



t h e **B U S I N E S S** o f
GOVERNMENT

Best Practices

- 3** **Improving the Business of Government:**
Defense Automated Printing Service

Outstanding Leaders

- 4** **The Role of the Chief Operating Officer (COO)**
Mort Downey, COO of the U.S. Department of Transportation
Paul Daoust, COO of Watson Wyatt Worldwide

Stimulating Ideas

- 7** **Book Review**
The Quest for Efficiency: *The One Best Way* and
The Tides of Reform
- 8** **Article Abstracts**
“The Myth of the Top Management Team”
by Jon R. Katzenbach, *Harvard Business Review*

“How Microsoft Makes Large Teams Work Like Small Teams”
by Michael A. Cusumano, *Sloan Management Review*

“Performance-Based Organizations: Assessing the Gore Plan”
by Alasdair Roberts, *Public Administration Review*
- 11** **New from the National Performance Review**
- 12** **Book Excerpt**
*Straight from the CEO: The World’s Top Business Leaders Reveal
Ideas That Every Manager Can Use*

At the Editor's Keyboard

Paul R. Lawrence



Best Practices

"Improving the Business of Government" tells of the changes that took place at the Defense Automated Printing Service (DAPS). In 1994, Mike Cocchiola became the director of this worldwide organization that handles the printing, duplicating, and electronic conversion needs of the Department of Defense. Rather than enforcing rules that require all defense organizations to use DAPS, Cocchiola challenged his team to win customers by being better, quicker, and cheaper than the alternatives. We focus on what it meant for DAPS to become more "business-like."

Outstanding Leaders

We interviewed two chief operating officers to understand the similarities and differences of their positions. Morton Downey is the deputy secretary and chief operating office to the U.S. Department of Transportation. Paul Daoust is executive vice president and chief operating officer of Watson Wyatt Worldwide.

Both men view themselves as the senior manager in their respective organizations responsible for ensuring that strategic goals are achieved. They both understand that people are the keys to reaching these goals. Not surprisingly, they devote a substantial portion of their time to communicating, coordinating, and fostering teamwork in their organizations.

Stimulating Ideas

In this section, we will present book reviews, article abstracts, and book excerpts. We will try to keep you posted on the latest management ideas being discussed in books and journals. In this issue, our book review features *The One Best Way: Frederick Winslow Taylor and the Enigma of Efficiency* by Robert Kanigel and *The Tides of Reform: Making Government Work, 1945-1995* by Paul Light. In the article section, we feature abstracts from the *Harvard Business Review*, *Sloan Management Review*, and *Public Administration Review*. This section also contains an excerpt from *Straight from the CEO: The World's Top Business Leaders Reveal Ideas That Every Manager Can Use*.

The Business of Government

Our readers are busy executives in the public and private sectors, who tell us they do not read as many books or journals as they would like. Because of the demands on their time, they need information quickly. *The Business of Government* is designed to meet our readers needs.

Paul R. Lawrence is a partner at Price Waterhouse, a management, consulting, and accounting firm. His e-mail address is: Paul.Lawrence@notes.pw.com.

Business and government are becoming more similar. Savvy consumers, trained by the very best companies in the private sector, are partly responsible for this trend. As the private sector raises standards for customer service, citizens are demanding and receiving better service from government.

Government has recognized the advantages of learning from private sector practices. In 1993, the National Performance Review, led by Vice President Al Gore, detailed how government could work better and cost less through the use, in part, of successful business techniques. More recently, Secretary of Defense William Cohen has preached the wisdom of a revamped military, achieved by bringing the "Revolution in Business Affairs" to his department.

Government has learned much about providing convenient service from the private sector. Consumers who can call 24-hours a day to order merchandise, now wonder why some government agencies only take calls from 9:00 a.m. to 5:00 p.m. Similarly, a citizen who has obtained information on-line or made a purchase over the Internet may now get frustrated waiting for a form to arrive in the mail or going to a government office to complete a transaction in person.

In addition, government has learned about the role employees play in providing attentive service. Consumers see this "special something" when they interact with employees of airlines, vacation resorts or high-end retail stores. Their employees act like owners when they deal with customers, empowered to identify and solve their problems. Experiences like these spoil customers and increase their desires for a customer-friendly government.

Government has responded by adopting many of the techniques used by the private sector. The result has been more effective government. For example, in May 1997 an independent study identified the Social Security Administration as the best telephone customer-service provider. Eight "world class" providers from the private sector and Social Security were rated on five categories of customer service. The Social Security Administration achieved the top ranking by being first in three of the categories.

As the public sector more closely mirrors activities in the private sector, there is an unserved need to directly compare and contrast the two. In particular, we want to see how the different sectors operate by putting them side-by-side and identifying the very best in each. In each issue of *The Business of Government*, we will focus on best practices, outstanding leaders, and stimulating ideas.



