



IBM Center for
The Business of Government

Strategies to Manage Well Given Scarce Resources



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The IBM Center for The Business of Government is pleased to present this special report, *Strategies to Manage Well Given Scarce Resources*. Governments here and around the world face constant pressures to do more with less, and these pressures are likely to grow over the next several years.

The Center has published a variety of reports and related materials that provide ways for government to succeed in the face of constraints. Accordingly, we have brought key findings on this topic together in the compilation that follows. We welcome thoughts on these issues, and look forward to continued dialogue with government leaders and stakeholders on actions to help agencies achieve their mission effectively and efficiently.

A handwritten signature in black ink, appearing to read 'D. Chenok', written in a cursive style.

Daniel J. Chenok



Six Trends Driving Change in Government

Edited by Michael J. Keegan

Government leaders face serious challenges—fiscal austerity, citizen expectations, the pace of technology and innovation, and a new role for governance. These challenges influence how government executives lead today, and, more importantly, how they can prepare for the future.

Government is in the midst of significant changes that have both near-term consequences and lasting impact. Such changes have the potential to become more complex in nature and more uncertain in effect. At the same time, the demands on government continue to grow, while the collective resources available to meet such demands are increasingly constrained.

Six Trends Driving Change in Government

In a special report, *Six Trends Driving Change in Government*, the Center has identified a set of trends that correspond to these challenges and drive government change. These trends—both separately and in combination—paint a path forward in responding to the ever-increasing complexity that government faces. The areas covered by *Six Trends* are:

- Trend 1: Performance
- Trend 2: Risk
- Trend 3: Innovation
- Trend 4: Mission
- Trend 5: Efficiency
- Trend 6: Leadership

Focusing on these six trends has the potential to change the way government does business. The Center will fund research into each, exploring in depth their transformative potential. Each of the six trends will be addressed in greater depth by our upcoming research and by highlighting cutting-edge agency actions. Together, they can help federal executives across the government understand the art of the possible when developing approaches that address the administration’s management agenda.

By sharing knowledge and expertise gained from this research, we hope to spark the imagination of government executives beyond day-to-day urgencies and toward solutions to the serious problems and critical challenges that government faces now and into the future.

This forum introduces each trend based on insights offered in *Six Trends Driving Change in Government*. It reflects our sense of what lies ahead. In the end, we hope that these insights are instructive and ultimately helpful to today’s government leaders and managers. For a more in-depth exploration of each trend, download or order a free copy of the full report at businessofgovernment.org.



Trend One: Performance Moving from Measurement to Action



The federal government's efforts to improve the performance and results of its programs have evolved over the last two decades. The goal has remained constant—to change the culture of government agencies to be more results-oriented and performance-focused in their work and decision-making.

It has been a long road. The Government Accountability Office's periodic reviews of federal managers' use of performance information shows recent increases in the use of such information to:

- Identify program problems to be addressed (55 percent)
- Take corrective action to solve program problems (54 percent)
- Develop program strategy (49 percent)

These are process—not outcome-related—improvements.

Yet, progress and hope abound. The federal government's past performance focus was on developing annual performance reports based on a supply of information. Today's focus is on achieving a handful of strategic goals through the effective use of data to inform real-time decision-making.

New laws, policies, technologies, and techniques have made this shift in focus possible, but more can be done in the area of government performance management to drive change. Government executives seem to be finding ways to more effectively integrate performance management into the decision-making processes and culture of government, within—and increasingly across—agencies and programs.

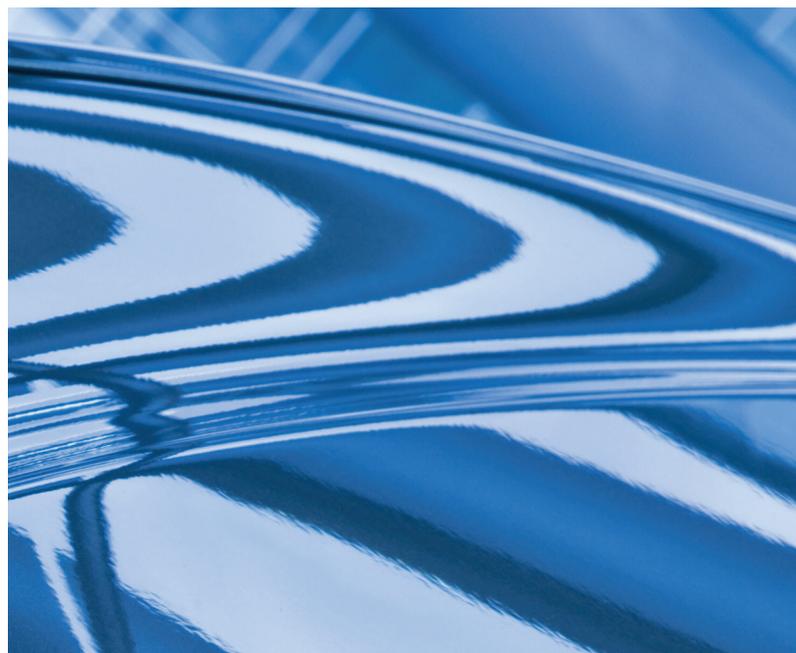
New Law Serves As Catalyst for Action

The GPRA Modernization Act of 2010 (GPRAMA) reinvigorates a 20-year-old law—the Government Performance and Results Act of 1993 (GPRA)—which requires agencies to develop strategic plans, measures, and annual reports. The new law formalizes a performance leadership and governance structure that had evolved over the last two decades. It also requires the development of targeted agency and cross-agency priority goals, regular reviews by senior leaders of progress toward those goals, and government-wide reporting of performance via a single web portal.

The key challenge that implementers of this new law will face: the need to ensure that the many procedural requirements in the new law do not overwhelm federal agencies in such a way that agency leaders focus on compliance rather than on improving performance.

Administration Policies Open the Gates to Accountability

In addition to GPRAMA, the Obama administration has placed a great deal of emphasis on ensuring greater transparency and more open access to government data. Government-wide, the administration has created a one-stop website, Data.gov, for agency data sets, and has set forth a series of policies and initiatives to foster greater transparency and openness. Agencies have responded. Congress has also supported this policy initiative with legislation; for example, the Recovery Act required greater transparency in government spending data.





This new openness has also precipitated several new forms of accountability, according to professors Dorothea Greiling and Arie Halachmi. “Traditional accountability arrangements are mostly vertically oriented and so follow hierarchical lines of control,” explain Greiling and Halachmi. They go on to observe that “innovative forms of accountability break with this pattern,” and are more horizontal and bottom-up in nature. New forms of accountability—such as PerformanceStat reviews—are possible. They reflect the new interplay between open data, social media technologies, and the increasing availability of real-time data.

