

ON REORGANIZATION AND REALITY

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Mr. Chairman and Members of the Little Hoover Commission:

My thanks for the opportunity to talk with you as you perform your critically important role with regard to the California Performance Review. Before moving to the dialogue that is likely to be more helpful than any prepared text, I would like to make three points which, in my view, should condition any assessment of the type you are charged to make.

1. The first requirement for effective organizational transformation is detailed understanding of how the organization actually works prior to surgery. This imperative sounds simple and obvious. In practice, it is complex, subtle, and more often than not unfulfilled before the organizational surgeon's knife descends.

When addressing fundamental organizational issues in our management consulting practice, we normally perform a reconnaissance phase which seeks detailed understanding of two views of the organization. The first, which we call the de jure view, is the organization as it was designed and is formally described, directed and procedurally equipped to work according to the articles, bylaws, management directives, manuals, organization charts, relevant statutes, and other official documents. The other depiction is what we call the de facto view, which is how the organization actually works, as determined through careful, systematic research into the actual practices and experience of the people within it.

These two pictures always differ to some degree -- in every organization and at all times. That is why by-the-book strikes tend to be so impactful. Most of the differences in the de facto version represent improvements; the people actually performing the function have found more efficient and effective ways to operate than the organizational design contemplated. But some differences from the de jure world usually surface which are detrimental to organizational performance. The harm they do can flow from any number of causes, from inadvertent oversight to individual empire building to inappropriate adaptation to changed circumstances to deliberate distortion of organizational functioning in pursuit of some personal or group agenda.

Whatever the causes of a harmful de facto departure from the de jure design, they are almost never effectively dealt with by organizational surgery which assumes that the de jure world is the real one. Indeed, such surgery is just as likely to compound the problem as to solve it. If one does not understand which power centers within the organization actually drive action and which approval requirements are the genuine points of decision which can really halt or alter

action, changes based on the false premise that these authorities lie elsewhere are often either ineffectual or an invitation to the ravages of the law of unintended consequences.

In short, the would-be organizational surgeon needs much more than the equivalent of a standard anatomical textbook before offering a confident diagnosis and recommended treatment. Each major State agency is a complex organism, the inner workings of which may or may not be accurately suggested by the official organization chart and associated documents. Unless and until the surgeon has a detailed map of the de facto functioning of the organizational patient, the probability of a successful transformation cannot be confidently estimated.

2. The name of the game is productivity improvement, but this is a particularly difficult standard to define with respect to a State government. Virtually all commonly accepted performance goals for governments and other organizations reduce to improvements in productivity -- that is, an increase in positive output per unit of resources invested while quality is held at least constant. Because productivity can be summarized in ostensibly quantitative terms as output divided by input with quality constant, it is often assumed to be both fairly easily measured and demonstrably improving or declining in any given organization over any given period.

In fact, however, adequate definition and measurement of government productivity has been a major technical issue bedeviling scholars, practitioners and politicians ever since the productivity concept was broached. Parallel efforts with respect to private sector productivity have been much more successful -- albeit usually with some failure to internalize some external costs (e.g., pollution) -- because of the ultimate quantitative measure provided by the financial bottom line. As to government, however, there is no expert consensus about what productivity is or how it should be measured.

The reasons for this lack of agreement particularly undermine attempts to measure productivity in the governments of the larger American States. This follows first from the fact that these States are not principally operators, but mainly financiers, regulators and resource transfer vehicles. Only a relatively small proportion of the budget of a State like California pays for direct program operations. The vast bulk of the budget finances aid to localities and individuals, together with various forms of regulatory and standard setting functions. Seen from Mars, the State government looks like a financial services and allocation organization with a few operating appendages.

Productivity definition and measurement are clearest and most widely agreed upon with regard to operating functions, where both output and input can be most easily quantified. Thus, the productivity of a local government, which does much more operating than financing, is far more susceptible to confident productivity analysis than a State government on the California model. Most direct State government "products" are intermediate outputs, not final ones. State activity vis-a-vis K-12 education, for example, produces conditioned financial transfers, regulations, quality measures, standards enforcement and a variety of incentives and disincentives

to local school boards and their employees. All of these are intermediate contributions to the final output, which is the well educated student. Determining whether the child is well educated is -- despite the current controversy on this topic -- much easier than determining how much of the education outcome is contributed by the intermediate State activity, or how a different type or level of intermediate State outputs would be more or less productive in final output terms.