Improving the Business of Government

Mark A. Abramson and Paul R. Lawrence

We often hear the old refrain that “government should be more like business.” But what does the concept of “being like business” mean? To find out we went to see Michael J. Cocchiola, director of the Defense Automated Printing Service (DAPS). Since 1994, Cocchiola has been working hard to turn DAPS into a business-like organization.

The Defense Automated Printing Service is a \$400 million organization within the Department of Defense (DOD) that specializes in the rapidly growing field of automated document management services. DAPS, part of the Defense Logistics Agency within DOD, specializes in digital conversion, storage, output and distribution of digital and hard copy information. DAPS will distribute documents in any format or medium that customers require, ranging from on-line, CD-ROM, cassettes, or the printed page.

In 1992, the DOD consolidated its 350 printing and duplicating operations into the Defense Printing Service. In 1996, the name was changed to reflect DAPS' key role in the DOD transition from hard copy to electronic-based document management. It now operates in 288 locations across the world.

When asked what it means to “be like a business,” Cocchiola explained, “It means ‘thinking’ like a business. It means being customer focused and motivated to succeed. It means taking risks and using business-like indicators to judge how you are doing. It means using private sector off-the-shelf accounting software and knowing the exact costs of your services. It means creating a brand identification.”

While many organizations (in both sectors) are good at talking the language of business, concrete steps must follow language. In the Defense Automated Printing Service case, Cocchiola set out to both cut cost and staff at DAPS to make it competitive with the private sector. He created account executives and a marketing team to “sell” DAPS products and services. The key, according to Cocchiola, was creating a sense of competition within DAPS. “In the old days,” stated Cocchiola, “we used to hide behind regulations that forced people to use our services. We stopped enforcing the regulations and I made it clear to all DAPS staff that they would either have to bring in work or we would close down the operation. DAPS employees responded to the challenge. In addition to our ability to provide services all over the world (including places like Bosnia), the major rationale for our existence is that we can provide higher quality electronic documents at a lower cost than anybody else.”

Making DAPS cost-efficient and competitive with the private sector was not easy. DAPS reduced its staff from 3,700 to 1,800. It eliminated over 4,000 excess pieces of equipment and closed over 100 facilities. By taking these actions, DAPS reduced its operating costs by 35 percent. Simultaneously, it increased sales by 50 percent and its outsourcing activities by 88 percent. Based on these actions, the General Accounting Office concluded in 1995 that DAPS was less expensive than any government or commercial source on “average-size” printing jobs and was 57 percent less costly than the Government Printing Office.

In making itself more “business-like,” DAPS also focused on its core competencies. Cocchiola recounted, “We took a hard look at our core competencies. We had to figure out what we were best at and what we could outsource. We had to make ourselves cost effective.” The result of the analysis was a decision that all non-core work would be competitively outsourced.

In his attempt to make DAPS more “business-like,” Cocchiola created a “corporate board” to “run the company.” The board consists of the DAPS leadership team: Cocchiola, the deputy director, headquarters directors, and the directors of each of the DAPS regions. The board determines policy and strategy for the company and meets quarterly to examine corporate progress. It is this team that makes crucial business decisions. Decisionmaking at DAPS is not limited to the director and deputy director.

Like a growing number of service organizations across government, DAPS is funded by a working capital fund. Under the fund's charter, DAPS does not receive any appropriated funds. All operations are funded on a fee-for-service basis. “Profits” made by DAPS are distributed in three ways: (1) to employees via performance bonuses, (2) investments in new equipment and staff training, and (3) “refunds” to the Department of Defense.

While there appears to be a growing interest in working capital fund-type operations across government, it remains to be seen whether more and more federal agencies will become “business-like” in the manner envisioned by Cocchiola. “It all depends,” stated Cocchiola, “on government's ability to make itself ‘compete’ either against other government organizations or against the private sector. There is currently little incentive in most agencies for individuals to take risks. At DAPS, we created a bottom line and a profit motive. This is difficult and not encouraged in most federal agencies.”



The Role of the Public Sector Chief Operating Officer

Mortimer L. Downey

Deputy Secretary
U.S. Department of Transportation

How would you describe your role as chief operating officer of the Department of Transportation?

The position of deputy secretary has changed. Historically, the deputy secretary has served as an alter ego for the Secretary. In this administration, the deputy secretary has become a chief operating officer who serves as the senior manager for the department.

The position of chief operating officer brings together program and management concerns. In the past, senior appointees were more concerned with policy and programs -- especially creating new programs and getting legislation approved by Congress.

How do you explain this change?

