conversion experience. Once people `get religion,' changes in their behavior will surely follow. ... In fact, individual behavior is powerfully shaped by the organizational roles people play. The most effective way to change behavior, therefore, is to put people into a new organizational context, which imposes new roles, responsibilities and relationships on them.*[ii]

Dan Loritz, one of Kolderie's co-conspirators for public school choice in Minnesota, uses an agricultural analogy. "A farmer goes out and spends a lot of time making sure that the fields are just right, gets all of the weeds out, plants the corn with great care, puts enough herbicides on it to make sure that there aren't any weeds, and hopes that there's enough water," he says. "And if everything is right, the corn grows all by itself."[iii]

Reinventors should think like farmers, Loritz argues. If they create the right conditions, the results will follow.

Rewriting the Genetic Code

To extend the agricultural metaphor, think of public systems as organisms: complex, adaptive systems that live, grow, change over time, and die. Organisms are shaped by their DNA: the coded instructions that determine who and what they are. DNA provides the most basic, most powerful instructions for developing an entity's enduring capacities and behaviors. Change an organism's DNA and new capacities and behaviors emerge; change enough of the DNA and a different kind of organism evolves. Usually organisms change very slowly, as their DNA randomly mutates and some of these mutations make them more successful in their environments.

The same is true for public institutions: normally they evolve very slowly.

Bureaucratic public systems were designed to be stable. But we have reached a point in history where this stability is counterproductive. In today's fast-changing, globally competitive Information Age, systems that cannot change are doomed to failure.

In this situation, the solution is genetic engineering: change the system's DNA. Our research tells us that the most fundamental pieces of public sector DNA are a system's purpose, its incentives, its accountability systems, its power structure, and its culture. Successful reinventors have all stumbled across the same basic insights: that underneath the complexity of public systems there are a few fundamental levers that make institutions work the way they do; that these levers were set long ago to create bureaucratic patterns of thinking and behavior; and that changing the levers—rewriting the genetic code—triggers change that cascades throughout the system.

We have grouped these fundamental levers of change into five basic strategies, each of which includes several distinct approaches and many tools. For each lever, we have designated a strategy. And to help people remember the strategies, we have given each one a label that begins with the letter C.

The Five C's		
Lever	*Strategy*	*Approaches*
Purpose	The Core Strategy	Strategic Management
		Clearing the Decks
		Uncoupling
Incentives	The Consequences Strategy	Managed Competition
		Enterprise Management
		Performance Management
Accountability	The Customer Strategy	Customer Choice
		Competitive Choice
		Customer Quality Assurance
Power	The Control Strategy	Organizational Empowerment
		Employee Empowerment
		Community Empowerment
Culture	The Culture Strategy	Changing Habits
		Touching Hearts
		Winning Minds

The Core Strategy

The first critical piece of DNA determines the purpose of public systems and organizations. If an organization is unclear about its purpose—or has been given multiple and conflicting purposes—it cannot achieve high performance. As Yogi Berra is reputed to have said, "If you don't know where you're going, then any road will take you someplace else."

We call the strategy that clarifies purpose the core strategy, because it deals with the core function of government: the steering function. While the other four strategies focus more on improving rowing, the core strategy is primarily about improving steering—about doing the right things, not doing things right. At the most fundamental level, it is about creating clarity of purpose. When everyone in a public organization or system is clear about its fundamental purpose or purposes, improving performance is far, far easier.

This, no doubt, seems very simple and very obvious. Yet, it is also rare. Most public organizations have multiple purposes, some of which even conflict. Over the years, with the best of intentions, school boards, city and county councils, and state, provincial, and national legislatures have piled mission after mission on their organizations.   When this happens, employees gradually lose any sense of clarity about what's most important.

To get clarity you must first define the system or organization's core purposes. Then you have to eliminate activities that no longer contribute to those purposes. And finally, you have to organize the system so that each unit is free to pursue its own piece of the core mission or missions. Often, this means separating units that have fundamentally different purposes, such as service and compliance work, or steering and rowing.

These are the three approaches of the core strategy: *strategic management, clearing the decks,* and *uncoupling*.   Strategic management develops systems that help leaders constantly define and redefine their core purposes—the outcomes that are most important to their citizens—and aim their organizations at achieving them. It involves one set of tools to establish outcome goals and clear organizational missions, another to develop and refine strategies to achieve those goals and missions, and a third to connect each rowing organization to those goals by defining the outputs and outcomes it should produce to contribute to them. In recent years the Public Strategies Group has developed a tool, called Budgeting for Outcomes, that integrates all these steps.[iv] The most powerful core strategy tool, it helps leaders craft a budget designed specifically to produce the results most important to their citizens.

In traditional budgeting, leaders start with last year's costs, then add or subtract.   In Outcome Budgeting, they start with the results citizens value. This approach clears away all the games departments play—padding costs and hiding excess, to protect themselves against the inevitable cuts. It focuses squarely on the real issue: producing results citizens value at a price they are willing to pay. It involves these basic steps:

1. *Set the price of government*: Decide up front how much citizens are willing to spend. Get political agreement on a revenue forecast and any tax or fee increases.