Making Real-Time Analytics Possible

In parallel with the catalyzing effect of the GPRA Modernization Act and the greater availability of government data, a series of new technological advances offer sense-making techniques and access previously unavailable for large amounts of structured and unstructured data. Sukumar Ganapati, author of the IBM Center report, *Use of Dashboards in Government*, describes the use of dashboards as one approach to help busy decision-makers synthesize and understand a wide array of data in ways that make sense. In his report, he describes how the Obama administration has created dashboards on the progress of its information technology investments and its efforts to reduce the government’s real property holdings.

Linking Data to Decision-Making

Data and evidence are increasingly being used in agency decision-making, in part because of greater leadership interest, but also because there are new techniques and capacities available. For example, the new GPRA law requires agencies to hold regular data-driven decision meetings and this new forum has created a demand for useful information.

In addition, the Office of Management and Budget (OMB) is supporting a series of initiatives to build an evidence and evaluation-based decision-making capacity in agencies. It has issued several directives to agencies encouraging their adoption of evaluation and analytic approaches and is encouraging the development of such capacities as well.

Conclusion

Studies over the past decade show some progress among mid-level managers in becoming more results-oriented and performance-focused. Recent statutory changes and technological advances have led more senior government leaders in federal agencies to integrate performance information into their decision-making processes. This has contributed to better choices that are rooted in facts and evidence. For example, the Department of Housing and Urban Development set a goal of increasing the number of families housed rather than focusing on reducing the number of vacant public housing units. This led to improved housing outcomes.

However, increasing evidence-based decision-making among senior leaders will likely not be enough to change agency cultures. Agency leaders will need to create and embed both individual as well as organizational incentives to be more results-oriented and performance-focused. Employees on the front line need to see how what they do on a day-to-day basis makes a difference for their agency’s mission. For example, increasing their access to real-time performance information may be one approach. When this has been done in some pioneering agencies, this has allowed data-driven problem-solving to occur on the front line, in the field. Finding these kinds of levers for culture change—which will likely vary from agency to agency—will be a challenge to both policy makers and agency leaders, but when done well, they can have a lasting effect.

Trend Two: Risk Managing and Communicating Risk



Managing risk in the public sector has taken on new significance. Government leaders lack an accepted culture and framework in which to properly understand, manage, and communicate risk. Risks take many forms, including national security risks via cyberattacks, economic risks from natural disasters, budget and program risks, or privacy risks. Recognizing the spectrum of risks and developing strategies and tools to incorporate risk into decision-making and action can help government drive change and ensure successful management of programs and missions.

Accepting Risk as a Condition of Action

Risk is inherent in every facet of society. In our personal lives, there are risks to life, health, and property. People understand that such risks are inherent, and in most instances find ways to reduce the impact of those risks—such as standards for food inspections, building safer cars and homes, and securing insurance coverage in the event risk leads to loss.

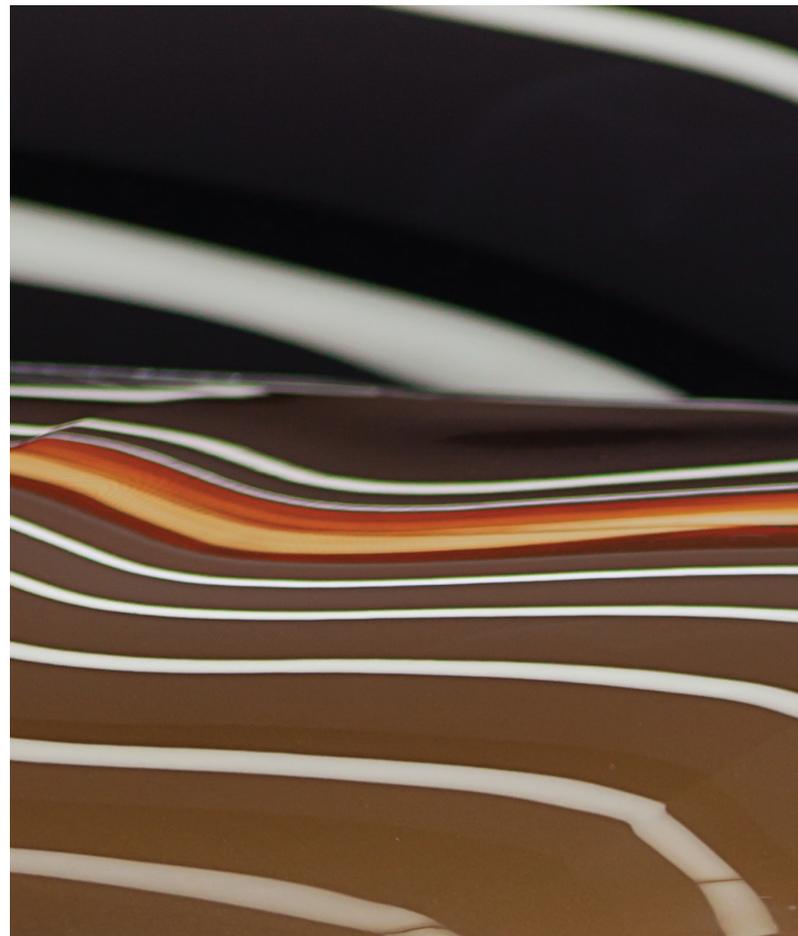
Risk is Inherent in Achieving Government Missions

In government, risks have been primarily seen as constraints to minimize, avoid, or hide in a corner. Most federal agencies tend to pursue risk *reduction* rather than risk *management*. As a result, when something goes wrong—which, given the world in which we live, will inevitably occur—agencies, their constituents, and overseers often react to the immediate problem, rather than understanding in advance how to develop strategies to respond to issues that will arise.

Few agencies think in advance about how to understand what may happen in these and other domains, how to communicate that potential in advance to their employees and stakeholders, and how to be resilient in the face of disruption. Further complicating the picture is a different kind of risk calculus that faces the national security community every day. Long-range, precision threats are now achievable via cyberattack to a wide range of people and groups, well outside the bounds of nation-state controls.

Turning from Risk Avoidance to Risk Management and Acceptance

Given the rapid pace of change that government faces, it is imperative that agencies turn from a culture of risk avoidance to one of risk management. A thought-provoking approach to how this change can occur appears in a *Harvard Business Review* article, “Managing Risks: A New Framework,” by Robert Kaplan and Anette Mikes. Kaplan and Mikes note that “risk management





is too often treated as a compliance issue that can be solved by drawing up lots of rules and making sure that all employees follow them.” In addition, many organizations compartmentalize their risk management functions along business lines (credit risk, operational risk, financial risk) and this “inhibits discussion of how different risks interact.” Such categorizations can miss many kinds of risks that organizations face.

Kaplan and Mikes developed a three-part framework “that allows executives to tell which risks can be managed through a rules-based model and which require alternative approaches.”

Preventable risks. These are internal and include illegal, unethical, or inappropriate actions (such as the recent GSA conference scandal), as well as breakdowns in operational processes. In the federal government, these are typically covered by internal control schemes, and can be controlled or avoided.

Strategic risks. These differ from preventable risks because they are not necessarily undesirable. For example, developing a satellite-based air traffic control system may be seen as taking a strategic risk over the proven, ground-based radar-controlled air traffic control system.