There have been two major factors contributing to the change. First, the passage of the Government Performance and Results Act (GPRA) gave the department a new tool to manage. GPRA pushes us to begin to tie results to our programs. It brings together policy and management issues.

Second, the creation of the President's Management Council (PMC) -- another of the recommendations from Vice President Gore's National Performance Review (NPR) -- has put management on the front burner. The PMC brings together the chief operating officers from each department who share ideas and strategy on management.

What are the major challenges now facing you in your role as Chief Operating Officer?

There are two. First, we are facing the challenge of creating measures to evaluate our performance. This has always been done in the private sector with their bottom-line financial results. We are now facing up to this tough challenge in government. Second, we face the challenge of motivating our employees. We have 100,000 employees. We have to motivate them within the context of the public sector personnel system.

How do you spend your day?

Part of every day is spent fire fighting. Yesterday, there was a power failure at the air-traffic control center in Kansas City. People wanted to know why things like that happen.

I have really tried to spend more time thinking about where we are going as a department and focusing on the longer time frame. I have spent much time on the department's strategic plan.

A large part of my time is spent working with the 12 agency heads in the Department of Transportation. I meet one-on-one with each of them. Each agency has its own strategic plan. We have developed performance agreements with the agency heads, and I meet monthly with them to discuss their progress on the agreement.

Mort Downey



Mort Downey has been Deputy Secretary of the U.S. Department of Transportation since 1993. Prior to accepting President Clinton's appointment as deputy secretary, he served as executive director and chief financial officer of the Metropolitan Transportation Authority in New York, the nation's largest independent public authority.

During the Carter Administration, Mr. Downey was assistant secretary for budget and programs at the Department of Transportation. He was also the first transportation program analyst for the U.S. House of Representatives Committee on the Budget. He also held a number of positions at the Port Authority of New York and New Jersey.

He received a Bachelor's degree from Yale University and a Master's degree in public administration from New York University and attended the advanced management program at the Harvard Business School.

Another big part of my time is spent participating in government-wide committees and councils, such as the National Economic Council, the National Security Council, and the National Science and Technology Council. Most of our national problems are not confined to a single department, so coordination becomes very important. I then come back to the department and work to ensure that I can deliver the Department of Transportation contribution to the government-wide activity.

What are your hours and how much time do you spend traveling?

I am usually here between 8:30 a.m. and 7:00 p.m. I take work home at night and on weekends. Unless there is an emergency, I try not to come into the office on weekends. I probably spend four to six days a month

(continued on page 6)



The Role of the Private Sector Chief Operating Officer

How would you describe your role as chief operating officer of Watson Wyatt Worldwide?

The job of the chief operating officer is to drive the organization toward the strategic goals set by the chief executive officer and the board of directors. My job is to make the organization work.

The company is organized in a matrix fashion along two axes -- lines of businesses and regions. Generally, the heads of the lines of business and regions in the Americas report to me.

One of my primary responsibilities is to get the right people in place in management positions. I find the right people for the job both from inside and outside of the organization. Whenever it is close, we try to promote from within, but sometimes it is important and necessary to go outside of the company to find the best person.

Another role of mine is to create an environment in which everyone feels committed to making a contribution to the firm.

I need to know what is going on and to try to make the whole organization work. I focus on key business issues and try to work out solutions through a team-based environment. I rely heavily on my senior business managers to help me determine how we are going to "get there."

How did your previous positions prepare you for the job of Chief Operating Officer?

I started out in a small family actuarial business, which gave me some early consulting experience. The family business then joined Watson Wyatt. I began with Wyatt in our Detroit office and then moved to our Washington location -- a mature office with a large client focus. After three years, I moved to the Boston office -- a very small local operation that we grew to about 235 employees. I was the number two associate there until my last four years when I managed the office. During my tenure in Boston, I really learned how to "sell" and focus on clients.

After Boston, I moved to New York to head the New York region. The New York situation was a turn-around challenge because the offices had problems. It was a difficult situation, and many senior managers were forced to leave, but in the end, once the divisive people were gone, we had a core of very good people to build on. The problems I encountered gave a different kind of experience and some additional perspectives on our business, particularly the challenges of managing across locations, since there were three offices in the region.

My four stops -- Detroit, Washington, Boston, New York -- all prepared me for my current position.

Paul R. Daoust

Executive Vice President and
Chief Operating Officer
Watson Wyatt Worldwide



Paul Daoust

Paul Daoust has been executive vice president and chief operating officer of Watson Wyatt Worldwide since 1993. Watson Wyatt Worldwide is one of the world's leading human resources consulting firms. The firm has 5,000 employees in 36 countries around the world.

Mr. Daoust also serves on the Watson Wyatt Board of Directors. He was manager of the New York region from 1992 to 1993 and Manager of the Boston office from 1988 to 1992. He joined Watson Wyatt in 1970.

