COURSE ON URBAN MANAGEMENT AND FINANCE FOR ANGLOPHONE AFRICAN COUNTRIES
NAIROBI, KENYA 23 AUGUST — 15 SEPTEMBER, 1989

UNITED NATIONS CENTRE FOR HUMAN SETTLEMENT (HABITAT)
ECONOMIC DEVELOPMENT INSTITUTE (EDI) OF THE WORLD BANK
U.S.A.I.D. REGIONAL HOUSING AND URBAN DEVELOPMENT OFFICE
FOR EASTERN AND SOUTHERN AFRICA

COURSE CALENDAR

Course On Urban Finance And Management

For

East and Southern African Countries

23 August - 15 September, 1989

Nairobi, Kenya

Training Unit, UNCHS (HABITAT), P.O. Box 30030, Nairobi, Kenya
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Overall Goal

The overall goal of the course is two fold: (1) to strengthen the Regional capacity to provide ongoing training opportunities in urban local government finance and management; and (2) to increase the course participants' knowledge and skills in urban financial management, local government management, and the training and development process.

Course Objectives

The course objectives are:

(1) To increase participant knowledge and skills in local government financial management, general management, and training methodology and design;

(2) To demonstrate alternative approaches for the training of local government officials;

(3) To strengthen the institutional capacity of participating training organizations in the areas of urban local government finance and management;

(4) To increase regional awareness about the need for urban local government training and the resources available to achieve greater competencies within local governments through training and development interventions.

Course Description

The course will be selective in its coverage of specific subjects. Nevertheless, it will focus on the three major content areas associated with increasing the overall performance of local government: (1) financial management strategies with an emphasis on revenue generation and collection, and more effective control of capital and recurrent expenditures; (2) general management with emphasis on strategic planning, decision making and problem solving, the roles and responsibilities of the urban manager, and strategies for achieving higher performance at the individual, team and organizational levels of management; (3) the human resource development responsibility within the local government system, including comparative strategies that cut across management and training functions, the training and development cycle of events from assessment to evaluation, and various approaches that are available to achieve greater relevancy and results from the training investment.

To cover these three broad topics, the course will concentrate on the two content areas of financial and general management in two contiguous time frames within the course. The design will interweave into these topical areas, strategies for addressing them more effectively through the training and development process. The overall intent is to strengthen knowledge and skills in general and financial management within urban local government settings through more effective use of training resources within the region.

Tuesday 22 August

1900 hours: Welcoming Cocktails And Introductions: Jacaranda Hotel

Wednesday 23 August

0830-1000 (Session 1)	- Opening Ceremony - Review of Course Schedule and Design - Logistics - Defining Competence In Urban Management, Finance and Training
1030-1200 (Session 2)	- Defining Competence (continued) - Group Reports/Discussion
1330-1445 (Session 3)	- Common Values, Norms And Skills For Effective Performance In The Urban Local Government Environment
1500-1600 (Session 4)	- Managing Change: An Overview

Thursday 24 August

0830-1000 (Session 5)	- Municipal Financial Reform: Analysis Of Problems And Formulation Of Objectives
1030-1200 (Session 6)	- Lukasa Exercise Stage I: in groups
1330-1445 (Session 7)	- Lukasa Exercise Stage I: group presentation
1500-1600 (Session 8)	- Revenue Mobilization: General Principles Introduction

Friday 25 August

0830-1000 (Session 9)	- Revenue Mobilization: Options For Development Of Local Taxation
1030-1200 (Session 10)	- Session 9 continued
1330-1445 (Session 11)	- Revenue Mobilization: Charging Principles And Practices: Introduction: general discussion
1500-1600 (Session 12)	- Session 11 continued

Monday 28 August

0830-1000 (Session 13)	- Charging For Individual Services: Water Supply, Shelter, Land Development
1030-1200 (Session 14)	- Session 13 continued
1330-1445 (Session 15)	- Revenue Improvements And Projections: Lukasa Exercise Stage II: in groups
1500-1600 (Session 16)	- Session 15 continued

Tuesday 29 August

0830-1000 (Session 17)	- Lukasa Exercise Stage II: group presentations
1030-1200 (Session 18)	- Session 17 continued
1330-1445 (Session 19)	- Intergovernmental Transfers: Introduction: Case Studies
1500-1600 (Session 20)	- Session 19 continued

Wednesday 30 August

0830-1000 (Session 21)	- Budgeting: Expenditure Estimation: Introduction: general discussion
1030-1200 (Session 22)	- Session 21 continued
1330-1445 (Session 23)	- Budgeting: Expenditure Estimation: Lukasa Exercise Stage II: in groups
1500-1600 (Session 24)	- Session 23 continued

Thursday 31 August

0830-1000 (Session 25)	- Lukasa Exercise Stage III: group presentation
1030-1200 (Session 26)	- Balancing The Budget: General Introduction
1330-1445 (Session 27)	- Balancing The Budget: Lukasa Exercise Stage IV: in groups

Thursday 31 August (continued)

1500-1600 (Session 28)	- Session 27 continued
1800-1930 (Session 29)	- Lukasa Exercise Stage IV: group presentations

Friday 01 September

0830-1000 (Session 30)	- Financial Information: Introduction: group discussion
1030-1200 (session 31)	- Session 30 continued
1330-1445 (Session 32)	- Budgetary Control: Introduction and Lukasa Exercise Stage V and VI
1500-1600 (Session 33)	- Session 32 continued
1800-1930 (Session 34)	- Internal Audit

Monday 04 September

All Day Field Trip To Karatina: Focus On Private Initiatives In Urban Finance And Management

Tuesday 05 September

0830-1000 (Session 39)	- The Urban Management Challenge: Defining Managerial And Organizational Effectiveness
1030-1200 (Session 40)	- The Individual And The Organization: Role Ambiguity And Conflict
1330-1445 (Session 41)	- How Personal Preferences Affect Job Performance
1500-1600 (Session 42)	- Session 41 continued

Wednesday 06 September

0830-1000 (Session 43)	- Strategic Planning: A Case Study
1030-1200 (Session 44)	- Strategic Planning: The Myth And The Reality

Wednesday 06 September (continued)

1330-1445 (Session 45)	- Personal And Organizational Readiness
1500-1600 (Session 46)	- Action Research And Planning: A Managerial Tool Kit For Decision Making And Problem Solving

Thursday 07 September

0830-1000 (Session 47)	- Performance Discrepancy Indicators: Pinpointing Problems In The Organization
1030-1200 (Session 48)	- Building A Problem Solving Relationship: The Act Of Collaboration
1330-1445 (Session 49)	- The Training Needs Assessment Dilemma: One Approach To Managerial Problem Finding
1500-1600 (Session 50)	- Leave For Mombasa Field Trip

Friday 08 September

(Sessions 51-54)	- Mombasa Field Study Tour Of Urban Projects

Saturday 09 September

(Sessions 55-56)	- Tour Of Mombasa Harbour
(Sessions 57-58)	- Option Of Organized Visit To Historic Monuments/Free Time