External risks. Organizations cannot prevent external risks from happening. So managers need to forecast what

these risks might be and develop ways to lessen their impact. They cannot be avoided, only managed.

Kaplan and Mikes observe that “each approach requires quite different structures and roles for a risk-management function.” One way to integrate these approaches is to anchor risk discussions into strategic planning, which already brings together organizational goals and objectives and points to positive action rather than constraints—turning the conversation to a risk strategy that aligns with “the ‘can do’ culture most leadership teams try to foster when implementing strategy.”

Getting the Word Out About Risk

A key element of addressing risks facing federal agencies involves effective communication: understanding what risks might affect an agency’s constituents and proactively getting the word out about those risks. FEMA, for example, already exercises this strategy, advising individuals living in hurricane zones about potential outcomes, so that the public and the agency are better prepared if and when a storm arrives. If other agencies were to identify risks that could occur and similarly communicate them in advance, this would bring numerous benefits:

- Agencies would go through an exercise of more completely understanding risks to their constituents.
- The public would have advance word on what might occur, helping to increase preparedness in the general population.
- If the risks become realities, the acceptance and public discourse is framed as one that builds around a sound response to a problem that has been forecast, rather than reaction to an unanticipated event.

Conclusion

Operating in a world of increasing complexity, with citizens who expect better, faster, and more cost-effective results, it is critical that government executives tackle risks that can interfere with normal operations head-on. Partnering with industry, nonprofits, researchers, and citizens can enable government to incorporate more effective risk response frameworks into how it does business. By doing so, agencies can avoid potential risk traps; they can identify risks in advance, communicate their impacts, and be resilient in response. Pursuing a serious risk management approach can go a long way toward driving change in government.

Trend Three: Innovation Leveraging Innovation to Drive



Innovation touches every facet of our lives, from transportation to communication, from personnel management to office automation. This is especially evident in the public sector in how agencies provide services and meet their missions. As it happens, technology has enabled much of this innovation, but it also requires smart leaders who apply these technologies and drive change within their agencies.

Weaving Innovation into the Fabric of Government Agencies

Many government leaders have found a way to weave innovation into the fabric of their agencies. At the federal level, the Department of Health and Human Services (HHS) has hired an “entrepreneur-in-chief” while the Department of State has an Office of Innovation that reports directly to the secretary. Maryland is just one state with a chief innovation officer who reports directly to the governor and ensures that the state government keeps pace with technology and citizens’ emerging needs while using innovative tools to effectively manage government programs and services.

The single constant in these examples is that senior government executives are leveraging innovation to drive change within government, and leading the charge to incorporate innovation into government. They are doing so by articulating the value of innovation, fostering a culture of innovation, aligning it to mission, defining and measuring success, and harnessing the benefits of innovation.

Articulating the Value of Innovation

Survey findings and poll results indicate that citizens expect a government that works differently—one that

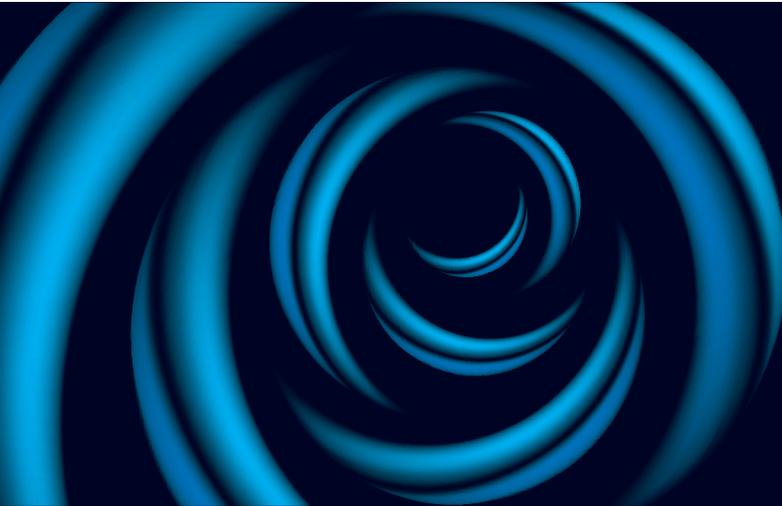
encourages citizen participation, shares its information more easily, and delivers services more effectively and efficiently than in the past. Given such expectations, citizens aren’t interested in paying more for a more responsive government. In fact, most want to pay less. To accomplish this kind of government involves changing some of the fundamental assumptions and methods of government operation through innovation. The first task for government executives is to articulate how pursuing innovation can form a government that meets the demands and expectations of the 21st century.

The present day differs from the past in two critical ways. First, today’s citizens have access to powerful mobile computing, so individual citizens can create, access, and analyze data at any time. Each individual is able to request and consume government services at any time and from any place, and governments need to meet that need.

Second, one result of that access is that citizens are part of a culture of participation. The social applications that run on phones, tablets, and now wearable technology impart the value of participation with every shared picture, every request for signers of online petitions, and every opportunity to fund a new prospective product or service before it hits the market. Governments must therefore make not only their services, but their very operations open to participation at any time and place.

Government leaders must harness citizens’ desire to participate and demonstrate how opening government to that participation can help deliver better services at lower cost. This is already being done, of course, at many levels by involving citizens in co-creation, co-production, and co-delivery of services and by tapping into the knowledge of crowds through programs like the Securing Americans Value and Efficiency (SAVE) Awards.





Fostering a Culture of Innovation

Government leaders must also foster a culture that is not only open to innovation, but actively encourages it. They can develop and invigorate such a culture in a number of ways, including:

- Appeal both to internal and external stakeholders for innovation
- Create mechanisms for innovation
- Allow people to fail
- Offer incentives for trying, and even more for succeeding
- Institutionalize successful innovations

Aligning Innovation to Mission

Though it is important to encourage out-of-the-box thinking, it is equally important to ensure that innovations do not distract from an agency's day-to-day mission. With new digital tools coming into existence every day, the allure of shiny, new engagement channels never dims. It is incumbent upon government leaders to act as filters, applying "tests for relevance" on proposed innovations before even piloting them.

Defining and Measuring Success

The final piece is to define and then measure success. Unlike in the private sector, success in the public sector cannot be defined solely through financial data. Even if costs rise slightly, a program could be successful if it advances other measurable goals such as reaching identified audiences, enhancing transparency, or developing new programs to address emerging mission components, among many others.

For each of these goals, agencies will have to identify specific metrics at the beginning of any innovation programs. Metrics may include web analytics, volume and relevance of online participation, or metrics that pertain specifically to the agency's mission: the health of specific populations, for example, or compliance with new regulations.

Distributing Innovation

For government leaders to harness the power of innovation, they must ultimately unleash the creativity and expertise of the employees in their charge.

Ideally, the mantle of innovation should be taken up by as many people within the organization as possible. Innovation can be championed by individuals at any level, but it is most often effective when it is embraced by employees at all levels.