He has a Bachelors degree in Mathematics from Boston College and a Master of actuarial science from the University of Michigan.

What are the major challenges now facing you in your role as Chief Operating Officer?

First, we have to grow the "top line." Revenue growth is essential. Second, we have to work with our senior people to make them more accountable for "selling" and working on client relations. Third, we have to become a truly global company. Just having people in place all over the world does not make a global company. We have to think and manage globally.

(continued on page 6)



Outstanding Leaders

Mortimer L. Downey (continued from page 4)

on the road. I have averaged around three foreign trips a year. When I am traveling within the United States, I try to go see a U.S. Department of Transportation facility in the area I am visiting. I was recently in San Diego and went down to look at our border operations. U.S. Department of Transportation, through a number of its agencies, has a major role to play in regulating travel into the United States. Getting out to field operations really helps me better understand our programs and the administration's program as well.

Is there any training to be a deputy secretary?

The vice president in the first NPR report emphasized the role of the deputy secretary. That report sent an important signal that the role of the chief operating officer was important and that the position must be taken seriously.

I think that some management experience in a large organization is essential. You need someone who has experience running an organization. You need more than just political experience.

My background at the New York Metropolitan Transportation Authority really helped me. Running an organization of 50,000 people and 5 million customers was a good experience. My prior experience in the U.S. Department of Transportation in the Carter Administration has also served me well.

Paul R. Daoust (continued from page 5)

How do you spend your time, and how much do you travel?

I spend over 80 percent of my time on operational issues. I work with our regional managers and practice directors. Much of my time is spent on recruiting, both inside and outside of the organization.

I spend around 20 percent of my time on corporate issues, including strategy, board issues and serving on several corporate committees.

I allocate my time by need rather than by size of region or practice.

Usually, I spend about two days in Washington, one in Boston, and the other two elsewhere. I like getting out of the office. I find it very helpful to talk and listen to people in offices around the company.

Is there any training to be a Chief Operating Officer?

I think you have to have some management experience behind you, either by running a line of business or a region. You also have to know your business and have a proven track record of selling, managing a successful business unit and developing, mentoring and attracting key talent. I do not believe a general business manager would be successful as the chief operating officer in our business.

What has been your biggest surprise?

I was surprised at how rigid we were and at the depth of the local office culture. We had to create a "line of sight" along regional and line-of-business axes. The local offices are very important, and we can not succeed without them, but we had to create a sense of the corporation as a whole.

What has been your biggest surprise?

There have been no surprises really. The experience has just confirmed my feeling about how important it is to communicate effectively throughout the organization and to get a consistent message out.

What has been your biggest success?

I am really pleased with our strategic plan that is now in place. This was a true departmental effort. Congress liked it as well, and it will be our guiding document through the next several years.

How much time do you spend on succession planning for the department?

Unlike the private sector, there is really no succession planning for political appointees. We have put our energy on succession planning at the career level. We are really facing a brain drain over the next five years as many of the individuals who joined government in the 1960s and 1970s begin to retire. The President's Management Council is very concerned about this issue.

What advice do you have for your successor?

Keep your good sense of humor! You will need it.

What has been your biggest success?

I think it has been making our associates feel like "winners." The organization has been through a lot of change, and it is really humming now.

How much time do you spend on succession planning at Watson Wyatt?

I believe that you have to hire people better than you are. You have to get good people and then help them in any way you can. I believe in mentoring. You have to keep moving people in and out to create a successful organization.

You also have to create and promote a team environment, motivating people to work together, not by themselves. The key is getting them to be good "team players" and getting them to understand that is the way to success for them as individuals.

What advice do you have for your successor?

First, get the right people. Second, lead by example. You have to be a team player yourself to show other people how to do it. Third, communicate. Communication is important, especially clarity of communication. Fourth, be decisive and be consistent. Otherwise, you confuse the troops. Fifth, figure out how to have fun in the job – it is too hard otherwise.



Book Review

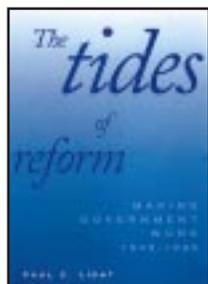
The Quest For Efficiency

Mark A. Abramson

Twentieth-century management can be characterized by the search for efficiency. In 1997, two interesting books were published that chronicled America's quest for efficiency. In *The Tides of Reform*, Paul C. Light describes the federal government's many attempts over the last 50 years to improve its management. Light, currently director of the Public Policy Program at the Pew Charitable Trusts, identifies four major tides of reform:

- **scientific management:** characterized by the goal of efficiency, with its focus on tight hierarchy, specialization, and clear chains of command,
- **war on waste:** characterized by the goal of economy, with its emphasis on inspectors, auditors, cross-checkers, and reviewers,
- **watchful eye:** characterized by the goal of fairness, with its embrace of sunshine and openness, and
- **liberation management:** characterized by the search for high performance, with its emphasis on "letting managers manage."