Sunday 10 September

- Return To Nairobi

Monday 11 September

0830-1000 (Session 59)	- Problem Identification And Opportunity Finding
1030-1200 (Session 60)	- Session 59 continued
1330-1445 (Session 61)	- Goal Oriented Behavior: A Common Framework For Action

Monday 11 September (continued)

1500-1600 (Session 62)	-	Session 61 continued

Tuesday 12 September

0830-1000 (Session 63)	-	Opportunity Analysis: Simple Tools For Complex Tasks
1030-1200 (Session 64)	-	Session 63 continued
1330-1445 (Session 65)	-	Planning A Course Of Action
1500-1600 (Session 66)	-	Session 65 continued

Wednesday 13 September

0830-1000 (Session 67)	-	Implementation: The Leadership Dimension
1030-1200 (Session 68)	-	Session 67 continued
1330-1445 (Session 69)	-	Experimentation And Redesign, Implementation And Evaluation: Closing The Circle
1500-1600 (Session 70)	-	Session 69 continued

Thursday 14 September

0830-1000 (Session 71)	-	Human Resource Development And The Role of Training In Urban Management
1030-1200 (Session 72)	-	Personal Empowerment: Making A Difference Back On The Job
1330-1445 (Session 73)	-	Culture And Management: Introduction; General Discussion
1500-1600 (Session 74)	-	Culture And The Organization: Individual Exercise and Small Group Discussions

Friday 15 September

0830-1000 (Session 75)	-	Planning Re-entry

Friday 15 September (continued)

1030–1200	–	Logistical Arrangement
1300–1445 (Session 76)	–	Course Evaluation
1515–1600	–	Closing Ceremony
1600	–	Coctails

TRAINING MANUAL ON URBAN LOCAL GOVERNMENT FINANCE FOR ANGLOPHONE SUBSAHARAN AFRICAN COUNTRIES

READINGS AND CASE STUDIES

IN

URBAN FINANCE

(African Version)

United Nations Centre for Human Settlements (Habitat)

Economic Development Institute
The World Bank

TABLE OF CONTENTS

PREFACE

Municipal governments in many developing countries face immense challenges, having to cope with the physical and social costs of rapid urbanization from a low economic base. Efforts to improve living conditions in urban areas are frequently undermined by poor financial management, aggravating the scarcity of resources and misusing those that exist. Financial mismanagement is translated into inadequate services and a deteriorating environment - potholed roads, low water pressure, drains choked with refuse.

Sound financial management therefore an integral part of any human settlements development strategy. This Manual describes the components of sound financial management - revenue generation, budget formulation and execution, financial information and control - but improving financial management requires a strategy of its own. The Manual prescribes and illustrates a strategy for reform - a process by which central and local governments understand and commit themselves to a series of comprehensive measures to restore a sound financial base for municipal government over time by planned and feasible stages. An illustration is provided by a Case Study which runs through the various stages of the Manual. Readers are asked to go through stages of analysis, calculation and choice aimed to put an imaginary - but not too imaginary - city "back on its feet", not just in terms of finance but in terms of the services which money can buy.

These Readings were produced for Courses in Urban Finance and Management organized by the United Nations Centre for Human Settlements (UN Habitat) and the Economic Development Institute of the World Bank. The original versions were produced by a team consisting of Professor Kenneth Davey, David Gossman and Philip Gidman. They have been edited by UNCHS (Habitat) for this volume.

PART I: INTRODUCTION

CHAPTER ONE

REFORMING MUNICIPAL FINANCE

A: <u>The Urban Context</u>

1. During the last quarter of the twentieth century, the population of urban areas in developing countries is likely to grow by 1 billion. Some individual cities are growing by 250,000 to 500,000 people annually. Whether this is good or bad is academic; measures to stem population growth or rural-urban migration might or might not reduce the rate of urbanization, but its scale over the next two decades will still be massive and unprecedented.

2. Urbanization involves costs to the public sector, which amount to large shares of total public spending. Dense human settlement requires levels of servicing - for health reasons, if no other - which are not essential elsewhere. Rising incomes increase demands for water, electricity, road space, telephones and similar public services. Expectations for urban amenities and appearances are high, and the costs of providing them are also high. Growth of large cities often involves diseconomies of scale in some types of infrastructure - long pumping distances for water and travelling distances for commuters, for example. In some of the largest metropolitan areas, geographical shape and terrain accentuate the costs of growth: Bangkok, Nairobi and Rio de Janeiro come to mind.

3. As a result, urban areas in developing countries are demanding rates of investment that are far higher than those achieved (or needed) by the cities of Europe and North America during their rapid growth. Heavy investments give rise to high levels of current expenditure, and these combined demands pose considerable problems for national and local governments. They place heavy strains upon absolute levels of public resources: they add to political conflicts over the allocation of resources between regions or between town and country: they may endanger national investment priorities, particularly efforts to contend with the conditions of rural poverty which produce much pressure upon urban areas.

4. The financial consequences of urbanization and the dangers of overinvesting national resources in urban services have two implications which will provide themes for this Manual. The first is the need for cities, as a whole, and urban - government agencies, in particular, to generate as much as possible of the resources they need for investment and current spending. The second is the need for public agencies to make the most effective use of resources - to seek low-cost solutions to problems wherever possible, to

diffuse the benefits of investment as widely as possible, to avoid waste and leakage.

5. There is a further dimension to these two points. Most large cities have big concentrations of poverty. Wide disparities in standards of living are not unique to cities, but they are highly visible and have often been accentuated by past practices in public-sector policy and the provision of services. It is a matter of great and growing concern that attempts to generate public revenue in cities should not add, at least disproportionately, to the burdens of the poor and that priority in public expenditure should be given, wherever feasible, to those types and methods of service provision which will benefit the poor.

6. It is likely that this context and these objectives of urban financial policy will be widely understood and accepted by readers. It will not be necessary, therefore, to devote further time to discussing or defining them in general. They will, however, underly the content and the discussion of individual financial issues and practices.

B: The Role of Municipal Government

7. Despite tremendous variations in its character, municipal government is a worldwide institution. Almost all towns and cities have a representative or quasi-representative system of local government. There are many differences, however, in characteristics. Important variations are as follows:

(i) The relationship of municipal boundaries to urban settlements. In cities such as Bombay, Lusaka and Nairobi a single local authority has been responsible for the core city and virtually all suburban development. Cairo, Calcutta and Manila, by contrast, represent cities fragmented between a number of municipal jurisdictions.

(ii) The extent of municipal functions. Refuse collection, market administration, local road maintenance, cleansing, drainage, lighting, parks and recreation are virtually always municipal responsibilities. What varies widely is municipal involvement in:

(a) public utilities, chiefly water and sewerage (provided, sometimes, by a national corporation, or typically by a metropolitan corporation or, a municipally controlled enterprise) and electricity (usually a national utility responsibility, but, sometimes, a function of local government);

(b) social services (municipalities often provide primary schools and clinics, less frequently secondary schools and hospitals);

(c) public protection (fire services are frequently municipal, but police forces infrequently so outside Europe and North America);

(d) trunk roads which can be a national, provincial or local responsibility;

(e) provision of rental or purchase housing or serviced sites (sometimes a municipal activity, sometimes that of a special purpose authority);

(f) regulation of land use and development (usually, a municipal but, on occasion, provincial or metropolitan authority function).