Trend Four: Mission

Aligning Mission Support with Mission Delivery



Agency and program leaders depend on a range of mission support functions, such as finance, technology, acquisition, or workforce management, to get their jobs done. The delivery of these functions, however, has changed significantly over the past quarter-century.

Twenty-five years ago, federal agencies typically did not have key executives leading mission support functions. These functions were largely seen as administrative transaction services. However, ineffective mission support operations can be quite costly.

Congress Created Chiefs to Improve Management

As a consequence of such persistent failures and a lack of clear leadership in mission support functions, Congress has intervened in the management of the executive branch over the past two decades by raising the profile, formalizing leadership roles, and defining more authority for many of these functions. Formalizing these roles mirrored similar trends in the private sector to create chief financial officers, chief information officers, chief acquisition officers, and chief human capital officers. Collectively, these “chiefs” have been referred to as the “C-Suite” and most recently, Congress formalized the role of chief operating officers and performance improvement officers as well.

Three Core Functions

These various chiefs reflect different disciplines that have their own professional communities and ways of defining success. Generally, most of these chiefs report to the heads of their agencies and have at least three core functions:

- Providing *services* to internal agency customers (such as hiring or installing computers or providing office space)
- Ensuring *compliance* with government-wide requirements (such as merit principles or capital investment guidelines)
- Providing *strategic advice* to agency leaders (such as strategic workforce planning or financial risk management)

These functions are not mutually exclusive. In fact, one of the challenges for federal government chiefs is balancing these distinct functions.

Developing a Stronger Mission Focus

The increased prominence of internally focused mission-support functions has raised concerns among externally focused mission-oriented line managers in agencies. Mission managers deliver services to the public, such as air traffic control, environmental cleanup, export assistance, disability benefits, or immigration enforcement at the border. These mission managers rely on, but more importantly can capitalize on, centrally directed mission-support functions, which is a trend found in the business sector. Having common services provided centrally is not only less expensive, but often results in higher quality. However, one former mission manager recently noted

that in his experience, “the [C-Suite] community is the biggest obstacle to success.”

For example, a 2009 study by the National Academy of Public Administration (NAPA) of several mission-support functions at the Department of Energy (DOE) observed that these centralized functions in the department are seen as dysfunctional by line managers, largely because the various functions do not coordinate with each other. The lack of coordination within and among these functions results in “an inwardly focused, regulation-based, transactional organization.”

The NAPA study concluded that “DOE needs to better integrate and manage the mission-support offices’ efforts in order to develop a coordinated approach to providing essential support services.” In addition, it found the mission support offices needed to develop a stronger mission focus: “DOE does not have formal systems to assess how well the mission-support offices are meeting the needs of the department and to hold them accountable for doing so.” Anecdotal evidence suggests similar perceptions by mission leaders in other federal departments as well.

Creating Governance Structures That Support Mission Leaders

In addition to encouraging mission-support chiefs to focus greater attention on mission delivery, the NAPA study also recommended that the U.S. Department of Energy create cross-bureau governance structures. This new structure would better coordinate mission-support activities by integrating them more effectively into mission delivery priorities. These include creating:

- An under secretary for management
- An operations management council
- An enterprise-wide mission-support council

These recommended structures and new roles alone will not change tendencies found in mission support areas to act independently. Chiefs have to connect with one another through formal and informal means, and balance their three functional roles.

Moreover, Congress recently established another chief—the chief operating officer (or under secretary for management). With this role now enshrined in law and possessing statutory authority, the COO serves as a nexus between policy and management. Depending on the

agency, this role may be held by the deputy secretary or filled by an under secretary for management.

Opportunities for Cross-Functional Collaboration

Both mission-support and mission-delivery executives say there are opportunities to improve results if they work together more effectively as a team, both within and across agencies. One way to do this is have agency executives serve in both mission-support and mission-delivery roles as a part of their career development, much like the commercial sector does. Government executives can develop a better understanding of enterprise-wide priorities that goes beyond just mission-level priorities:

- The U.S. Department of Veterans Affairs is doing just this within its executive development program.
- USDA's Departmental Management Operations Council and the PerformanceStat meetings at the U.S. Department of the Treasury and the U.S. Department of Housing and Urban Development use cross-departmental councils that regularly convene to tackle issues of integration.

Conclusion

This cross-functional mission-support collaboration could also extend to cross-agency mission-delivery initiatives. For example, agencies now work across boundaries to solve major public challenges such as climate change and food safety. Mission-support services for these initiatives have previously been ad hoc. The cross-agency mission-support councils could support these initiatives in innovative ways that increase efficiency and accountability.

Government executives can harness major technological shifts and adapt proven public-sector and commercial best practices to make their agencies more efficient and effective.

Trend Five: Efficiency

Pursuing Cost-Savings Strategies in a Resource-Constrained Era

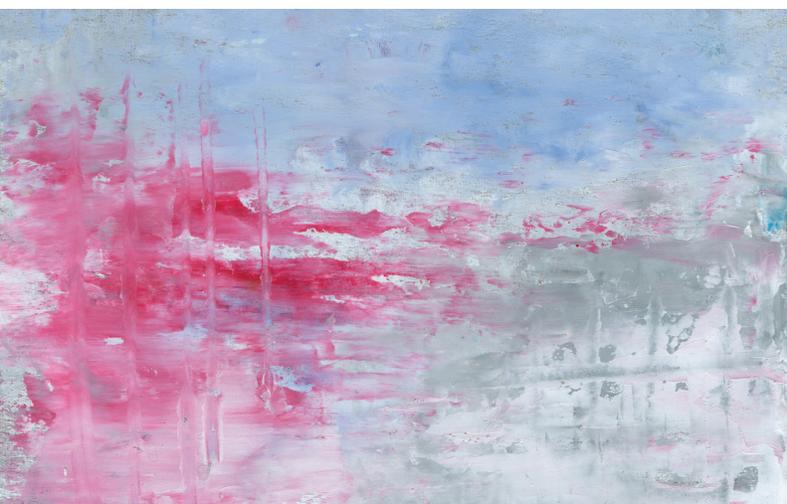


Fiscal austerity will be an enduring challenge for public managers. It can present opportunities to rethink traditional approaches to mission support and service delivery. In this environment, identifying innovative ways to reduce costs across multiple categories of government spending (e.g., appropriations, user fees) while maintaining and improving performance will be critical.

New Strategies for Achieving Cost Savings

In 2010, the IBM Center published *Strategies to Cut Costs and Improve Performance*. Since its release, the fiscal challenges facing government executives have become even more pressing, with an impetus to reduce costs and allocate savings to mission priorities. Constraints imposed by sequestration, continuing resolutions, and debt ceilings have made “doing more with less” and “operating smarter with less” an ongoing reality. Even if a larger agreement is reached regarding long-term spending, that agreement is likely to maintain a tight hold on current discretionary budgets for agencies.

Across government, new strategies for achieving cost savings are in high demand. This goes beyond simple cost-cutting to helping the public sector redirect cost savings into investments in key priorities, including through gain sharing and other savings retention approaches. The imperative to do more with less has never been stronger; government executives can learn from each other and from the private sector how to survive and possibly thrive in this environment.