Light analyzed 141 federal management statutes that were signed into law between 1945 and 1994. He characterized each statute into one of the above four tides and analyzed each initiative's legislative history, reform philosophy, change strategy, size and scale, implementation approach, and impact. The dominant philosophy over the past 50 years was scientific management (62 statutes, 44 percent of the total).



Paul C. Light,
**The Tides of Reform:
Making Government Work,
1945-1995.**
New Haven:
Yale University Press, 1997,
290 pp., \$35.00.

Although now in retreat, scientific management dominated the era from 1945 to 1974. In the post-Watergate years, the watchful eye (33 statutes, 23 percent of the total) and the war on waste (26 statutes, 18 percent of the total) have gained strength.

In recent years, liberation management (20 statutes, 14 percent of the total) has gained a place at the management table.

Light reaches the conclusion that the problem with government management has not been too little reform but too much reform. Light found no shortage of reform. In fact, two problems have been the cumulative nature of all the initiatives (few ever go away) and the contradictory nature of many of the reforms. Light cites the Civil Service Reform Act of 1978 as one example of an initiative that contained elements of all four tides.

Those interested in learning more about how the quest for efficiency in organizations started will enjoy reading *The One Best Way* by Robert Kanigel. Kanigel tells the story of Frederick Winslow Taylor, the father of one of Light's four tides -- scientific management. One of the many interesting tidbits about the life of Taylor contained in *The One Best Way* is the fact that Taylor's gravestone is inscribed, "Frederick W. Taylor, Father of Scientific Management." Humility was not one of Taylor's virtues.

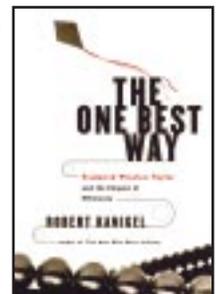
While it is fashionable today to be critical of Taylor and his time clocks, one comes away with mixed feelings toward Taylor after reading *The One Best Way*. The intent of Taylor and his time-motion studies appear to have been honor-

able. Taylor believed that workers could "do better" than they were doing. He felt strongly that they were not achieving their full potential. He was also concerned that some workers were "slackers" and not putting in a full day's work. Both concerns gave rise to his analysis of both workers and machines and how each – working together – could be more efficient and produce more on the factory floor. In his time, Taylor was viewed as a progressive and his concept of incentive pay increased the wages of many factory employees.

Taylor's studies and his self-promotional efforts made scientific management the first "management fad" of the twentieth century. Every corporation wanted to have its own efficiency studies during the early 1900s. The legacy of Taylor can still be seen in organizations today. Taylorism spurred the growth of both middle management and management consultants. After having decided he no longer wanted to work in a corporation, Taylor became one of the first management consultants by starting his own consulting company in 1893. In 1895, Taylor was charging \$35 a day plus expenses.

Today, many organizations are trying to undo the impact of Frederick Taylor. The concept of empowerment is in direct contrast to Taylor's belief that there is "one best way" that all workers must follow. There was no room for self-directed teams and empowered employees in Frederick Taylor's world. Taylor's world was one of supervisors and middle managers telling workers exactly how to do their work. His world was based on the premise that managers "know more" than workers. That legacy continues in many organizations today.

Robert Kanigel,
**The One Best Way:
Frederick Winslow Taylor
and the Enigma
of Efficiency.**
New York: Viking, 1997,
674 pp., \$34.95.



Article Abstract

“The Myth of the Top Management Team”

Jon R. Katzenbach

Harvard Business Review
November/December 1997

In this era of teams, we hear much about self-directed work teams, product design teams, sales account teams, cross-functional teams, and process redesign teams. In the November/December 1997 issue of the *Harvard Business Review*, Jon Katzenbach takes a hard look at the concept of the top management team. He concludes that the team at the top is a badly misused term that obscures both what teams can actually accomplish and what is required to make them work. The article sets forth meaningful ways in which top teams in both business and government can best be utilized.

Katzenbach, co-author of *The Wisdom of Teams* and author of the recently published *Teams at the Top: Unleashing the Potential of Both Teams and Individual Leaders*, sets out to explain why non-team behavior frequently prevails at the top. According to Katzenbach, non-team behavior prevails because:

- a meaningful purpose for a team at the top is difficult to define,
- tangible performance goals are hard to articulate,
- the right mix of skills is often absent,
- most teams require a heavy time commitment,
- real teams rely on mutual accountability,
- non-teams fit the power structure, and
- non-teams are fast and efficient.