2. *Set the priorities of government*: Define the outcomes that matter most to citizens, along with indicators to measure progress. By outcomes we mean results such as improved education levels, better health, and lower crime rates.

3. *Set the price of each priority*: Divide your projected revenue among the priority outcomes.

4. *Develop a purchasing plan for each priority*: Create "results teams" to act as purchasing agents for the citizens. Ask each one to decide which strategies have the most impact on their desired outcome, then articulate those strategies in a "Request for Results," which takes the place of the traditional budget instructions.

5. *Solicit offers to deliver the desired results*: Have the results teams issue these "requests for results" to all comers, public and private. Rank the "offers" that results from most cost-effective to least, buy from the top, and draw a line when the funds run out. Those offers above the line, which promise the best results for the money, go into the budget; those below do not.

6. *Negotiate performance agreements with the chosen providers.* These should spell out the expected outputs and outcomes, how they will be measured, the consequences for performance, and the flexibilities granted to help the provider maximize performance.

Budgeting for Outcomes not only helps with Strategic Management, it also helps *clear the decks*, because low value spending programs are systematically driven out of the budget. Other tools that help clear the decks include program or performance reviews, sunset rules, asset sales, and devolution to a lower level of government.

The third core strategy approach, uncoupling, separates functions with fundamentally different purposes into different organizations. It uncouples the policy and regulatory roles from the service delivery and compliance roles, and it separates distinct service functions into different organizations and distinct compliance functions into different organizations. This helps each organization concentrate on achieving one or two clear purposes.

In the traditional public organization, policy makers, advisers, and managers run the show but rely solely on employees to deliver services or enforce compliance. In essence, the steering units are captive of monopoly suppliers: their own agencies and divisions. And as the British Efficiency Unit found in the course of its Next Steps study, in the late 1980s, the policy staffs typically don't care about or understand management, while the managers are so far down the chain of command that they lack the authority and flexibility they need to run effective organizations.

Uncoupling steering and rowing was the first principle outlined in *Reinventing Government*, which we called "Catalytic Government."[v] It is virtually identical to the method of organization Peter Drucker has long recommended for large corporations, which he calls "federal decentralization."[vi] It allows government to centralize and coordinate its steering functions, so they can more effectively concentrate on policy and direction, while decentralizing rowing, so managers have the power to improve service delivery and compliance. It frees those responsible for implementing policies to look beyond public monopolies and choose many different mechanisms to do the rowing—creating what the New Zealanders call "contestability." And it allows steering organizations to develop contractual relationships with rowing organizations, through which they can exercise the consequences, customer, and control strategies.

Basil Logan, chairman of New Zealand's Logan Commission in the early 1990s, did a good job of explaining why contestability is so important:

> *Road safety as an outcome is politically desirable. Politicians are prepared to invest resources in it. A traditional measure of road safety is the number of accidental deaths on the roads. But there are a number of outputs that can contribute to achieving the desired outcome, including more police patrols, improved road design and highway signage, the regulation/control of drinking and driving, better hospital treatment for accident victims and so on. The notion allows for consideration of the contestability of a whole range of otherwise unrelated activities in seeking to attain a particular outcome that politicians have decided is a political priority.[vii]*

The Consequences Strategy

The second key piece of DNA determines the incentives built into public systems. Bureaucratic DNA gives employees powerful incentives to follow the rules and keep their heads down. Innovation can only bring trouble; the status quo brings steady rewards. Employees are paid the same regardless of the results they produce. And most organizations are monopolies—or near-monopolies—that are insulated from their failures. Unlike private firms, they do not lose revenues or go out of business if the competition does a better job.

Reinventors rewrite the genetic code to change these incentives, by creating consequences for performance. When appropriate, they put public organizations into the marketplace and make them dependent on their customers for their revenues. When that is not appropriate, they use contracting to create competition between public and private organizations (or public and public organizations). When neither is appropriate or politically possible, they use the consequences strategy to shatter the status quo by measuring performance, rewarding improvement and excellence and refusing to tolerate persistent failure. This can be done in any government organization.

These three approaches are known as e*ntrepreneurial management, managed competition,* and *performance management*.

Entrepreneurial management thrusts public service-delivery organizations into the private marketplace, where they must function as business enterprises with financial bottom lines. They survive and prosper—or fail and wither—by selling products and services to customers. This is the most powerful approach, but it is only appropriate for services (not policy, regulatory, or compliance functions) that can be charged to their customers. Reformers in New Zealand used this approach to wring enormous inefficiencies out of more than half of their national bureaucracy.[viii] Australia broke 60 percent of its $1.2 billion-a-year Department of Administrative Services (DAS) into 13 independent businesses, eliminated their monopolies, and forced them to compete with private companies. Three years later, it took away their subsidies, turning them into enterprise funds dependent upon their customers for all revenues. In response, these units cut staffing from 14,000 to 9,900 in four years, turned a $100 million loss in 1988 into a $46.7 million profit, and increased DAS's productivity 5.6 percent a year.[ix]

Managed competition is the second most powerful approach. It forces potential providers—private businesses and/or public agencies—to compete against each other for contracts, based on their performance and cost. Managed competition is appropriate for any service or compliance function, though only public vs. public competition is appropriate when concerns about safety, national security, privacy, or due process make the public uncomfortable with private providers.