(iii) <u>The degree of integration in a vertical chain of administration</u>. American, British and (to some extent) Spanish traditions treat municipalities as separate political, legal and administrative entities, albeit subject to varying degrees of external supervision. French and Ottoman traditions place local government within a vertical hierarchy of governmental institutions; locally elected assemblies have legislative powers, but executive responsibility is often exercised by administrators (governors, prefects etc) with a dual responsibility to central and local government (this pattern is changing within France itself but is still prevalent in French-speaking African countries).

(iv) <u>The location of executive as opposed to legislative responsibility</u>. This may be vested in an elected leader, governor or mayor, an administrator appointed by central or local government, or the elected representatives who, as a body, directly supervise their professional staff.

(v) <u>The extent of external supervision</u>. This applies particularly to the requirement for central or provincial government approval of budgets, revenue tariffs, staff appointments, contracts and development plans.

(vi) <u>The nature and buoyancy of revenue sources</u>. These will be discussed in Part II.

8. <u>Non-municipal Authorities and Enterprises</u>

A further variable is the existence of parastatal authorities or enterprises at city (as opposed to national) level. These may have three types of function:

(i) the provision of specific urban services, such as water supply, sewerage or public transport;

(ii) comprehensive development of new areas for residential, commercial or industrial occupation;

(iii) metropolitan planning and development control.

Occasionally, a single authority performs two or all of these functions. The Karachi Development Authority, for example, is responsible for master planning and new area development (and, until recently, for bulk water supply).

9. Private-sector Involvement

A final variation is the role of the private and voluntary sectors in the provision of urban services. Private enterprise, in many cities, provides, totally or partly, services which, in other cities, are run by the public sector. Examples are public transport, medical services, nursery education and commercial refuse collection. Furthermore, public-sector responsibilities may be contracted out to private-enterprise or voluntary bodies. Examples are refuse collection, road maintenance or the operation of sporting and other recreational amenities. Inputs to services may also be contracted out in this way, such as architectural design or office cleaning. Although private-sector involvement in urban services has a long history, preceding, in many cases, the growth of municipal government and public enterprise, there is much current interest in its expansion. Privatization is seen as a device for eliminating a whole area of public expenditure; alternatively, contracting out is intended to reduce costs, through competition or use of voluntary effort, while maintaining over-all public responsibility.

10. Conclusion

Two features of this brief analysis have financial implications, viz.,

(i) Very wide variations between countries (and even, within countries) in the structure of urban government and the allocation of responsibility for individual urban functions;

(ii) Considerable fragmentation of responsibility between levels of government, between general and special purpose authorities, between territorial jurisdictions and between public and private sectors.

Numerous attempts have been made to rationalize the institutional framework, to extend municipal boundaries, to amalgamate municipalities, to superimpose metropolitan-wide co-ordinating or planning authorities, etc. All such attempts meet institutional resistance; all reorganizations are very costly, and few have yielded more than partial success. The system of urban finance has to live within the specificities of governmental structure.

C: Municipal Financial Management

11. The main purposes of financial management in municipal government are:

- to keep the municipality solvent,
- to ensure enough revenue to carry out its main responsibilities to the community,
- to see that the burden of financing the municipality, through taxes, charges etc., is fairly apportioned,
- to ensure that the municipality's resources are used in accordance with its priorities,
- to see that resources are used legally and honestly, and
- to provide those who run the municipality with adequate information for discharging their responsibilities.

12. All too often, financial management fails on some or, even, all of these tests. Municipal government is undermined by weakness in its financial management. A look at the finances of a particular municipality might reveal that:

- It is in debt: suppliers' invoices take three months or more to get paid; income tax is deducted from staff salaries but not paid over to the central government; the electricity corporation is owed large sums for street lighting; the bank account is overdrawn to the limit of its credit for most of the year.

- It is basically underfinanced: revenue has not grown at a rate commensurate with the demands being made on the municipality for extra spending - demands arising from inflation, from growth in population or from an expanding economy which puts more traffic on the municipal roads, uses more water, creates more refuse than before.

- The fiscal burden is unfairly distributed: large properties are significantly undervalued for tax, people dependent on public standpipes pay more per litre to water carriers than those with house connections.

- Patterns of expenditure do not reflect a defensible set of priorities: in particular, spending on civic and administrative overheads is rising more sharply than that on direct services to the public.

- Little concern is shown for cost-effectiveness or the avoidance of waste: staff productivity is low through lack of training or equipment, water pressure inadequate because of serious leakage, machinery in disrepair through lack of simple, regular maintenance.

- Financial controls are ineffective: there is suspicion of collusion between property owners and assessors in undervaluation, between clerks and drivers over misuse of petrol, between engineers and contractors over substandard construction.

- Financial information is too late, too little or too obscure to enable managers to keep strictly to their budgets or adjust them sensibly to changes in circumstance.

D: The Financial Components of an Urban Development Programme

13. Fast-growing cities often need public action on a broad front, to open up new areas for settlement, to arrest decay in the historic city, to extend infrastructure, to rehabilitate existing networks, to expand services and to improve operating efficiency. All this needs finance, and much or most of the finance might have to be found within the city, by local taxation, consumer charging, private-sector contributions and waste elimination. Development will depend upon improving the efficiency of the main urban public agencies.

14. A comprehensive urban development programme will, therefore, have several financial meaures which might include:

    - generating capital finance for investment purposes (e.g., trunk roads, reservoirs, pipelines);

    - increasing expenditure on operation and maintenance, and on essential staffing, supplies and equipment (e.g., refuse trucks, buses);

    - diverting resources from unnecessary and extravagant forms of expenditure;

    - increasing local cost-recovery through increased taxes and charges or effective assessment and collection of property rates;

- reforming financial relations between levels of government and different public agencies, to ensure a fair distribution of costs, to provide for any justifiable transfer of resources to poor areas and to avoid one agency's activities imposing insupportable costs on another;

- improving budgetary control, financial information and audit, to ensure that financial targets are met.

15. These measures are likely to be interdependent. Financial reform, as with urban development generally, usually needs an attack on several fronts. There has to be a strategy, just as there might need to be a strategy for physical growth or urban transportation. Its components will need to include:

    - a thorough analysis of the municipality's financial performance, so that the nature and extent of its financial weaknesses are understood;

    - a comprehensive set of measures which tackle the various defects together (including all the elements detailed in the previous paragraph);

    - a planned approach which seeks to implement improvements over time, so that executive capacity and political support are not overstrained; and

    - a sense of commitment by central and local government to the planned reforms.

16. The first stage of reform is that of analysis, i.e., of understanding the problems. This is illustrated by the following Chapter in Stage I of the Case Study.