Emerging Opportunities to Save Costs

There are emerging opportunities to save costs through improvements in how agencies manage technology, process, organization, and data:

Technology. When used appropriately, technology can streamline operations and allow employees to shift from transactional processes to strategic insight and customer service. Cloud computing allows agencies to spend less money. Leveraging the cloud can allow agencies to focus internal resources on making mission and program operations more efficient and effective even in an environment where funding is tight.

Process. There are great examples of the power of streamlining processes such as claims and payment processing, supply chain management, and emergency/disaster response. Best practices provide clear lessons in how to increase mission effectiveness at a lower price. For example, applying shared services to a broader range of government activities can allow agencies to reduce duplicative back-office operations across multiple bureaus; this allows for enterprise-wide management of finance, HR, acquisition, and other mission support functions.

Organization. The model of an effective organization is changing as technology and process enable new management approaches to drive effectiveness. Rather than following a hierarchical structure where collaboration across boundaries is difficult, government executives can capitalize on lessons from entrepreneurial firms and move toward a collaborative, virtual team model of program management and service delivery.

Data. Information can also be used strategically to analyze service patterns to identify wasteful processes that can be streamlined to reduce time and costs (e.g., grant application processes). Increasingly, agencies are using analytics to predict and prevent problems that drain time and resources, such as identifying improper payments in advance rather than stopping them after the fact. Applying analytics to administrative data sets can also help determine the cost-effectiveness of alternative interventions.

In addition, another IBM Center report, *Fast Government: Accelerating Service Quality While Reducing Cost and Time*, brings fresh insights and illuminating examples on how government executives, by focusing on time and speed, can deliver real and lasting



benefits through increased mission effectiveness and lower costs. It outlines strategies and tools that government executives can leverage to fundamentally change the way they do business through a focus on cycle time reduction and elimination of non-value-added activities. *Fast Government* examines the role of time in bringing value to the public sector, and focuses on innovation, disruptive technologies, predictive analytics, and other ways that leaders can make government more efficient.

Measuring and Capturing Cost Savings

It is important that government executives establish baselines from which to measure savings. This involves understanding total cost of ownership, which is different from and often more complex in federal agencies than in the private sector. Most government programs run off a cost baseline that includes a subset of appropriations for the larger department. Piecing this together to understand current costs is not a trivial exercise.

Once the baseline is understood, a second challenge involves developing financial models and methods that can capture savings off the baseline accurately. The federal government has experimented occasionally with “share in savings” contracting. Even if clear savings opportunities emerge, barriers such as federal budget requirements impede savings capture and reinvestment. Overcoming such barriers will require the use of prototypes and pilots to demonstrate the art of the possible, with agencies working in partnership with their congressional authorization and appropriation partners to build support for pilots and understanding how success can scale more broadly.

Government can also collaborate with industry to draw out ideas for savings, perhaps using challenges and prizes as a way to promote innovation. Contracts can

be written to create incentives for industry partners to dedicate a portion of their activities to innovative, rapid experimentation, finding better ways to achieve results while lowering costs.

Conclusion

Given the budget realities of today, it is critical to identify opportunities for efficiency, measure and capture savings, and reward those who deliver cost savings. It is essential that government executives ensure that federal employees are provided the skills and capabilities to succeed in becoming more efficient. This can also help identify further ways to save money and record those savings, and fuel a continuous drive for cost-effective improvements that benefit all citizens.

Trend Six: Leadership

Leading Across Boundaries in an Era of Complex Challenges



From budget reductions to a struggling economy, disasters to pandemics, the seemingly intractable challenges facing government leaders extend far beyond the ability of any one agency or leader to respond. These are complex, often non-routine, challenges that are increasingly cross-cutting, interagency in nature, and go to the core of effective governance and leadership—testing the very form, structure, and capacity required to meet them head-on. Many are difficult to anticipate, get out in front of, and handle. In most manifestations, they do not follow orderly and linear processes. The right kind of leadership approach and style can drive change in government.

As Roger Martin, dean of the Rotman School of Management at the University of Toronto, observes,

“There was a time when leaders shared a sense that the problems they faced could be managed through the application of well-known rules and linear logic. Those days are gone. Most of today’s important problems have a significant wicked component, making progress impossible if we persist in applying inappropriate methods and tools to them.”

Understanding Context is Crucial for Effective Leadership

There are different types of leadership approaches, from transactional to transformative and beyond. A survey of leadership experts and government leaders interviewed on the IBM Center for The Business of Government’s radio program makes one thing clear—*there is no one-size-fits-all approach to leadership.*

What does seem evident is the importance of context in honing a leadership approach. *Effective leaders must possess and exercise a certain level of contextual intelligence.* As Professor Joseph Nye stresses in *Leadership, Power and Contextual Intelligence*, “Understanding context is crucial for effective leadership. Some situations [may] call for autocratic decisions and some require the [exact] opposite. There is an infinite variety of contexts in which leaders have to operate, but it is particularly important for leaders to understand culture, distribution of resources, followers’ needs and demands, time urgency, and information flows.”

Leading through Complex, Non-Routine Challenges

Complex challenges, or so-called wicked problems, tend to have innumerable causes and are hard to define, making their mitigation resistant to predetermined solutions or traditional problem-solving approaches. In certain instances, the scope, nature, and extent of these challenges eliminate the notion of quick fixes or one-size-fits-all solutions.

Given today’s context, a specific kind of leadership approach seems most effective. It is an approach that recognizes the importance of:

- Reaching across agencies
- Connecting networks of critical organizational and individual actors
- Mobilizing the whole of government’s capabilities
- Achieving a result greater than the sum of the agencies involved



Collaborative Leadership in Action

Managed Networks. Ed DeSeve puts a finer point on this leadership approach in his IBM Center report, *Managing Recovery: An Insider's View*. DeSeve led the implementation of the \$840 billion American Recovery and Reinvestment Act in 2009, a perfect example of a complex, non-routine government challenge—the doling out and tracking of significant amounts of federal dollars. For DeSeve, his success relied on forging an integrated system of relationships among federal agencies, state and local entities, and other stakeholders that reached across both formal and informal organizational boundaries—what DeSeve calls a managed network, which is a key tool of collaborative leadership.

Managing “Big Science:” A Case Study of the Human Genome Project. Dr. Francis Collins represents a new type of leader in government. Before becoming NIH director, Collins led an international coalition consisting of government organizations, the private sector, and the academic community as part of the Human Genome Project (HGP).

In *Managing “Big Science:” A Case Study of the Human Genome Project*, Professor Harry Lambright highlights that Collins faced the challenge of reorienting HGP from a loose consortium into a tight alliance with a small circle of performers and decision-makers. Instead of relying on the traditional command-and-control leadership style, Collins relied on a more collegial, collaborative style. However, as the project began to evolve, mature, and face direct competition from an external party, Collins recognized that the leadership approach of old would no longer be effective. Exemplifying the importance of contextual intelligence, Dr. Collins recognized that it took a certain leadership to launch HGP,

and another kind to make the changes that took it to a successful conclusion.