Managed competition has been used in hundreds of countries, states, provinces, cities and counties, and the results have been studied dozens of times. Typically, academic studies report average savings of 20-30 percent the first time a service is put up for competition.[x]

When neither enterprise management nor managed competition is appropriate or possible—due to political or other resistance, or because the activity is a policy or regulatory function—reinventors turn to performance management. This approach uses performance targets, rewards, and penalties to motivate public organizations. It is not usually as powerful, because the rewards and penalties it imposes are rarely as compelling or unavoidable as the consequences of competition. They come in two basic forms: cash bonuses, pay increases, gainsharing from budget savings, and other financial incentives; and celebrations, awards, days off, and other psychological incentives. Reinventors use both—but the key is always to tie them to performance.

The three approaches are not mutually exclusive. Public enterprises and organizations that compete for contracts normally use performance management to maximize their ability to compete. Indeed, we advise every public organization to use performance management, whether it is a public monopoly, a competitive enterprise, or a competitor for contracts. This, of course, puts a premium on measuring performance, a core competence that makes the consequences strategy possible.

Whichever approach is used, it is likely to stir fear in public employees and their unions, at least initially. They will worry about layoffs, if public enterprises fail in the marketplace, if private businesses win contracts to deliver government services, or even if public organizations trim their costs to win competitive bids. To lessen this concern, governments can protect employees from the threat of unemployment by adopting a no-layoff policy and creating a menu of options for employees whose jobs disappear (unless they are in a fiscal crisis so serious they can't afford this luxury).

The key is to use attrition to downsize, shifting displaced workers into jobs vacated by those retiring or departing. The typical government has a 5-10 percent annual attrition rate, which fluctuates as economic conditions change. Some of the menu options include:

- retraining workers and placing them in other public jobs;

- holding vacation positions open as a "job bank" for workers whose jobs disappear;

- requiring private contractors to hire dislocated public employees before anyone else;

- requiring private contractors to pay comparable wages and benefits;

- carrying people who are close to becoming vested with pensions, but making the private contractor pick up the cost;

- helping public managers take their organizations private, with their employees;

- offering severance packages or early-retirement incentives; and

- providing outplacement services.

The Customer Strategy

The next fundamental piece of system DNA focuses primarily on accountability: specifically, to whom are the organizations accountable? (To be precise, all five strategies touch on the issue of accountability. The core strategy defines what an organization is accountable for; the consequences strategy determines how it will be held accountable; the control strategy affects who will be accountable; and the culture strategy helps employees internalize their accountability. But by making organizations accountable to their customers, the customer strategy deals most powerfully with the issue of accountability.)

Most public entities are accountable to elected officials, who create them, determine their functions, and fund them. Because these officials are under constant pressure to respond to the demands of interest groups, they often care more about where public resources are spent than about the results they purchase.

In response to widespread abuses by politicians, bureaucratic reformers in many countries have established professional civil services to insulate the management of departments from political influence. Managers and employees gradually became accountable for following the rules of the civil service. Hence managers are held most tightly accountable for following these rules and for spending their funds as appropriated by elected officials. Rarely is anyone held accountable for the results.

The customer strategy breaks this pattern by making public organizations also accountable to their customers. It lets customers choose between competing service delivery organizations, in some cases, or sets meaningful customer service standards those organizations must meet, in others. These standards deal with things like how long it will take to serve the

customer (whether at the Post Office, a permit office, or any other government agency), how reliable a service (eg. a bus or train) will be, and how the customer will be treated.

Creating accountability to the customer increases the pressure on public organizations to improve their results, not just to manage their resources. It creates information—customer satisfaction with specific government services and results—that is difficult for elected officials, public managers, and employees to ignore. And it gives public organizations the right target to shoot at: increased customer satisfaction.

This does not mean that public organizations are no longer accountable to their elected representatives; it means they often have dual accountability. Just like businesses, public organizations become both "vertically" accountable to their superiors and "horizontally" accountable to their customers. This works best when elected officials align these dual accountabilities by stating their goals in terms of customer satisfaction and holding organizations accountable for meeting customers' needs.

When conflicts between the two occur—when customers want something elected officials don't want—elected officials should have the final say, just as the owners of a business have the final say. Often service customers want more service than the elected officials are willing to fund, for example—smaller classes, more buses, bigger parks. Sometimes customers want things elected officials (or the courts) have ruled illegal. In such cases, vertical accountability to elected officials should trump horizontal accountability to customers. In the public sector, the customer is not always king.

Nor does the customer strategy suggest that the role of customer supplants that of citizen, as some critics argue. Both roles are important. Citizens vote, influencing the policies set by their representatives. Public organizations then implement those policies. But in bureaucratic systems, citizens have no practical way to hold those organizations accountable for their performance—or even to give them feedback on their performance. The customer strategy puts them in the feedback loop.