CHAPTER TWO

CASE STUDY: LUKASA CITY COUNCIL

Stage I: Analysis and Strategy

Timing: Beginning of 1989

A: Introduction

Assignment

1. Urban development has usually been associated with the expansion of services and infrastructure through capital investment, but improved operation and maintenance of existing services might be equally important to the welfare of the urban population, and both lines of development might be dependent on improving the efficiency of the public agencies responsible for operating and expanding services. The financial components of an urban development programme might include:

    (a) capital investment,

    (b) increased expenditure on operation and maintenance, and on essential staffing, supplies and equipment,

    (c) diversion of resources from unnecessary, wasteful forms of expenditure,

    (d) increased recovery of costs through higher taxes or charges, or improved assessment and collection procedures,

    (e) reformed financial relationships between levels of government and different public agencies and

    (f) improved budgetary control and financial information to ensure that financial targets are met.

2. To illustrate this comprehensive approach, readers are asked to read the attached Case Study of Lukasa, an imaginary city but one with characteristics of a number of real Eastern African cities. They will need to analyse the financial tables, looking at trends in revenue, expenditure and overall financial performance. It would be advisable to reproduce the tables in _per capita_ terms at constant prices, to show how far revenue and expenditure have kept pace with inflation and the demands consequent on population growth.

3. Readers are asked to imagine that they are part of a governmental team framing a medium-term urban development programme for Lukasa and to identify:

    (a) the main financial issues which need to be tackled, and

(b) the financial reforms which need to be included. "Financial reform" may be taken to include any of the components listed in paragraph 1.

B: **General Description**

Location and Population

4. Lukasa is the second major city in an Eastern African country. The national population was 21 million in 1988.

5. The City of Lukasa has a resident population of 500,000 people, and another 100,000 travel in daily from surrounding rural areas for work. Lukasa is located in lowlying marsh land surrounding a natural harbour at the mouth of the country's major river. It is the largest port, handling some 60 percent of external trade. The national capital is some 500 kilometres inland.

6. Apart from the Port, the City has major industries including textiles, cement, oil refineries and food processing, and remains the headquarters of many commercial firms. Average densities range from 200-500 persons per hectare. Owing to growing pressure on agricultural land in the country's interior, some political strife in border areas, natural growth and attractions of city employment, the city's population has been growing at the average rate of 5.2 percent per annum over the past decade.

Institutions

7. Lukasa has a City Council (the LCC). It is governed by a council, consisting of 33 members elected from individual wards. They, in turn, elect the mayor. The Council's permanent staff is headed by a Town Clerk, who is assisted by a number of chief officers including a treasurer and engineer.

8. The Council is responsible for roads, street lighting, footpaths, primary education, markets, fire protection, water and sewerage, public health, housing, refuse collection, some medical services, parks, libraries and other recreational facilities.

9. Separate public corporations under the control of the central government are responsible for electricity, public transport, post and telecommunications, the port and the railways.

C: City Services

Water Supply and Sanitation

10. Water supply and sewerage are the responsibility of the self accounting Department of the City Council. The main source of water is an inland lake some 50 miles from the city. Rapid population and industrial growth have outstripped the capacity of the present plant, last augmented in 1959. As a result, water pressure is low, and some areas receive supplies for only four hours a day. It has not been possible to provide piped water to some new outlying suburbs which are supplied by tubewells and water trucks. The groundwater is brackish due to the coastal location and the tubewells are only a temporary solution to demand. Only about half the city is connected to the sewerage supply. Most of the rest is served by septic tanks and night soil cartage, but some squatter settlements are totally unserved by municipal sanitation and resort to open drains and channels.

Roads

11. The City Council is responsible for all roads in the City limits. Although the basic network of roads has been sufficiently developed to avoid major traffic congestion, maintenance is a serious problem, due both to the marshy and low-lying nature of the terrain and to the rapid increase in heavy traffic, particularly to the port. There has been a marked deterioration in surfaces in recent years.

Solid-waste Disposal

12. The Council is responsible through a specific Department for solid-waste collection and disposal. The system is irregular and inadequate, because the vehicle fleet has not expanded in line with the city's growth. Moreover, expenditure on new vehicles has been cut back in recent years, and over half the fleet is near or over its normal working life, resulting in frequent breakdowns.

Education

13. Free primary education is provided by the City Council with the help of a grant from central government towards recurrent costs. Secondary schooling and further education are provided by a mixture of central-government and private bodies. New primary schools are constructed by the Council but again with grant aid and some voluntary contribution. A rapid expansion has been necessary, both to meet the City's population growth and to implement a national policy of providing school places for all children of primary school age. Because the city's schools are generally better, many children come into them from adjoining rural areas.

Staffing is adequate, but there are occasional shortages of books, and facilities, such as laboratories, have only been developed with parental help in schools in wealthy suburbs.

Health Services

14. Central government maintains a specialist teaching hospital attached to the University, and there are two other hospitals run by charitable foundations. The City Council runs a maternity hospital and a network of neighbourhood health centres and clinics. Its facilities are well staffed, but are frequently handicapped by shortages of money for drugs and basic equipment, such as sheets and bandages, etc. The Department runs the hospitals, Public health centres, clinics and preventive services.

Housing Development

15. In the late 1960s and early 1970s the City Council built a number of rental housing estates, financed by long term loans. Rents were calculated to cover debt charges, maintenance and administration with some cross subsidisation from larger to smaller houses. Rents however have not been revised since 1980 and have been practically overtaken by increases in maintenance costs due to inflation and indifferent construction standards. Together with a small but significant backlog in rent collections, this has created a deficit on the rental housing account which is increasing yearly.

16. In the mid-1970s the Council changed to building houses for tenant purchase. Recently there has been a further policy change and the Council now only provides serviced sites, again for lease purchase. Since tenant purchasers are responsible for maintenance, outgoings on both types of scheme are confined to debt charges which are covered by purchase instalments. These were also calculated to provide a small surplus for administrative costs and further housing investment.

17. The public and private sector development has not been adequate for the needs of the low-income groups and large unserviced squatter settlements have developed on vacant land on the edge of the city.

Public Transport

18. Public transport services are provided by the LCPTC, a state-owned company with seventy mostly dilapidated buses. The company has to rely on Government subsidies and, because of a general shortage of funds, has not been able to renew or properly maintain its rolling stock. As a consequence, only half the fleet is regularly operating, which results in bus overloading and

excessive waiting times. Faced with much complaint about the quality of the service, Government has rejected proposals from the company's directors for an increase in fares which have been static since 1978. In view of this public transport shortage, Government has tolerated the growth of illegal taxis and converted vans which transport an estimated third of the City's passengers (with fares roughly 50 percent higher than those of LCPTC).

D: DMC Finances

Revenue and Expenditure

19. Details of revenue and expenditure of the LCC over the past five years (1984-1988) are given in Tables I - III annexed.

Tax Revenues

20. The LCC collects three taxes, viz.,

(1) The Property Tax is levied on the rental value of land and buildings. Yields have been restricted by a number of factors:

(i) There has been no general revaluation since 1974. Assessments are based, upon the evidence of actual rent payments or the assessors' judgement of potential rental based upon physical visitation.