In attempting to understand why true teams do not exist at the top, Katzenbach sets forth the concept of executive leadership discipline in contrast to team discipline. Katzenbach writes, “The best CEOs apply an executive leadership discipline that places a premium on individual accountability for profit, market results, speed and growth. They establish efficient processes and forums that bring their best leaders together to contribute their experiences, insights and judgements to shaping the company’s strategy and policy.” Most executives, concludes Katzenbach, are conditioned to this set of leadership rules which is dramatically different than behaviors geared to team behavior.

Instead of forcing team behavior at the top, Katzenbach recommends three litmus tests to determine whether a group at the top can achieve real team performance.

Shaping collective work products. Collective work products, cautions Katzenbach, are not as easy to come by at the top as they are down the line. A key determining factor of the need for collective work-products is often a crisis. Without a need for urgent action, a top leadership group can seldom carve out collective work products that match its mix of skills and also justify the diversion of executives time from their primary responsibilities, writes Katzenbach.

Shifting the leadership role. The second litmus test is whether the top executive team can shift leadership away from the individual at the top of the organization. In real executive teams, Katzenbach reports, “The leader’s mantle falls naturally on the shoulders of whichever executive has the knowledge or experience most relevant to the particular issue at hand.”

Building mutual accountability. The third litmus test is crucial to the success of the team. Instead of being held individually accountable as in the past, executives at the top subordinate that approach to mutual accountability in order to pursue a collective result.

Katzenbach concludes the article with practical advice as to when any group at the top, in the middle, or on the front line should initiate teams. Katzenbach recommends:

- pick your shots wisely,
- consider your options carefully,
- make the critical trade-offs consciously,
- apply the discipline that fits, and
- learn different leadership roles.

Good advice for any organization, public or private.

Mark A. Abramson is chairman, *Leadership Inc.*, a consultant to *Price Waterhouse*, and a member of the faculty, *Department of Public Administration*, *George Mason University*. From 1983 to 1994, he served as the first President of the *Council for Excellence in Government*. His e-mail address is: abramson@leadership.com.

“How Microsoft Makes Large Teams Work Like Small Teams”

Michael A. Cusumano

Sloan Management Review
Winter 1997

In describing the rapid growth of Microsoft, Michael Cusumano writes that in the early 1980s, the initial versions of Microsoft's MS-DOS, Word, and Excel “had programming teams of half a dozen to ten or so developers, and consisted of just a few tens of thousands of code.” Just a decade later, reports Cusumano, it took a team of 450 people approximately three years to develop 11 million lines of code for Windows 95. As teams grew from numbering in single digits to numbering in the hundreds, Microsoft faced the challenge of making large teams work just as effectively as small teams.

The consensus today among management experts is that small teams are more effective than large ones. However, as Microsoft illustrated with the development of Windows 95, when faced with a complex project and tight deadlines, companies often find themselves forced to manage large teams. When large teams are unavoidable, managers must find ways to make them work as effectively as small teams. Michael Cusumano's article discusses Microsoft's approach to this problem. He identified a consistent product development process at Microsoft which he labeled the “synch-and-stabilize” approach. There are many key elements to this approach:

Setting Project Size and Scope Limits.

Microsoft establishes a clear, limited product vision, and sets personal and time limits for turning that vision into reality. Chris Peters, head of Microsoft's new unit to build web page tools, emphasized this point. “It's just as important to decide what a product that you're working on is not going to be as it is deciding what it will be.”

Creating Divisible Project Architectures.

By modularizing features and functions, as well as subsystems and objects, Microsoft can divide projects into teams that work more or less independently.

Creating Divisible Project Architectures.

Microsoft tackles one group of features at a time by dividing a project into feature and component “clusters” and assigning clusters to feature and component teams.

Developing Small-Team Structure and Management.

Microsoft creates small multifunctional groups and then empowers those groups with autonomy and responsibility. Peters noted, “Large teams work when you've pushed the organization or pushed the responsibility very, very low.”

Enforcing A Few Rigid Rules.

Rules include using “daily builds” to put all the pieces together each day and a “don't break the build” policy (don't make any errors that cause the build to fail). The “milestone stabilization” rule actually gives individuals and teams the freedom, within limits, to change component designs or alter the feature set in the new product.

Promoting Good Communications.

Microsoft ensures that teams and sub-teams minimize development roadblocks through the use of shared responsibilities and tasks, one-site development, a common programming language, and an open culture.

Ensuring Product-Process Flexibility.

By allowing for evolving specifications (the final feature list may grow 20 percent to 30 percent), buffer time, and an evolving process, Microsoft lets project teams “go with the flow.”