Why isn't vertical accountability, using the Consequences Strategy, enough? Because a public organization or system that creates consequences to boost its performance may still be missing the boat. A public transit system that uses managed competition to cut its costs by 25 percent may still have riders who are intensely frustrated by slow, unreliable buses or desperate for air conditioning. A recreation department that doubles the number of programs it offers may still have many customers who want different programs altogether. A school district that pulls its test scores up dramatically may still have students and parents deeply frustrated by the rote-learning approach taken in the classrooms or by a paucity of elective courses.

Virtually every organization we have studied that has made dramatic gains using managed competition or performance management has at some point realized that it needs a customer strategy as well. These two approaches are powerful, but they don't tell you whether you're producing what your customers value, nor what they think of your quality.

We define the primary customers of a public function as its *principal intended beneficiaries*—those individuals or groups the work is primarily designed to benefit. Secondary customers are other people the work is designed to benefit who are less important than the primary group. For example, the primary customers of schools are students and their parents; secondary customers include the broader community, which wants an educated workforce and responsible citizens, and employers, who want skilled employees.

In functions whose principal product is compliance, not service—such as police departments, environmental protection agencies, and tax collection agencies—the primary customer is usually the community at large. People the agency deals with day after day, such as suspected criminals, polluters, and taxpayers, are *not* its primary customers. They are important, but they are not the agency's reason for being. To distinguish them from customers, we call them *compliers*. Many reinventors call them customers, because they want compliance agencies to treat them better. We share this goal, but in our experience, the employees of these agencies know that suspected criminals, polluters, and taxpayers are not their customers. They know that pleasing these people could even compromise their mission. (They could please polluting businesses but ruin the environment, for example.) As a result, they quit listening the minute some outside expert starts talking about "customers" and "customer service."

There are at least three basic approaches under the customer strategy. *Customer choice* gives customers a choice of providers; this makes sense for most service and compliance functions, but not for steering (policy and regulatory) functions.

Competitive choice adds a dimension of consequences by letting the customers take public resources to their provider of choice. In an education system using competitive choice, for example, the public dollars supporting each student go to the school the student attends. Because this automatically rewards or punishes service providers by bringing them (or denying them) funds, it is much more powerful than choice alone. But it is not appropriate for compliance or steering functions—or even for all service functions.

The third approach, *Customer quality assurance*, sets customer service standards, rewards organizations that do a good job of meeting them, and penalizes those that don't. Though not as powerful as competitive choice, it can be used for any function, whether customers have choices or not.

Customer choice without consequences is certainly better than no choice at all, in most cases. It gives customers access to different kinds of services—different kinds of schools, different kinds of day care, different kinds of health providers. Customers who choose their service providers are also more committed customers: researchers have found that students who choose their schools are more committed to education, for example.[xi] For some customers, this effect can be extremely powerful. Bob Rauh, principal of an inner city private school in Milwaukee that accepts students who bring vouchers paid for by the state, captured the impact well:

> *You've got to understand that many of our parents have never been able to choose anything before. While every suburban family exercises choice—get transferred in your job, and the first thing you do is check out the best school districts—a lot of our parents can't choose where they live, what hospital they go to. They've never been able to take ownership of anything until this point. So being able to choose their own school is a very powerful thing. Our parents grow tremendously in terms of responsibility, wanting to go back to school, to get involved in the community.[xii]*

I understand Rauh's point; indeed, I wrote about it at length in *Reinventing Government*. But this essay is not about the wonderful things public organizations can do for their customers, as *Reinventing Government* was. It is about how to motivate public organizations to habitually do these wonderful things. And as a motivator, choice without consequences has limits. If service providers are not rewarded for attracting more customers and punished for losing them, choice has less power to change their behavior. The main thing at stake is pride, and pride is not always

enough to overcome union resistance, political resistance, red tape, and the inertia built into large public systems.

As a result, competitive choice has far more power to improve service systems. When it is impossible, for political or other reasons, I suggest combining choice with performance management or managed competition, to create the consequences needed to drive improvement.

In policy and regulatory work, even simple choice is rarely appropriate; customer quality assurance is the only viable option. It makes no sense to create two or three institutions to write the rules covering some kind of behavior, then let people choose which set they prefer to obey, for instance. The U.S. has long had two sets of rules for banks: they can apply for state charters and be regulated by their state or apply for national charters and be regulated by federal institutions. This allows them to shop for the weakest regulator, undermining government's ability to prevent abuses in the banking system.

In compliance work choice often makes sense, but competitive choice does not. A tax agency or permitting department can give compliers choices: to file taxes by mail, phone, or electronically, for example, or to use different permitting offices. Some environmental protection agencies allow polluters a choice of responses: they can clean up their pollution, buy pollution credits, or use a combination of both to meet the required standards. In Vermont, a state in the U.S., corrections reforms have dramatically expanded the choices given to judges and community reparative boards—which represent the primary customer, the public—in sentencing criminals.