(ii) The LCC's tax rate (17.5 percent) has reached the maximum level permitted by law. Requests to government to increase the rate level or carry out revaluation have not been successful so far. (The Government is thought to be reluctant to increase taxes with municipal elections due in 1989 and a general election in 1990).

(iii) Collections raise approximately 73 percent of demand. Collectors experience difficulty in tracing the owner of buildings with multiple occupation. The automatic penalty for late payment is a surcharge of 10 percent per annum. Legal procedures in case of default are slow, and the courts unsympathetic. The LCC is reluctant to apply for the ultimate sanction of distraint on goods or eviction.

(2) Development Levy. The Development Levy is payable by all able bodied males of the age of 18 and over and all adult females with an independent source of income. The levy is 5% of income from all sources with a minimum rate of Shilling 100. Wage and salary earners

are assessed on actual earninings, others by averaged incomes "imputed" to each type of occupation.

In 1988, 131,000 people paid Development Levy at an average rate of Shs 458. Yields have been reasonably buoyant in recent years. Nevertheless considerable under-assessment and evasion are suspected though there is no fully reliable data on the potential yields. The 1986 sample census suggests that approximately 160,000 adults are in some form of employment in the City with an average income of approximately Shs 10,000 p.a.

(iii) Entertainment Tax is collected at the rate of 33 1/3 percent on the value of cinema tickets and 15 percent on entry fees for theatres, sporting events and other commercially run entertainment. Control is maintained through central printing and supply of tickets by the LCC.

Grants

21. The LCC receives a grant which is intended to meet 50 percent of the cost of primary education. This consists of two elements. The first meets half the cost of teachers' salaries, calculated on an establishment which increases each year, to take account of school expansion and national salary settlements. The second element consists of a capitation grant per pupil, to meet non-teaching costs. The capitation element is reviewed every five years, the present level having been fixed in 1984. LCC also receives capital construction grants for new schools based upon a national standard formula. The grant is meant to meet two-thirds of the cost, but the amount equals as little as 30 percent of the true costs in Lukasa because of its above average land costs.

Housing Funds

22. The Housing Department is self-accounting and the Housing Development fund is outside the Council's General fund. Details of the 1988 operations are given in Appendix D. The Housing Development fund was approximately Shs 8 million in deficit at the close of 1988, the deficit on the rental housing accounts absorbing small surpluses on tenant purchase and site and service schemes.

Water Rates

23. The Water and Sewerage Department is self-accounting and its operations are excluded from the General Fund. Water Rates cover outstanding debt charges on the existing water supply and operation and maintenance costs, but the credit balances in the Water Rate Fund are inadequate for any major renewal or extension of the system. Water supply finances will be

the subject of a separate Case Study.

Other Revenues

24. Major categories of other revenues are:

(1) Licenses for registration of shops, hotels, trades etc.
(2) Rent of markets and other municipal properties.
(3) Charges for car parking, abattoirs, sports centres etc.
(4) Income on investments.

Capital Finance

25. Most capital expenditure is financed from revenue. However, loans for construction of roads, markets and medical units are available from a national municipal development bank. As already mentioned, grants contribute to school building.

Financial Position

26. A summary of the financial performance for the LCC over the five years 1984-1988 is in tables at Appendix A. The Council's Balance Sheet at 31/12/88 is at Appendix B.

Assignment

27. Readers should now undertake the analysis of problems and identification of objectives for reform set out in paragraphs 2 and 3.

APPENDIX A Financial Operation of LCC

Table I. LCC Total Revenue and Expenditure 1984-1988 (- million shillings)

Item	1984		1985		1986		1987		1988	
	Approved	Actual	Approved	Actual	Approved	Actual	Approved	Actual	Approved	Actua
Recurrent Revenue	137	123	156	140	185	162	209	181	229	196
Capital Receipts	10	7	10	10	18	13	12	11	16	14
Total Revenue	147	130	166	150	203	175	221	192	245	210
Recurrent Expenditure	96	93	120	116	150	133	171	157	197	176
Capital Expenditure	51	43	46	44	53	51	50	43	48	41
Total Expenditure	147	136	166	160	203	184	221	200	245	217

Surplus/Deficit balances incurred during a financial year are credited/debited to the accumulated General Fund balance. They are not carried forward into the Revenue or Expenditure of the following year.

Table II. LCC Revenue 1984-1988 (- million Shillings)

Recurrent Revenues	1984	1985	1986	1987	1988
Property Tax	56.5	60	61.0	63	63.5
Motor Vehicle Tax	25.0	31	39.0	48	60.0
Entertainment Tax	12.0	13	18.0	19	20.0
Licence Fees	8.0	9	12.0	16	16.5
Rent and Charges	4.5	6	5.5	6	7.0
Interest	3.0	4	4.0	4	3.0
Education Grants	10.0	12	17.0	19	21.0
Miscellaneous	4.0	5	5.5	6	5.0
Total Recurrent Revenues	123.0	140	162.0	181	196.0

Capital Receipts

Loans	2	4	3	2	5
Grants	4	5	9	7	7
Sales of Capital Assets	1	1	1	2	2
Total Capital Receipts	7	10	13	11	14
TOTAL REVENUES	130	150	175	192	210

Table III. LCC Expenditure 1984-1988 (- million shillings)

Recurrent Expenditure	1984	1985	1986	1987	1988
General Administration	3.5	5.0	6	8.5	12
Financial Administration	3.0	3.5	4	4.5	5
Education	25.0	33.0	41	48.0	56
Public Health	16.0	21.5	25	31.0	37
Solid-waste Management	13.0	16.0	17	18.0	18
Roads and Lighting	22.0	26.0	28	32.0	32
Fire	3.0	3.0	3	4.0	5
Libraries	2.0	2.0	2	3.0	3
Recreation	4.0	4.0	5	6.0	6
Social Welfare and Miscellaneous Services	1.5	2.0	2	2.0	2
Total Recurrent Expenditure	93.0	116.0	133	157.0	176

Capital Expenditure

Education	10	17	20	20	23
Public Health	12	12	10	10	8
Solid-waste Management	4	2	1	1	-
Roads and Lighting	9	10	13	6	6
Fire	3	1	1	-	1
Libraries	1	-	1	1	-
Recreation	2	1	3	3	1
Social Welfare, Administration and Miscellaneous Services	2	1	3	3	1
Total Capital Expenditure	43	44	51	43	41
TOTAL EXPENDITURE	130	160	184	200	217

Table IV. LCC Balance Sheet, 31/12/88

Liabilities	Shs. ('000)	Assets	Shs. ('000)
Long-term Loans Outstanding	40,300	Fixed Assets	119,700
Capital Discharged	79,400	Cash and Bank	4,267
Deposit: Income Tax Deductions	13,210	Investments	49,700
Employees Superannuation Fund	11,106	Sundry debtors	2,120
General Fund Balance Dr	18,054		
	175,787		175,787

Table V. Retail Price Index 1984-1988 for calculating constant value of revenues and expenditures

1 January 1984	100
1 January 1985	115
1 January 1986	126
1 January 1987	136
1 January 1988	143

APPENDIX D

Lukasa City Council Housing Department Finance

1. Rental Housing

(1) The Housing Department operates a rental housing stock of 6100 units, comprising