Depending on the challenge faced, government leaders may need to fundamentally transform how their organizations operate to meet mission. For example, when facing the challenge of budget cuts and significant resource reallocation, transformational change that can deliver mission value more efficiently will be increasingly important.

Establishing the National Center for Advancing Translational Science. Collins now director of NIH, recognized the need to more effectively translate NIH's basic research into actual medical applications. This was driven by his desire to focus on outcomes. His vision to establish the National Center for Advancing Translational Sciences (NCATS) clashed with the status quo at NIH. Collins hit the ground running, setting goals at the outset, having clarity as to means, using the power of his office effectively, and most importantly forging collaborative networks and support inside and outside NIH. He was once again successful.

Conclusion

We are in the midst of an exciting, engaging, yet trying period marked by uncertainty, significant challenges, undeniable opportunities, and indelible aspirations. Today's most effective government leaders can spark the imagination to look beyond day-to-day urgencies and reflect on the serious problems and critical challenges they face today into tomorrow. Leaders are responsible for envisioning, shaping, and safeguarding the future, creating clarity amidst uncertainty. This is no small feat and it is made increasingly difficult in the 21st century, where rapid, unforeseen change seems to be the only constant. ■

TO LEARN MORE

Six Trends Driving Change in Government by Dan Chenok, John M. Kamensky, Michael J. Keegan, and Gadi Ben-Yehuda

The report can be obtained:

- In .pdf (Acrobat) format at the Center website, www.businessofgovernment.org
- By e-mailing the Center at businessofgovernment@us.ibm.com
- By calling the Center at (202) 551-9342.

Is Moneyball Government the Next Big Thing?

By John M. Kamensky

In early December 2013, I attended a sold-out conference on performance measurement. It wasn't the typical government crowd. The conference was filled with attendees from nonprofits and foundations, all dedicated to figuring out what works and putting their money toward programs with the most promise. In a ballroom abuzz with enthusiasm, I was particularly impressed with the sophisticated conversations on advancing evidence-based program decisions.

This enthusiasm goes beyond the nonprofit and public sector. The private sector uses the term “business analytics” to describe the use of statistics to inform business decisions. Over the last few years, a critical mass of stakeholders has quietly worked to build evidence-based decision-making into government as well. The media is calling this moneyball government, after the 2003 best-selling book by Michael Lewis on creating a winning baseball team through the astute use of statistics. The common goal is to use performance data, evidence, and program evaluation to reframe budget and program decisions in ways that reflect the value being created, not just the dollars being spent.

For example, a recent *Washington Post* article highlights the Department of Education's Even Start program, created in 1988 to help youths from disadvantaged families do better in school. By 2004 the program was spending \$248 million. Program evaluation studies from more than a decade ago found no evidence that Even Start succeeded, so President Bush, and then President Obama, recommended abolishing it. The program currently is unfunded.

At the local level, the New York City school system set out in 2010 to reduce chronic absenteeism, creating a task force that brought together a dozen city agencies and over 20 community-based and nonprofit organizations to identify and expand strategies for keeping students in school. According to a study by the



nonprofit America Achieves, the task force pioneered a new approach to collecting and analyzing real-time attendance data and evaluating different intervention techniques in 100 schools. The task force identified successful approaches such as providing in-school mentors. Students with these mentors spent more than 80,000 additional days in school compared to students without a mentor.

What's Driving the Push to Use Evidence?

A number of forces drive advocacy, political, and program leaders to use performance information,



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What does a “Moneyball” Government Do?

Governments that use the Moneyball approach:

- Focus on outcomes and lives changed, rather than simply compliance and numbers served;
- Drive limited taxpayer dollars to solutions that use evidence and data to get better results;
- Use data and evidence to continuously improve quality and impact, while also reducing duplication and cutting red tape that can strangle new ideas;
- Invest in and scale innovations that will make greater, faster progress on challenges facing young people, families and their communities;
- Direct public dollars away from policies, practices and programs that don’t work; and
- Invest in communities that are collaborating and using data and evidence to achieve significant community-wide impact.

Source: *Moneyball for Government*, <http://moneyballforgov.com/the-solution>

evidence, and program evaluation in government programs.

More data. There is more administrative and other data available for analysis within and across agencies. Greater access to data, and greater ability to make sense of both structured and unstructured data, are raising interest among decision-makers.

More analytics. There are more sophisticated approaches to analysis (e.g., not just focusing on the average, but on granular data interpretation). Stories in the popular

media (for example, Michael Lewis’ book and movie, *Moneyball*, and Nate Silver’s book, *The Signal and the Noise*) and increased use of analytics and rapid experimentation in the private sector (for example, Jim Manzi’s book, *Uncontrolled*), have raised the attention of public sector decision-makers.

More interest. Congress and local political leaders are more open to supporting investments in program evaluation and data analytics, even in an era of tight budgets. Significantly, there is corresponding increased interest among federal agencies, which are seeing greater value in performance and evaluation processes.

More incentives. Encouraging pilots at the state and local levels, and in Britain, are attracting the interest of policymakers facing tough austerity tradeoffs and looking for ways to creatively invest in programs that make a difference, while identifying programs that do not work.

More leadership. At the federal level, various OMB leaders over the past decade have consistently championed using evidence and evaluation in budget decision-making. For example, then-OMB Director Peter Orszag, a major proponent, issued directives to agencies to promote the use of evidence and evaluation. Current OMB Director Sylvia Burwell has led several large philanthropic foundations that used evidence and results as key criteria for distributing their funds, so she too is an advocate. At the local level, mayors across the country have provided leadership, including New York City’s Michael Bloomberg, San Antonio’s Julian Castro, and Baltimore’s Stephanie Rawlings-Blake, among others.

Building an Evidence-Based Culture in Government

Steps are underway to build a foundation for evidence-based thinking in the federal government as well as state and local governments.

Examples of Evidence-Based Initiatives

So, what are federal agencies, states, and localities actually doing? An increasing variety of activities—often called “what works” initiatives—are underway or planned, with the common denominator being decisions based on evidence.

FEDERAL EXAMPLE Tiered-Evidence Grants

A number of federal agencies are piloting the use of tiered evidence grants in a dozen different policy arenas, including social services, transportation, workforce development, education, and foreign aid. Under this approach, the distribution of more than \$2 billion in grants is prioritized into three categories:

- *Scale-up grants* fund expansion of practices for which there is already strong evidence. These grants receive the most funding.
- *Validation grants* provide funding to support promising strategies for which there is currently only moderate supporting evidence. These grants receive more limited funding and support for program evaluations.
- *Development grants* provide funding to support “high-potential and relatively untested” practices. These receive the least funding and support for program evaluations.