If compliance offices were funded according to the number of people or businesses they served, however—if the money followed the complier to their compliance office of choice—these offices might have an incentive to overlook problems. A permitting agency would have an incentive to approve permits, when its real job is to protect public safety and standards by only approving construction projects that meet those standards. An auto emissions inspection station would have an incentive to attract more customers by overlooking pollution and safety problems in autos, rather than forcing their owners to fix the problems. This is why competitive choice is not appropriate for compliance functions.

Where Each Customer Approach is Appropriate

Approach	*Function*		
	Policy & Regulatory	**Service**	**Compliance**
Customer choice		X	X
Competitive customer choice		X	
Customer quality assurance	X	X	X

Listening to one's customers is a critical competence necessary to use the customer strategy. I call it a competence rather than an approach because it is seldom enough, by itself, to force public organizations to break through the resistance and radically improve their customer service. Knowing what your customers want and delivering it are two different things. Knowledge does not force organizations to change in the way that consequences can.

The Control Strategy

The fourth critical chunk of DNA determines where decision making power lies. In bureaucratic systems, most of the power remains near the top of the hierarchy. In democracies, power first flows from citizens to elected officials; then from elected officials to central "staff" agencies such as budget and personnel offices; finally from those central control agencies down to agency ("line") managers. Typically, elected officials keep as much power as possible in their own hands, and the central control agencies guard their power even more jealously. Line managers find their options limited and their flexibility constrained by detailed budget instructions, personnel rules, procurement systems, auditing practices, and the like. Their employees have almost no power to make decisions. As a result, government organizations respond to new orders rather than to changing situations or customers' needs.

The control strategy pushes significant decision making power down through the hierarchy, and at times out to the community. Leaders do this because they increasingly expect organizations to respond quickly, flexibly, and creatively to problems, opportunities, and customers' needs—something that is impossible if everyone must wait for orders from the top. Success in the Information Age requires that those closest to the problem take initiative, not wait for instructions from those at the top of a distant pyramid. People must be freed to act.

But the control strategy is not a zero-sum game that takes power from some and gives it to others. For as it shifts the locus of control, it also shifts the form of control. Instead of using commands, rules, and inspections for compliance, reinventors develop new ways to guide the behavior of employees. Rather than trying to control what public organizations or community groups do, they try to influence what their members want to accomplish. This is the essence of the empowerment deal: commit to producing specific results and you get the power to decide how to produce those results. These deals combine several strategies:

- They require decisions about what results government wants to produce—good steering, in other words.

- They require performance measurement to monitor whether those results are being achieved.

- They require consequences—rewards and sanctions—so there is accountability for performance.

- And they require empowerment, which shifts control over decisions to public employees and organizations and community-based organizations.

The control strategy involves three approaches. Leaders empower organizations by streamlining the many rules and regulations that central administrative offices, elected officials, and higher levels of government impose upon them. They empower employees by reducing or eliminating hierarchical management and trusting them to get the job done. These two approaches—*organizational empowerment* and *employee empowerment*—should, whenever possible, be used in combination. Freeing organizations from overbearing central controls produces far better results when top managers pass some of their new power down to their employees. And when an organization empowers its employees, it will reach a point where administrative system controls impede further progress. Employees may become frustrated and cynical, because their hands are still tied by the big systems—budget, personnel, and procurement.

The third approach is far more radical and often far more difficult than the first two. But its impact is often far more profound, because it shifts the bureaucracy's power out into the community. Reinventors use *community empowerment* to share power with neighborhood organizations, public housing tenants, parents of school children, business associations and other community-based entities.

All three approaches work for service, policy, and regulatory organizations. Compliance agencies can also use empowerment, but within limits. Some controls exist to protect citizens rights and cannot be modified, loosened, or dismissed. For example, in the U.S., police officers should have no discretion about reading a suspected criminal his or her rights.

In the developing world, the barriers to empowerment are formidable. In much of Asia, Latin America, Africa, and Eastern Europe, corruption is rampant, patronage is the norm, and even the courts and police are not always independent. On top of that, workforces are less educated than in the developed world.

In developing nations, leaders must decentralize control with great care. First they need to concentrate on establishing some basics: the rule of law, an independent judiciary, hiring based on merit, and financial controls, audits, and transparency. These are the most important steps they can take. Then, as they begin to loosen the old systems of control, they should construct new systems in their place—management information systems, systems that impose consequences, auditing systems, and systems that will prosecute corruption. When they cannot use market competition to create consequences, perhaps their best option is to grant flexibilities only as organizations prove they can handle them.

Using this approach, they would grant an agency freedom from overly centralized controls only after the agency had proved its capacity to detect and control corruption, patronage, and political manipulation of employees. The freedoms could even be granted in stages, as agencies gradually strengthened and demonstrated the effectiveness of their new control systems.

Even in the developed democracies, the control strategy is not easy. Many elected officials and top managers relish the control they have and are unlikely to give it up without a very good reason. Yet many are also under some pressure to produce better results. The trick is to persuade them that empowerment will do just that.