While these concepts and techniques describe Microsoft's approach to mass-market software development, they also apply to other fields. In nearly any industry, it makes sense to limit the scope of product development projects in terms of time and people because these limits force teams and individuals to focus their efforts and deliver something to the marketplace. Common sense suggests that projects should be flexible to allow product specifications to evolve, schedule buffer time, and include real-time process improvements. Projects should also accommodate the many unknowns and the useful learning that comes with product development and customer feedback in fast-paced industries.

*The Abstract was prepared by **Ben Walker**. Walker is a consultant at Price Waterhouse.*



Article Abstract



Performance-Based Organization: Assessing the Gore Plan

Alasdair Roberts

Public Administration Review
November/December 1997

In March 1996, Vice President Gore announced plans for the creation of performance-based organizations (PBOs) within the federal government. The concept of PBOs was modeled after the "Next Steps" executive agencies in the United Kingdom. In the U.K., executive agencies are given more flexibility to do their work and freedom from political interference in operational details. The chief executives heading these agencies are selected through competitions open to public and private-sector candidates. Chief executives are given three-year contracts and they negotiate annual performance agreements that include measurable targets for financial performance, efficiency and service quality.

In the November/December 1997 issue of *Public Administration Review*, Alasdair Roberts of Queens University in Kingston, Ontario, assessed whether the British reforms improved performance within the British government and whether the British experience is transferable to the United States. Based on his research, Roberts recommends caution on the part of United States government leaders prior to adopting "Next Steps" practices.

As for the performance of executive agencies, Roberts argues that the more expansive claims made in the United States about Next Steps are probably untenable:

- Next Steps agencies in the U.K. have not yet demonstrated gains in operating efficiency nor have they reduced expenditures as claimed by PBO proponents. Operating costs for Next Steps agencies have shown consistent, although not large, annual budget increases, even after adjustment for inflation.
- Next Steps agencies in the U.K. have also not significantly reduced the number of British civil servants. While the British civil service pool has been reduced, reports Roberts, the reductions cannot be attributed to Next Steps. He contends that much of the reduction is the result of increased outsourcing.

The article also examines the impact of decreased legislative and regulatory constraints on Next Steps agencies. Roberts found that despite the intention of Next Steps agencies to loosen constraints, central management agencies have continued to impose them. On the positive side, Roberts found some evidence that new rules to reward performance have had an impact. He predicts, however, that performance rewards will have a difficult time in the U.S. because of potential interference from Congress.

Robert writes, "The National Performance Review has argued that the aim in reform proposals is to make government 'work better and cost less.' With the PBO proposal, the Vice President has gone further, suggesting that it may make a 'dramatic change' in the way federal agencies do business. But is the performance-based plan likely to make any part of government work dramatically better and cost dramatically less? The answer is probably no. Certainly the British experience with the Next Steps Initiative does not provide evidence that the plan will, by itself, permit substantial reductions in operating costs or staff."

Roberts states that there are two major challenges facing the United States in implementing PBO. The first challenge is the reluctance of many participants, including legislators, central management agencies, and parent departments to permit radical deregulation of executive agencies. In addition, PBOs are likely to have a difficult time creating strong performance incentives due, in part, to our Congressional system.

While expressing much skepticism about PBOs, Roberts concludes that "the PBO plan ought to be seriously pursued." He writes, "There are undoubtedly circumstances in which service delivery organizations are unnecessarily constrained by regulations and laws. The PBO initiative sets up a process through which candidates, central management agencies, and parent departments can negotiate about flexibilities."

-- Mark A. Abramson

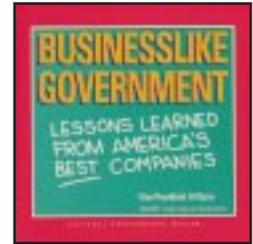


New Publications



National Performance Review

In the fourth annual report of the National Performance Review (NPR), Vice President Gore describes the progress of federal government reinvention. His easy-to-report includes Dilbert comic strips illustrating the foibles of large organizations. In the document, Vice President Gore acknowledges that business has been a role model for government reinvention. "Our models, teachers, and partners in this historic undertaking are America's best companies – companies that led the quality revolution of the past two decades – companies like GE, Harley Davidson, and Motorola, which have kept America competitive in the world market. They have already been through the transformation from industrial-age to information-age management...Most of what successful businesses, and now government, have learned can be summed in two principles: focus on customers, and listen to workers," writes the vice president.



How to obtain: Can be purchased for \$8.00 from the Government Printing Office by calling (202) 512-1800 (Stock Number: 040-000-00695-8).