It follows that State government productivity is always to a large degree in the eye of the beholder. The chief dangers in addressing the issue at the State level are that intermediate products will be confused with final outputs and that quantifiable data will be assumed to be superior and complete productivity indicators simply because they can be collected and reported in simple numerical form. It is not necessarily true, to take an obvious example, that doubling the number of regulations generated per unit of staff time constitutes a productivity increase; in fact, this could easily be disastrous to final output productivity. Where the State is engaged in operations that are truly subject to classical investment/return analysis, standard quantitative productivity measures may be quite appropriate. But where the State product is intermediate in nature, measures that combine quantitative and qualitative standards are called for, and with them come inevitable and legitimate differences regarding the subjective judgments involved and the priorities they reflect. And, in any case, no authentic productivity assessment is possible unless State activity is plausibly related to the final outputs that are usually directly generated by entities other than the State.

3. Certain defects and inefficiencies are inherent in the use of State governments as instruments of metropolitan governance, and making them the best such instruments they can be poses special challenges. The most serious conundrum in American governance arises from the fact that the population is largely concentrated in metropolitan complexes each of which is splintered into hundreds or thousands of independent governmental units with no authoritative point of decision, resource redistribution or coordination short of the State. These metropolises are becoming somewhat broader geographically because of urban sprawl, but they remain the dominant residential/commercial life forms in the society.

Taking a Martian's perspective once again, the State may be fairly characterized as in large part a device for transferring resources from the outer rings of each metropole, where the bulk of the income is, to the poorer inner core, where social problems tend to concentrate. Our Martian may be forgiven for observing that it is an extraordinarily distant and cumbersome contrivance for achieving this transfer, as well as for his surprise that earthly politicians and many of their constituents seem continually shocked to discover that any such transfer is going on. Californians are spared the worst clumsiness by the fact that, unlike the situation in many other States, our metropolises are all contained within a single State. But we have more than compensated by establishing an unparalleled plethora of special districts, authorities and other official entities. The result is a virtually impenetrable maze of geographically and functionally overlapping jurisdictions and agencies whose intertwinings, mutual checks and shared responsibilities defy most efforts to assess their individual or collective productivity.

Given the intrinsic weakness of this way of handling metropolitan governance, the State in this role somewhat resembles Dr. Johnson's dog walking on its hind legs -- a phenomenon that surprises not because it is done badly, but because it is done at all. There is only so much that can be done to improve such a performance without making changes in the governance regime so fundamental that they are doubtless considered to be beyond the scope of the Commission's charge. Accepting this limitation, however, also means accepting very real limits on how much improvement can be achieved.

What improvements are possible without fundamental changes in governance at the metropolitan level depend heavily on the degree to which the State government is structured to treat metropolises as discrete organisms and to encourage or even require them to address and resolve the many problems that transcend the boundaries of their myriad component cities and unincorporated territories in ways that make both local and metropolitan sense. Doing this will require not only carefully crafted changes in agency architecture, but considerable political courage. But failing to do it risks enlisting the State as a co-conspirator in the current decline in the effectiveness and efficiency of the jurisdictional complexes in which most Californians live.

Transportation, land use, air and water quality, siting of common service facilities, jobs/housing balance, health care access, and assurance of educational opportunity are among the more obvious areas of policy and service delivery where systemic rationality at the metropolitan level matters most. But there are many less obvious ones, such as the treatment of the indigent and the division of labor and responsibility between counties and cities. In all such cases, the State is, by default, the sole authoritative voice of metropolitan consciousness, as well as the only effective counterweight to the parochial tendencies of each locality. To the extent that the State government is structured to accept this role and play it well, it can do enormous good. If, on the other hand, it is structured solely according to generic functions (e.g., health, education, etc.) without means of considering metropolitan areas as wholes in need of some measure of internal integration, the State can do great harm to an already struggling set of metropolitan non-systems.

Do the three points I have offered add up to a counsel of despair? Not at all. The most impressive thing about the California Performance Review is that it was attempted. The Report highlights many important issues and discusses many of the most useful tools for assessing, monitoring and improving governmental policy and process. The sense of my testimony is simply that a review of any of the recommendations it presents should, along with application of other important criteria, include application of three tests:

Is there compelling evidence that the recommendation is based upon a clear-eyed understanding of how the subject organizational unit or program actually works?

Are the concept and proposed measures of productivity improvement advanced in justifying the recommendation appropriate to the nature of the activity?

If implemented, would the recommendation enhance or erode the State's role as sole guardian of effective and efficient metropolitan governance?

These tests by no means exhaust the criteria the Commission will need to use in performing its assessment. But I submit that they are necessary though not sufficient elements of any thorough appraisal of the recommendations in the Performance Review.

Thank you.