The Culture Strategy

Finally, the last critical piece of DNA determines the culture of public organizations: the values, norms, attitudes, and expectations of employees. Bureaucratic systems use detailed specifications—functional units, procedural rules, and job descriptions—to mold what employees do. They make initiative risky. As employees become habituated to these conditions, they become carriers of the culture. They become reactive, dependent, fearful of taking too much initiative themselves. In this way, bureaucratic DNA creates cultures of fear, blame, and defensiveness.

Culture is shaped powerfully by the rest of the DNA: by an organization's purpose, its incentives, its accountability system, and its power structure. Change these and the culture will change. Unfortunately, these strategies are rarely sufficient. Bureaucratic culture is difficult to overcome, because it is deeply embedded in the habits, hearts, and minds of employees. It fights back. Some people comply with change, but don't embrace it. Others avoid it, or openly resist it.

Sometimes the culture changes, but not fast enough. At other times it changes, but not in the ways leaders intended. All of this has led experienced reinventors to conclude that they need a strategy that seeks to reshape the culture consciously and deliberately—in specific, intended ways.

The paradigm of 21st century organizations is very different from the paradigm of bureaucratic organizations. Employees assume that they should improve the organization's efficiency and results, think about and change the way things are done, work together on solving problems and coming up with innovations, and respond flexibly and quickly to feedback from customers. They feel a strong connection to the organization's purpose. They welcome change as an opportunity, not a threat.

Culture change is slow work. It is retail work: the conversion process occurs person by person. And there are so many factors that shape a culture, from tradition to incentive systems to the external environment. These factors create the basic assumptions that employees hold about their organizations. They define its cultural paradigm—the lens through which people perceive reality.

To build an entrepreneurial culture, you must change people's bureaucratic paradigms. This involves getting people to let go of their assumptions; introducing them to new assumptions; earning their trust; and providing safety nets so they will take the risk of using the new assumptions. We described this process of shifting paradigms in *Banishing Bureaucracy*.

In that book we also defined three basic approaches for changing a culture:

Changing habits creates new experiences for people that challenge their paradigms. Changing what employees do at work confronts them with new problems that cannot be solved by using career-long habits. They must find new ways of acting.

Touching hearts shifts the emotional commitments of public employees—their hopes, dreams, and expectations for themselves, the organization, and each other. They break out of their deeply felt attachment to bureaucratic status, or their resentment of authority, or their investment in being a victim.

Winning minds helps employees develop new understandings—conscious, rational "mental models"—about where the organization needs to go and how to get there.

Reinventors use a great many tools to implement these approaches; we described many of them in *The Reinventor's Fieldbook*. Whichever ones you choose, there are some fundamental lessons about leading cultural change that apply in virtually every organization:

1. Involve the employees. Woo them, reward them, entertain them—whatever it takes to get them to try new things.

2. Walk the talk. Leaders must model the behavior they want; if they don't, the new paradigm will have no credibility.

3. Make yourself visible; get out of the front office and mix with your employees.

4. Make a clear break with the past: send an unmistakable signal that you are initiating culture change.

5. Unleash—but harness—the pioneers. Channel their energy in constructive directions.

6. Get a quick shot of new blood, by bringing in new managers who already carry the new culture. Then continue the transfusion every time you hire someone new.

7. Drive out fear, but don't tolerate resistance. Give employees lots of information and rewards. But if someone repeatedly undermines the change process, remove them.

8. Sell success: constantly call attention to the new behavior you're looking for, and reward it. But don't make the new culture politically correct.

9. Communicate, communicate, communicate.

10. Bridge the fault lines in the organization; help people reach across dividing lines.

11. Change administrative systems that reinforce a bureaucratic culture.

12. Be patient. Commit for the long haul, because it takes five to 10 years to transform a bureaucratic culture. Don't let the bureaucracy wait you out.

Embedding Reinvention: Levels of the Game

Reinventors come and go. How can they ensure that their work will not vanish when they move on—that the jungle of bureaucracy will not regrow and smother their creations, much as the rain forests of the Yucatan overtook and concealed the extraordinary pyramids of the Mayans?

The answer is to embed the strategies: to build them so deeply into every level of government that they become the norm, just as bureaucracy became the norm during the 20th century.

You can unleash these five strategies at any of five levels within a public system: its governing system, its administrative system, its organizations, its work processes, or its people. The higher the level, the higher the leverage.

In the United Kingdom, for example, Margaret Thatcher and John Major targeted the highest level, the basic systems within which public organizations work: the central government system of departments and agencies, the National Health Service, the local government system, and the education system. We call these "governing systems." Change the way these systems work—by creating autonomous agencies on performance contracts, for instance—and you force every organization within them to change.