2 Roomed Units:	3000
3 Roomed Units:	2600
4 Roomed Units:	500
	6100

(2) The Housing was constructed between 1970 and 1977 from loan finance repayable over 20 years at average interest rates of 8%. Units costings in 1988 were:

Type of Unit:	2 Roomed Shs	3 Roomed Shs	4 Roomed Shs
Debt Service	2700	3600	4500
Estate Operation and maintenance	1000	1400	1750
Total cost per unit per annum	3700	5000	6250

(3) Total Expenditure in 1988 was:

Type of Unit	No.of Units	Cost per Unit Shs	Total Shs
2 Roomed	3000	3700	11,100,000
3 Roomed	2600	5000	13,000,000
4 Roomed	500	6250	3,125,000
			27,225,000

(4) Rents were last revised in 1982. They are as follows:

Type of Unit	Monthly Rent Shs	Total Shs per annum
2 Roomed	250	3000
3 Roomed	425	5100
4 Roomed	575	6900

(5) Rental Income in 1988 was as follows:

Type of Unit	No.of Units	Rent p.a. Shs	Total Shs
2 Roomed	3000	3000	9,000,000
3 Roomed	2600	5100	13,260,000
4 Roomed	500	6900	3,450,000
			25,710,000
less temporary vacancies			507,000
			25,203,000
less rent in arrears			1,261,650
Total Income 1988			23,941,350

2. Tenant Purchased Housing

(1) Between 1978 and 1982 the LCC constructed 400 houses for tenant purchase. They were financed by 12 year loans at 12% interest.

(2) The Council's expenditure is confined to debt service which averages Shs 48,000 per annum per unit. Maintenance is the responsibility of the tenant purchasers. Expenditure in 1988 was

400 houses at Shs 48,000 per annum =
Shs 19,200,000

(3) Purchasers pay instalments of capital interest to the LCC over the same period as the LCC's external debt. Annual instalments average Shs 50,000 (allowing the LCC a small margin for its administrative costs).

(4) Income in 1988 was as follows:

	Shs
400 houses at an average of shs. 50,000	20,000,000
less instalments in arrears	195,000
	19,805,00[illegible]

3. Site and Service Schemes

(1) Since 1980 LCC has leased 1000 serviced plots for tenant purchase. Purchasers are responsible for constructing their own houses and for maintenance.

(2) LCC has financed this scheme by an external loan repayable over 15 years at 10%. Debt Service costs average Shs 1400 per plot, with a total expenditure in 1988 of Shs 1,400,000.

(3) Purchasers repay capital and interest over the same period as the external loan with a small margin for LCC's administrative costs. Repayments and interest

average Shs 1500 per plot per annum.

(4) Income in 1988 was

1000 plots at Shs 1500 p.a. =	1,500,000
less interest in arrears	31,000
	1,469,000

4. Overall Income and Expenditure

	Expenditure Shs	Income Shs
Rental Housing	27,225,000	23,941,350
Tenant Purchase Housing	19,200,000	19,805,000
Site and Service Scheme	1,400,000	1,469,350
	47,825,000	45,215.350

5. The Housing Fund

(1) The Housing Department's operations are intended to be self financing and are conducted through a Housing Fund, separate from the Council's General Fund. This separation relates to the ledger accounts, but not to the Bank and Cash balances which are integrated with the other operations of the Council.

(2) At the beginning of 1988 the Housing Fund has an accumulated deficit of shs 6,233,337. This deficit increased to Shs 8,842,987 at 31/12/88.

PART II: REVENUE GENERATION

CHAPTER THREE

REVENUE GENERATION: INTRODUCTION

Introduction

1. Municipalities in most developing countries have to meet costs of constructing and maintaining services, when costs are rising because of inflation, and demand is expanding because of increasing population. The task is to raise adequate revenue for both capital investment and recurrent expenditure - employment of staff, operation and maintenance of facilities and servicing of debt. Such revenue will only be adequate if it grows with the demands made on it, i.e., in line with rising costs.

2. However, raising enough revenue is not the only task. Raising it fairly is also important. Indeed, the two tasks are interrelated, because unfairness is, in itself, an obstacle to revenue collection; inequity increases resistance, if people are being asked to pay more in taxes or charges than they can afford, or feel that they are bearing an undue proportion of the burden, compared to others.

Who Pays?

3. Some public services are financed by general taxation, and others by direct charging to the consumer. In the one case, every taxpayer has to contribute, regardless of his or her use of the service; in the other case payment depends directly upon provision and use. Looking purely at financing by taxation, there is a further distinction. Some services are paid for by the national taxpayer, through:

   - central government expenditures,
   - subsidies to public enterprises, and
   - grants to local authorities,

   and some by the local taxpayer through:

   - local taxes, and
   - local surcharges on national taxes.

Taxing or Charging

4. What distinguishes a service financed by consumers from one funded by taxpayers? There are three important considerations or factors which bear on the financing method to be followed. They are:

(a) Fairness,

(b) economic efficiency, and

(c) administrative convenience.

5. Fairness. The first consideration is fairness: broadly speaking, those who benefit should pay. If a service or, to be specific, the unit of a service benefits one person exclusively, that person should pay for it through a consumer charge. Examples might be a domestic electricity supply or a telephone extension. If a service benefits everyone collectively and indiscriminately, as does defence or disease control, the cost should be borne by taxation.

6. Of course, many services fall between these two categories (known, respectively, as private and public goods). A service might benefit one person particularly but, nevertheless, have impacts on others; such impacts are known as externalities and may be positive or negative. Domestic water supplies benefit the individual household, and their cost can be measured; but they reduce communicable disease and, therefore, have wide benefit. Where the benefits are both private and public, a consumer charge subsidised from taxes might be justified, if it enables or encourages a large number of people to use the service. The mix of charge and subsidy should depend upon the balance of private and public benefit. Where the impacts are negative - for example, the congestion or pollution caused by city-centre parking - the charge can be punitive, i.e., above the level of the service cost, so as to discourage consumption.

7. There is a further aspect of fairness. Some services might be largely private goods with little externality, but be, nevertheless, regarded as "merit goods", i.e., basic human needs. Subsidization or, even, total financing from taxation might be regarded as right, to enable consumption by those who are too poor to meet a full consumer charge. This is often applied to primary education, medical care and, even, housing, the extent of subsidy depending on what an economy can afford and what contemporary values regard as a minimal standard or right. Critics argue, however, that such subsidization should be directed to general income support, so that the poor can exercise choice over the services they use.

8. Economic efficiency. A second consideration is economic efficiency. Where individuals are free to choose how much of a service they consume, charging enables the price mechanism to play a crucial role in allocation of resources through:

- rationing demand: on the basis that those who value the item or service most will be prepared to pay most,

- providing the incentive to avoid waste,

- providing signals to the supplier concerning the scale of production, and

- providing the resources to the supplier to increase supply.