STATE EXAMPLE Washington State Institute for Public Policy

The Washington State Institute for Public Policy has developed a system for calculating the return on investment from alternative public policy tools. The system is used by the state legislature to help make policy decisions based on performance rather than anecdote. According to the Pew Center for the States, the Institute has developed a unique approach to supporting the policy decisions by the state legislature, which includes:

- Analyzing all available research to systematically identify which programs work and which do not
- Predicting the impact of policy options for Washington State by applying the combined evidence of all sufficiently rigorous national studies to the state’s own data
- Calculating various policy options’ potential return on investment, taking into account both the short and long term and the effect on taxpayers, program participants, and residents



LOCAL EXAMPLE Social Impact Bonds

According to a report by the Center for American Progress, New York City is now piloting the use of social impact bonds, a new financing tool for social programs in which “government agencies contract external organizations to achieve measurable, positive social outcomes on key issues, such as homelessness or juvenile delinquency.” Service providers receive payment from the government upon achievement of agreed-upon results. In August 2012, then-Mayor Michael Bloomberg announced the city’s first impact bond agreement. According to the Center’s report: “The city of New York contracted with MDRC, a nonprofit, nonpartisan social research organization, to reduce the rate of recidivism by at least 10 percent over four years among annual cohorts of about 3,000 young men exiting Rikers Island. The working capital for the intervention—\$9.6 million over four years—is being provided by Goldman Sachs, structured as a loan to MDRC.”



help them better understand cross-agency outcomes. For example, states and localities could link data from early childhood programs to data from juvenile justice systems and K-16 education systems to produce statistical snapshots that previously might only have been available through costly long-term tracking surveys. States and localities are leading by example in this area by participating in a foundation-funded initiative called “actionable intelligence for social policy” that links “data from across multiple systems so that researchers and government decision-makers can work together to analyze problems” in ways that safeguard privacy.

Step 4: Create Incentives to Use Evidence. In addition to building technical capabilities, OMB seeks to create incentives for agencies to actually use evidence when making program and funding decisions. One approach is to streamline access to waivers of administrative requirements in exchange for grantee commitments to collect data and conduct analyses. A second approach is to create performance incentives for states and localities to use money from existing formula grants to support evidence-based practices. For example, the mental health block grant program would require states to target at least five percent of their funding to “the most effective evidence-based prevention and treatment approaches,” according to OMB. A third approach is to make matching grants to grant-making intermediaries based on evidence of the effectiveness of the programs to be funded. For example, the \$70 million Social Innovation Fund in the Corporation for National and Community Service makes matching grants to grant-making intermediaries, leveraging as much as \$150 million in non-federal cash grants.

Step 5: Create Agency-Level “What Works” Repositories. According to OMB, agencies are also expanding their “what works” repositories, such as:

- Department of Education’s What Works Clearinghouse
- Department of Justice’s CrimeSolutions.gov



- Substance Abuse and Mental Health Services Administration’s National Registry of Evidence-Based Programs and Practices
- Department of Labor’s Clearinghouse of Labor Evaluation and Research

Conclusion

Jeffrey Liebman, Harvard professor and an early architect of the evidence-based approach in the Obama administration’s OMB, illustrates the essence of the moneyball government movement. He reflects on his efforts: “fiscal pressures make the need for more-effective government more acute.” He goes on to say the goal is to “produce more value with each dollar the government spends” by reallocating funds from less-effective programs to more-effective programs. He closes by saying “We need to improve performance by setting outcome-focused goals, then using leadership strategies ... to make the changes to systems necessary to achieve those goals.” Liebman is not alone in his assessment, as any number of governors or mayors might have made the same observations. ■

Modernizing the Budget Process to Reflect Modern Technology Realities

By Daniel Chenok

Fiscal constraints will challenge government for the foreseeable future. While this might seem daunting, budget pressures can foster opportunities to innovate, offering powerful incentives to rethink traditional approaches to mission support and service delivery. Within this context, it is critical to identify innovative ways to reduce costs while maintaining and improving performance. In addition, rethinking how to finance information technology (IT) and other investments can help agencies leverage rapidly evolving offerings in areas ranging from cloud and “as a service” computing models to real-time review and response to cybersecurity threats. Finally, government can reap the benefits of innovation and efficiency through a more refined approach to measuring and capturing cost savings.

Innovation in Cost Reduction: Lessons from the States

Federal leaders can learn much from state experiences. Earlier this year, the IBM Center released *Managing Budgets During Fiscal Stress: Lessons for Local Government Officials* by Jeremy M. Goldberg, University of San Francisco, and Max Neiman, University of California at Berkeley. This report describes how California’s budget experiences over the past several years can provide lessons learned and roadmaps for other federal, state, and local governments, who face fiscal constraints. Like many local governments across the nation, cities and counties in California have been impacted heavily by the economy in recent years. The report makes recommendations for local governments across the nation. These include:

- Identify and address structural deficits in a finely grained manner, leaving no major budget category unexamined. For federal budgets, this includes programmatic areas as well as functional categories—appropriated dollars, working capital and franchise funds, and even user fees.



- Foster citizen engagement to encourage widespread dissemination of fiscal information, thus enhancing the legitimacy of public policy choices. Significantly, this recommendation complements findings that innovation can be a key lever to thrive in a cost-constrained environment. It encourages employees and citizens to identify new ways of doing business that do not require spending on outdated processes without questioning whether they are still needed.

Budgeting For the Fast Pace of Technological Change

The traditional federal budget process takes up to 30 months. Agencies start to plan their request in spring before presenting a budget. The president presents a budget the next winter, then Congress begins enactment



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the following October: almost 18 months after the initial planning or later given the many continuing resolutions as outlined in the IBM Center report *The Costs of Budget Uncertainty: Analyzing the Impact of Late Appropriations* by Professor Phil Joyce at the School of Public Policy within the University of Maryland. Finally, after all this the agency often spends much of their budget toward the end of the next fiscal year (30 months after initial planning).

In an Internet age, when technological advances are made in months rather than years, the traditional budget process lacks the flexibility agencies need to capture the benefits of innovation. Fortunately, there are established ways that agencies can work with Congress to enhance their ability to leverage new commercial technologies. Agencies can use “working capital funds” or “franchise funds.” These approaches often allow dollars

to be carried over, across years, enabling more flexibility in spending.

Today, a number of agencies use these techniques to provide shared services to other federal agencies. The agencies that provide shared services retain a constant capital flow to support continued delivery of quality shared services; also, agency buyers use working funds to make an investment that could not have been foreseen during long-term budget planning and/or where the timing of the investment requires a flow across fiscal years that is known in advance. Technologies offered through “as a service” models, such as cloud-based services purchased at regular intervals based on buyer demand, can be tailored to an agency’s current needs. Of course, pursuing such a step requires early and ongoing transparency with agency stakeholders (including OMB, Congress, GAO, and inspectors general)

Franchise Funds

Franchise funds are government-run, self-supporting, businesslike enterprises managed by federal employees. Franchise funds provide a variety of common administrative services, such as payroll processing, information technology support, employee assistance programs, public relations, and contracting.