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│  The Hierarchy of Leverage                                                    │
│                                                                               │
│  Level                  Examples                                              │
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│                                                                               │
│  Governing System       National, State, Provincial, or City Government       │
│                         Education System, Health Care System                  │
│                                                                               │
│                                                                               │
│                                                                               │
│  Administrative         Budget & Finance, Personnel, Procurement,             │
│  Systems                Auditing, Planning                                    │
│                                                                               │
│                                                                               │
│                                                                               │
│  Organization           Municipal Department of Public Works,                 │
│                         U.K. Employment Service                               │
│                                                                               │
│                                                                               │
│                                                                               │
│  Work Processes         Benefit Processing, Permit Processing,                │
│                         Fire Fighting, Complaint Handling                     │
│                                                                               │
│                                                                               │
│                                                                               │
│  People                 Manager, Supervisor, Road Crew, Police                │
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The rules by which governing systems operate are aggregated into what people call "administrative systems," "operating systems," or "management systems." The best known are the budget and finance system, the personnel system, the procurement system, the auditing system, and the planning system. These administrative systems are the means by which the governing system controls its member (or "line") organizations. They tell each organization how it can spend its money, who it can hire, how much it can pay them, and how it can manage them. It is no exaggeration to say that the administrative systems create the straitjacket known as bureaucracy.

For reinventors, there is enormous leverage here as well, for changes in administrative systems ripple outward, changing everything they touch. Indeed, one cannot change a governance system without changing its administrative systems.

Most managers cannot change the governing system within which they work, nor its administrative systems. This is one of the differences between public organizations and businesses. Unless they are part of large conglomerates, businesses are not subsets of "governing systems." Therefore, most business organizations control their own administrative systems. In government this is rare. Special authorities and quasi-public organizations often have this luxury, and top managers in cities and counties can sometimes change administrative systems, if the elected officials buy in. But most public organizations are nested within much larger governing systems that dictate their administrative systems.

Managers can use the five Cs to change their own organizations, however—the next level down the hierarchy of power. They can instill more accountability to customers in their organization, create consequences for performance, push decision making down to front line employees, and change the culture. Sometimes they can even get waivers from the administrative systems, allowing their agencies more freedom and creating different incentives. Working at the organization level obviously has less leverage than systems change, because it effects only one organization at a time. But it has more leverage than the next two levels: processes and people.

Thanks to the popularity of total quality management (TQM) and business process reengineering (BPR), people in government are now focusing significant attention on the way work is organized—the processes organizations use to carry out their tasks. These work processes can be changed through continuous small improvements, using TQM, or through radical redesign, using BPR. But in either case, process improvement will force less reinvention than changes at the systems, administrative systems, or organization levels. Private sector reengineering advocates argue that changing a process will force change in organizations and administrative systems. They are correct, in theory. When the New York Regional Veterans Administration Office in New York City reengineered its work processes, for example, it discovered this. "We started with the work flow, and ended up saying that everything has to change," said Regional Director Joe Thompson. "If you don't change the way you compensate and measure performance, if you just try to change work flow, you'll fall short."[xiii]

But in the public sector, these administrative systems are normally out of the organization's reach—as they were in Thompson's case. Agency managers cannot change personnel and budget systems. So reengineering a process, as much as it may help quality and productivity, rarely leverages change in administrative systems.

Finally, the least leverage comes from changing the people in an organization. The basic problem with government today is not its people, but its DNA—its systems. We will never fix our governments just by getting "better" people, because good people cannot make bad systems work unless they change those systems. Many of the most impressive people I've known in government have worked for New York City or the U.S. federal government—two of the most bureaucratic governments I know. In contrast, when I visit places like Hampton, Virginia, Phoenix, Arizona, and Sunnyvale, California, I find normal people, working in good systems, achieving extraordinary results.

Business people who enter government soon discover this reality. "I imagined this huge resistance by civil servants," said Michelle Hunt, who in 1993 left her management position with Herman Miller, a major furniture manufacturer, to run the U.S. Federal Quality Institute.

> *I imagined the media depiction of civil servants, and it was all wrong. I thought I was going to come here and I was going to see a bunch of people that didn't want to change because they were fat and lazy. I thought it was going to be a bunch of cynics who were going to say to me, "Get out of my face." I found the reverse.... I know the Vice President says it's about good people caught in bad systems. I think it's worse than that. I think there's institutional slavery and they want to get out. You almost see tears in their eyes, there's so much passion about wanting to get out.[xiv]*

People in government do have to change their ideas, attitudes, beliefs, and behavior. That is why organizations need culture strategies. But changes at the people level have less leverage than changes at higher levels. Changing peoples' habits, hearts, and minds rarely does force changes at other levels. I have occasionally seen powerful change agents, including *Reinventing Government* co-author Ted Gaebler, leverage culture change back up through the system. But it is very difficult. In contrast, changing governing systems, administrative systems, and organizations forces people to change.

To reinvent your government, you will ultimately have to use the five Cs at all five levels. If you change your systems, organizations, and people but leave the work processes alone, or change your systems, organizations, and processes but not the way your people work, think, and feel, you will sentence your organization to internal conflict. To reach your destination, you must bring all five levels into alignment.

This is one reason you will need both politicians and public servants to succeed. Few public servants have the power to change governing and administrative systems, but few politicians have the knowledge or familiarity needed to change organizations, processes, and people.