Without a price, demand and supply are unlikely to be brought into equilibrium, and, thus, the allocation of resources will not be economically efficient. Water supplies and medicines are examples of costly goods for which charging is particularly supported on efficiency grounds. The problem, however, is that the market mechanism does not act perfectly. In many cases, government is a monopoly supplier and might be tempted to charge more than the necessary cost of a service, either to reallocate resources or because of inefficient provision.

9. Administrative convenience. A third factor is administrative convenience. Charges are, often, an easier form of revenue to collect than taxes, because they can, in most cases, be enforced through cutting off a service.

National or Local Taxing

10. How does one distinguish between financing from national and local taxes? There are several arguments for fiscal decentralization, i.e., for paying for services by local rather than national taxes:

    - a service might be a public good but may, nevertheless, benefit only those living in a particular locality,

    - local knowledge and choice might be the most accurate guide to what services are needed, leading to efficient use of resources,

    - a careful and honest use of resources might result from the direct and visible accountability of officials to a local electorate, and

    - political equilibrium might be secured, by allowing some division of power between central and local governments over choices of levels and directions of taxing and spending.

11. However, there are also arguments for national financing:-

    - a service might be clearly in the national interest: it might be impossible to distinguish between the benefits derived by individual localities and by nation as a whole,

- where comparable standards of service are desirable, national financing might be necessary, to avoid disparities arising from differences in local wealth and taxable capacity,
- technical considerations make it difficult to levy some charges at local rather than national level, (Customs duty or corporate profits taxes, for example).

However, again, there are limitations to central government's ability to prescribe exactly how a service is best to be provided in each area or to manage it efficiently. Hence, the frequent compromise of financing a service from national taxes but administering it through transfers to decentralized authorities.

12. So, the costs of urban infrastructure and services are recovered basically from three sources, viz.,

(a) from the consumer, through user charges;

(b) from the local taxpayer, through municipal taxes (or provincial taxes, where conurbations have provincial status); and

(c) from the national taxpayer, through direct governmental expenditure, grants or revenue-sharing.

These are concentric rather than exclusive groups; critical attitudes to grants, for example, conveniently overlook the extent to which local taxpayers are, also, national taxpayers. Moreover, the demarcations between the three categories are not always clear. Specific-purpose property taxes, for water, conservancy etc., usually fall only on consumers, though not in proportion to consumption; revenue-sharing based on derivation is also local taxation in substance, though not in administrative or legal form.

13. Municipalities also receive loans, often for capital expenditure. However, borrowing is really a transitional form of finance, not a basic type of cost-recovery, since capital and interest will eventually be paid from charges or taxes. Borrowing might contain or conceal an element of grant, where soft terms or default are involved.

14. The remaining Chapters in this Part will look at the various sources of revenue in turn.

CHAPTER FOUR

LOCAL TAXATION - GENERAL CONSIDERATIONS

A: Introduction

1. Local taxation can be interpreted in four ways, viz.,

- taxes which municipalities impose by their own legislation,
- taxes levied under national legislation but with tariffs dete: ined by municipalities (either freely or within statutory limits),
- taxes which municipalities assess and/or collect, and
- taxes which are levied and administered by central government, but whose proceeds are

  (a) given to,
  (b) shared with, or
  (c) surcharged by municipalities.

Discussion in this Manual is concerned with all these categories. A tax source is of interest if local authorities specifically derive revenue from it, whether or not they levy or administer it, or decide its tariff. However, the Manual is also concerned with the suitability of taxes for levy or administration by municipalities, since they often wish or are expected to play a part in raising the money they spend.

2. If the present local tax base is unsatisfactory, i.e., it is not yielding sufficient revenue, or its incidence is perceived as unfair, reform can either concentrate on improving administration of the existing taxes or search for other local taxes. It can, of course, seek to do both. This Chapter will look primarily at different forms of local tax and their advantages and disadvantages. Taxes will be examined under three headings:-

- taxes on property,
- taxes on income, and
- taxes on expenditure.

These will be described in turn and then evaluated according to general criteria.

B: Urban Property Taxes

3. Taxes on land and buildings are the most common form of direct revenue for local authorities in urban areas. They are normally general-purpose revenues, contributing

to a range of urban services, particularly to physical infrastructure, such as roads, drainage, and refuse-collection. Property-tax valuations, however, are also used frequently as a base for special taxes or charges, to meet the costs of individual services such as water supply or street lighting.

Coverage

4. Taxes on land and/or buildings are normally imposed on all kinds of property - commercial, industrial, institutional and residential - but there are usually some exemptions, often including places of worship and charitable institutions. Governmental properties are customarily exempt, but a grant is often paid to local authorities in lieu of the tax. Some countries exempt properties below a stipulated value; this might be a legal exemption or, simply, an administrative or political choice to ignore squatter settlements etc.

Tax Assessment

5. Property taxes are normally assessed by applying a tariff (a percentage) to a valuation. Tariffs might be prescribed by law or left to the discretion of the local authority. Such discretion may, again, be restricted by statutory minimal or maximal levels. The tariff in any one locality is normally a uniform percentage; however, it may differentiate between types of property, e.g., being heavier on industrial or commercial than on residential properties, or higher on rented buildings than on those occupied by the owner.

Valuation

6. Valuation may be based on:

(i) annual rental values, i.e., the potential income to the owner from renting a property (whether it is actually rented or not);

(ii) capital improved site values, i.e., the potential market sale price of the land or the land and its improvements (meaning the buildings, infrastructure and amenities developed on the land); or

(iii) unimproved site values, i.e., the potential market sale price of the land as if it were vacant, disregarding any actual development on it.

The differences are described below.

7. Annual Rental Values. Rental values are normally calculated on the basis of 'a fair rent', after deducting a standard percentage representing the notional cost of repairs and maintenance. In theory, rental values are closely linked to

income and, therefore, provide a fair and readily explained basis for taxation. This assumes, however, that there is a substantial and fair rental market, and that the valuers have clear evidence of prevailing rent levels. Rental values may be hard both to calculate and to justify where:

- the private rental market is relatively small (e.g. in UK), or different to determine as in most developing countries;

- rent levels are subject to violent fluctuation or severe distortion by conditions of scarcity; or

- rent-control legislation which might cause a substantial disparity between official rents used for purposes of valuation and those really paid by tenants.

The most obvious way of assessing rental values is to extrapolate from a large-scale survey of actual rents paid for different types of property in different localities. Where such evidence is difficult to obtain, rental valuations are often based on a notional percentage return upon capital values. In such cases, the distinction between annual-rental and capital-value taxation becomes somewhat artificial.

8. Capital Values. Assessment of capital improved site values may be based upon one of three methods of calculation, viz.,

- a comparison of actual sales of different types of property in different localities;

- a capitalization of rental incomes (assuming a current market rate of return upon investment of capital but allowing for depreciation); or

- current costs of the land plus current replacement costs of the buildings.

The most common method is extrapolation from comparable sales.

9. Calculations to arrive at capital values based on comparable sales should include the following variables:

- size of plots, with weightings for depth and frontage,

- topography (particularly for industrial/commercial uses),

- actual land use or permitted land use under planning legislation,

- the form of land tenure,

- standards of construction, including types of materials, age, facilities (lifts, sanitation, heating, garages etc), quality of finish and the number of stories (which may be treated as an increasing or reducing factor according to planning policy), and

- location, including infrastructure, amenities (or, negatively, nuisances) and general neighbourhood quality.