Franchise fund enterprises are a type of intragovernmental revolving fund. Such funds all have similar legal authority and operations and generally provide common administrative services. An intragovernmental revolving fund is established to conduct continuing cycles of businesslike activity within and between government agencies. An intergovernmental revolving fund charges for the sale of goods or services and uses the proceeds to finance its spending, usually without the need for annual appropriations.

The original operating principles for franchise funds included offering services on a fully competitive basis, using a comprehensive set of performance measures to assess the quality of franchise fund services, and establishing cost and performance benchmarks against their competitors—other government organizations providing the same types of services. The Government Management Reform Act of 1994 authorized the Office of Management and Budget to designate six federal agencies to establish the franchise fund pilot program.

Source: GAO documents



as to the means, risks, and benefits of using such an approach.

Agencies can apply these techniques in a variety of settings—through pilots on projects funded by annual appropriations or greater use of flexible spending accounts. Agencies can also collaborate with industry to identify ideas for savings, perhaps using challenges and prizes to promote innovation. Contracts can be written to create incentives for industry partners to pursue innovative activities that may involve rapid experimentation, and ultimately are focused on finding better ways to achieve results while lowering costs.

Measuring and Capturing Cost Savings

For any steps government takes to improve efficiency and value, it is important that executives establish baselines to measure the cost savings of those steps. To understand how much can be saved, it is important to understand the full baseline costs, which in government are different and often more complex than in the private sector. Most government programs run off a cost baseline that includes a subset of appropriations for the larger department, salary and expense accounts not associated with the program, and sometimes working capital or franchise funds. Piecing these sources together to understand current costs is not a trivial exercise.

Once the baseline is understood, a second challenge involves developing financial models and methods that can capture savings off the baseline accurately. The federal government has experimented occasionally with “share in savings” contracting as a way to operationalize this measurement. This is a framework that incentivizes companies to achieve the measured savings over time, from which contract payments are made.

Even if clear savings opportunities emerge and there is financial transparency for the opportunity, barriers to savings capture and reinvestment exist. Federal budget law requires that agencies have sufficient funds on hand to cover the costs of a contract upfront (including termination costs). This requirement makes the use of a gain-sharing approach less attractive. In addition, federal agencies must generally spend all of their money in a given fiscal year, while savings often take months or years to materialize. Overcoming such barriers will likely require the use of prototypes and pilots to demonstrate the art of the possible, building support for pilots and understanding how success can scale more broadly. ■

Editor’s Note: An expanded version of this article will appear in The Public Manager.

A County Manager’s Guide to Shared Services in Local Government

By Eric Zeemering and Daryl Delabbio

Budget stress in the wake of the recent recession has been an incentive for many U.S. local officials to explore new cooperative relationships with neighboring jurisdictions. County governments are in a strategic position to develop shared service projects and interlocal agreements for service delivery.

Interlocal agreements are agreements or contracts between two or more local units of governments to provide services to their citizens. Interlocal agreements between local government units are growing in popularity, and over half the U.S. county officials surveyed for this report point to increased discussions about shared service in the last year. Counties explore shared service delivery to:

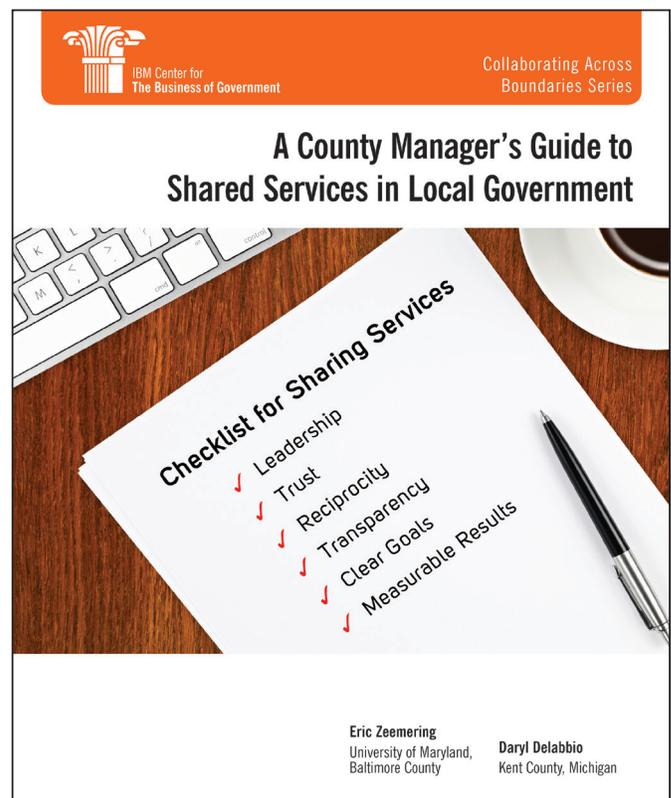
- Stimulate innovation in their local communities
- Improve government decision-making
- Increase levels or quality of service
- Improve working relationships with other local governments

This report provides shared service delivery examples from county governments throughout the United States, and presents recommendations from experienced county officials about how county governments can make shared service projects successful. Based on this research, three key preconditions were found to mark the success of a shared service delivery venture:

- **Leadership:** Support from top administrators and elected officials is necessary to advance dialogue and ensure the success of shared services and interlocal agreements. Teams or task forces of participants from multiple governments may identify opportunities for cooperation and maintain momentum.

- **Trust and reciprocity:** Counties that develop a track record of cooperation with their neighbors develop trust, an asset for building new shared service efforts.
- **Clear goals and measurable results:** Specific goals for shared service projects can ensure success while confirming that the effort is worthwhile. Officials should regularly assess the services delivered through cooperation, as well as the quality of the working relationship.

Based on research and interviews with practitioners in the field, this report gives five recommendations to help county leaders form and maintain successful shared service relationships.





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Planning a Shared Service

Recommendation One: Create a shared services assessment team. Bring the right participants together to discuss shared services in a transparent manner. Maintain communication with partners over time, resisting the urge to set relationships on autopilot.

Recommendation Two: Identify strengths in participating governments. Counties should carefully identify their areas of strength in determining where they could provide service to others, while also assessing other governments' areas of strength. Be open to innovative service delivery models, including service swapping or exchange.

Recommendation Three: Consider pilot projects. Small successes through pilot projects can build relationships, trust, and a track record to expand cooperation in the future.

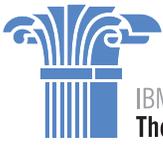
Implementing a Shared Service

Recommendation Four: Discuss and document responsibilities with partners. Almost all of the county officials interviewed for this report stress the importance

of guiding cooperation with clear, documented terms written in a way that current and future county leaders will understand. Managers and policy-makers should regularly review and discuss shared service agreements.

Recommendation Five: Make appropriate changes as needed. Public needs and budgets change over time. Relationships that are beneficial now may not be in the future. Therefore, cooperative projects must be crafted with flexibility.

Examples and brief case studies from county governments illustrate how shared service initiatives can help counties improve working relationships with other governments while improving public service delivery. Successful shared service projects require patience and careful maintenance over time, but through cooperation, many county governments are finding innovative ways to make quality services available to the public. ■



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