Increasing Your Leverage

Most reinventors start with just one or two strategies in mind. Inevitably, they discover the need for another, then another, until they are using all five. Why? Because using only one or two strategies does not give them enough leverage. Any one strategy is to reinvention as rain is to farmers: indispensable but not sufficient. Farmers also need seeds, rich soil, adequate fertilizer, and sunshine. If all five of these elements are aligned with one another, the crops grow.

One way to put multiple strategies into play is to use what we call "metatools." They are like MIRVs—missiles that deploy multiple warheads. For example, school choice systems in which money follows the child combine the customer and consequences strategies. Total quality management and business process reengineering deploy elements of the customer, control, and often culture strategies.

Indeed, the five strategies often overlap. It is only natural, for example, to combine the uncoupling of steering and rowing (core) with a performance contract (consequences) and more flexibility for rowing organizations (control). Similarly, it is only natural to combine customer service standards (customer) with rewards and penalties for organizations that succeed or fail to meet those standards (consequences). In practice, multiple strategies are often joined at the hip— as they must be to yield maximum power.

Can Reinvention Work in Developing Nations?

By whatever name—reinventing government, the new public management, reform of the state—the new paradigm I have described has emerged primarily in the developed world. But the social, political, and economic realities faced by developing nations are very different from those found in the countries I have analyzed. They are in many ways similar to the conditions faced by reformers in the industrialized world 100 years ago. Corruption and influence peddling are often widespread. Patronage is often the norm: many get jobs because of their connections, not their abilities. The public sector is often used as the employer of last resort for the unemployed. And

in some countries, the courts and police departments are not fully independent of political control, so legal prosecution of corruption is difficult.

In such countries, leaders must pick and choose their reinvention strategies with care. Certainly there are elements of bureaucracy they can discard with impunity. And there are many elements of 21st century government—including competition, privatization, and customer choice—they can introduce without qualms. After all, these approaches worked well in the U.S., when used, even in the heart of the bureaucratic era. But many elements of bureaucratic government were invented precisely to deal with problems like corruption, patronage, and political manipulation of public employees. Many of the rigidities of our central administrative systems, from civil service to procurement to budget and finance, evolved to solve these problems.

Developing democracies can clearly use the core, consequences, and customer strategies. As I noted above, the primary difficulty emerges with the control strategy. How should governments decentralize authority if corruption and patronage are still the norms in their countries?

In my view, the answer depends at least in part on what other strategies these governments are willing to use. The best defenses against many types of corruption are full information, transparency, consequences for performance, and prosecution of illegal activity.

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

Hence reformers in the developing world must construct new management information systems. They must also build effective auditing systems and strengthening their justice systems, so corruption is aggressively prosecuted corruption. Finally, they must loosen the bureaucratic reins in stages, as I discussed earlier. Until they have alternative systems of control, their efforts to create high performing organizations will meet with limited success.

Even in the developing world, however, purpose, incentives, accountability, power, and culture are the fundamental DNA of every public system. If they are coded for bureaucracy, they will produce bureaucratic behavior. If only a few of these pieces of DNA are recoded, they will produce internal conflict. To dramatically improve their organizations' effectiveness, reformers must, over time, recode all five. A leader can generate a series of innovations without using the five C's, producing gradual improvement. But he cannot create a continuously improving, self-renewing system. Consider this the first rule of reinvention: No new DNA, no transformation.

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ii   Michael Beer, Russell A. Eisenstat, and Bert Spector, "Why Change Programs Don't Produce Change," *Harvard Business Review,* Nov.-Dec. 1990, pp. 159-166.

iii   Interview with author.

iv   For a more thorough description of Budgeting for Outcomes, see David Osborne and Peter Hutchinson, *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis* (New York: Basic Books, 2004).

v   David Osborne and Ted Gaebler, *Reinventing Government* (Reading, Ma.: Addison Wesley, 1992), chapter 1.

vi   Peter F. Drucker, *Management: Tasks, Responsibilites, Practices* (New York: Harper & Row, 1974), pp. 572-585.

vii   Quoted in Auditor General of Canada, *Toward Better Governance: Public Service Reform in New Zealand (1984-94) and Its Relevance to Canada* (Ottawa: Office of the Auditor General of Canada, 1995), p. 39.

viii   See David Osborne and Peter Plastrik, *Banishing Bureaucracy: The Five Strategies for Reinventing Government,* second edition (Essex, Ma..: Osborne and Plastrik, 2006), pp.75-90.

ix   Task Force on Management Improvement, *The Australian Public Service Reformed: An Evaluation of a Decade of Management Reform* (Canberra: Australian Government Publishing Service, 1992), p. 283.

x   For a summary of some of the evidence, see Osborne and Hutchinson, p. 155-6.

xi   Mary Anne Raywid, "The Mounting Case for Schools of Choice," in *Public Schools by Choice*, ed. Joe Nathan (St. Paul, Mn: Institute for Learning and Teaching, 1989).

xii   Quoted in David Ruenzel, "A Choice in the Matter," *Education Week*, Vol. XV, No. 4, Sept. 27, 1995.

xiii   Interview with Peter Plastrik, co-author of *Banishing Bureaucracy* and *The Reinventor's Fieldbook*.

xiv   Ibid.