<http://www.npr.gov/library/index.html>

As one of the seven benchmarking studies released by the NPR, this important report examined best practices for downsizing in both the public and private sector. The study found:

- senior leadership plays a vital role in downsizing,
- overcommunication is impossible during downsizing,
- identification of work processes that will not be needed in the future organization is vital to the success of the downsizing action,
- initiatives such as early retirement and buy outs work well and are popular with employees,
- the use of multiple strategies and techniques to accomplish goals for downsizing helps to leverage the outcome,
- organizations that have successfully downsized provided career transition assistance to both separating and surviving employees, and
- monitoring progress is a chief component of successful downsizing.



How to obtain: National Performance Review
750 17th Street., NW
Suite 200
Washington, DC 20006
(202) 632-0150

<http://www.npr.gov/initiati/benchmk/index.html>

In a 21-page report, the NPR presents government's achievements in improving customer service. Outstanding improvements include:

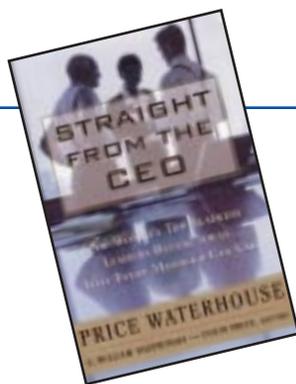
- **Consumer Product Safety Commission:** 87 percent of calls reached the CPSC hotline the first time they dialed,
- **Internal Revenue Service:** Provided tax refunds in 15.5 days for electronic returns,
- **National Park Service:** 82 percent customer satisfaction at the Great Smoky Mountain Visitor Center.



How to obtain: National Performance Review
750 17th Street., NW
Suite 200
Washington, DC 20006
(202) 632-0150

<http://www.npr.gov/custserv/csreport.html>





Straight from the CEO

G. William Dauphinais and Colin Price

New York: Simon & Schuster
318 pp., \$25.00

Ken Kizer's Key Principles of Transformation

(From Chapter 12: Health Care, Not Hospitals: Transforming the Veterans Health Administration)

- 1. Clearly articulate your vision, intent and principles of change.** The VHA's statement is about "why," not "how." With a clear end-purpose in mind, we used certain principles of modern health care to lay the framework for transformation at the VHA, as well as the new managerial system that would implement it:
 - The VHA is in the business of health care, not of the running hospitals.
 - Health care is now primarily a local outpatient activity.
 - The VHA's critical mandate is to provide good value.
 - The success of future health care systems will depend on their ability to integrate and manage information.
 - Health care must reorient itself to be more population-directed, community-based, and health-promotive.
 - Health care must become more accountable and responsive to those who purchase it.
 - Medical education and research must be accountable to the public good.
- 2. The process of change should be broadly inclusive.** The top manager should allow all members of the organization to have their say in some form or forum -- and what they say should be taken seriously and sincerely. However, that inclusively should be flexible enough to embrace partnerships and outside associations that can facilitate the new vision.
- 3. Change within an organization must move in harmony with environmental or externally focused change.** Top managers, particularly those in the public sector, cannot hope to stand against the "forces of nature" -- this constitutes bad management. In the case of the VHA, that means being "in sync" with broad trends, such as the national revolution in health care, the explosion of biomedical research and knowledge, the shift to an "information society," and the aging of the eligible VHA population.
- 4. The top manager must make key personnel decisions.** Bad hires stay around to haunt you; good ones make you look good. Here are seven key characteristics of the good hire: committed to change; shares the vision; experienced, knowledgeable; innovative, nontraditional; respected; empowered; and willing to get his or her hands dirty.
- 5. Set high expectations.** People will meet them — unless your system impedes their best efforts.
- 6. Focus on rigorous execution, including minimizing errors.** Innovative, nontraditional thinkers will make errors because errors are inherent to trail blazing. These should be openly discussed without instilling the kind of fear that engenders complacency. However, stupid, careless mistakes, however, should not be tolerated.
- 7. Anticipate problems.** Change, by definition, is rarely neutral. It will create new problems--but they shouldn't come as a surprise.

Kenneth W. Kizer is Undersecretary for Health in the U.S. Department of Veterans Affairs. He has held that position since 1994. He previously served as director of California's Department of Health and Human Services. He has also held senior academic positions at the University of California, Davis and at the University of Southern California.



the **BUSINESS** of
GOVERNMENT

Volume 1 Published bi-monthly by Issue 1

Price Waterhouse 

1616 North Fort Myer Drive
Arlington, VA 22209
(703) 741-1000

Editor-in-Chief _____ Paul R. Lawrence
Managing Editor _____ Mark A. Abramson
Contributing Editor _____ Ben Walker
Art Director _____ Scott Blodgett

© 1997 Price Waterhouse LLP, Price Waterhouse refers to the U.S. firm of Price Waterhouse LLP and other members of the Worldwide Price Waterhouse Organization.