Calculation of these variables provides a set of coefficients which are then applied to the square metrage of the land and/or the buildings. The range and degrees of variation taken into consideration (and, thereby, the accuracy of the whole valution) must, however, depend upon the technical capacity of the valuation staff. It is normally desirable to compare evidence on current values from a variety of sources, such as official records of land transfers, owners' declarations, estate agents and brokers' estimates and local administrators' judgements.

10. Unimproved Site Values. In some countries, capital valuations are based upon 'unimproved site values', i.e., the value of the land and its best possible development, not its current state of development. This system has the notional advantage of encouraging owners to develop their land, since they will not incur any more tax in doing so; indeed, the taxation penalizes any underdevelopment. It also ensures that local authorities do not lose revenue through any lack of potential development. These potential advantages might not be realised in practice for a number of reasons:

- property-tax liability is only one and, rarely, the most important of the factors which influence the investment decisions of a landowner,

- unimproved site valuation requires evidence of 'the best potential development' of a particular plot, which is hard to establish, and

- the incentive element can only work on the assumption that an owner either develops his land or vacates it, so that effective application of this principle would lead to the concentration of desirably located property in the hands of those with the greatest capital.

The application of unimproved site valuation is often modified in practice, to offset the difficulties and potential hardships which have been described. This means assessing property below the value of its 'best potential development' or keeping tariffs at a low, effective rate. Either method, however, restricts the real incidence of property tax on expensive developments, leading to a considerable loss of potential revenue. Some countries have attempted to find a reconciliation between the advantages and disadvantages of this system, by imposing a dual tariff on the values of a site and of its improvements, with a heavy weighting on the site value.

C: Taxes on Income

11. Income tax is almost invariably a national-government tax source, jealously guarded by the central treasury. Nevertheless, there are a number of ways in which local governments, in different parts of the world, derive revenue from the taxation of income. These will be described in the following paragraphs.

Separate Local Income Taxes

12. In a few cases, local governments are permitted by law to impose an income tax which is assessed and collected by themselves and which is parallel to but distinct from the national income tax. An entirely separate tax administration is used, and calculation of local liability is not related to the national system of rates, personal allowances etc. Local authorities in Finland have this power. The main example, however, is in the United States of America, where the Federal and State Governments have concurrent powers of taxing income; in several states, the cities and counties are also permitted to levy a separate income tax, so that, in New York, for example, a citizen will be paying a separately assessed and collected tax on income to three levels of government.

Surcharge on National Income Tax

13. A more common system than a separate tax is for local authorities to impose a surcharge on the national income tax, i.e., a percentage addition to the tax liability as assessed and collected by the central government. Local authorities in Japan and a number of European countries - Belgium, Denmark, Italy, Norway, Sweden and Switzerland - have this power. A rate of surcharge may be:

- fixed by law, as in Switzerland;
- fixed by each local authority within a range prescribed by law (as in Belgium, Italy and Norway); or
- prescribed by each local authority without limit, as in Denmark and, by each of three levels of local government, in Sweden.

The surcharge is normally a flat percentage rate charged on taxable income (i.e., net of personal allowances etc), but a progressive tariff operates in Switzerland.

Assignment of National Income Tax

14. In several countries, the central government assigns, to local authorities, a fixed percentage of the national income tax collected. In Federal Republic of Germany, Philippines, South Korea, and Turkey the percentage pertains to the tax collected within the municipality's boundaries; in Brazil, Netherlands and Nigeria, the percentage share is pooled and distributed by formula.

A Tax on Professions

15. In certain countries, such as France and India, a tax is imposed upon the pursuit of a particular profession (e.g., medicine or law), payable to local authorities. The tax might consist of a percentage applied to payroll or turnover, or a fixed rate for each profession. In the latter case, the tax operates very much like a licensing fee. The French tax, known as patente, is replicated in a number of francophone African states. Big businesses are assessed on a fixed multiplier for the type of operation applied to the property-tax valuation. A tax on professions and trades can be an effective means of generating local revenue. It is relatively easy to identify the tax base and cheap to collect. It is also particularly well suited for informal sector or quasi-formal activities such as small shops and trades. Problems which should be avoided include complicated assessment formulae as is the case in francophone African states and the regressive nature of over-simplified flat rates.

Mass Personal Taxes

16. In some developing countries, local authorities have levied a general personal tax on incomes which fall below the point at which liability for national income tax begins. This has operated in countries where only a relatively small minority pay national income-tax, partly because most incomes do not reach the exemption level and partly because the national income-tax administration is not geared to cover a mass of peasant farmers, small traders etc. The local personal taxes have normally attempted to cover the entire adult population and have been characterized by:

- a basic minimal rate of tax for which every able-bodied adult is liable, regardless of income;

- a fairly low maximal tax rate (e.g.Shs.30-Shs.50) acting as a cut-off point below the incidence of national income tax;

- a series of 'stepped' rates between the minimum and maximum, applying to ranges of income; and

- the use of crude 'imputed' or 'presumptive' income criteria, to estimate earnings from common sources of livelihood, such as cultivation, livestock ownership and trading.

These mass personal taxes have operated mainly in tropical Africa, where traditions of communal land ownership have made land taxation an unsuitable base for taxation. Although mass personal taxes are regressive by nature, and thus unfair, they provide a major advantage over all other prevailing forms of taxation in developing countries, i.e. everybody pays.

D: Taxes on Expenditure

17. This category comprises a broad sweep of local sales taxes, royalties, entertainment taxes, vehicle taxes etc. which are often described as "indirect taxes", because they can usually (but not invariably) be passed on by the payer to someone else, normally the end-user.

Sales of Goods

18. General taxes on sales of goods are normally levied by central governments or by the state governments in a federation. There are a few exceptions. About 3,000 local authorities in the United States of America impose a surcharge on state sales tax. In the Netherlands and Philippines, municipalities receive a share of national sales tax, and Brazilian and Morrocon municipalities receive 20 percent and 30 percent of value-added tax respectively. A local sur-charge on petroleum sales taxes operates in some cities in Japan and both North and South America.

Sale of Services

19. There is a variety of local taxes on sales of individual services. Most common are taxes on:

- entertainment, including cinemas, theatres and sports,
- hotels and restaurants (e.g., in Indonesia),
- public utility bills, e.g., electricity, gas and telephone.

Movement of Goods

20. The majority of municipalities in India, Nepal and Pakistan (and, formerly, in Bangladesh) impose a tax, known by an old French title octroi, upon the value of goods entering a town for use, consumption or sale. It is collected by the equivalent of Customs posts on the borders of cities and towns. The practical inconveniences involved have

occasioned many recommendations for the abolition of _octroi_, but it has proved impossible to find an alternative source which matches the scale and buoyancy of its yields. One Indian State, Madhya Pradesh, has abolished it, but West Bengal has recently adopted it. _Octroi_ is customarily levied according to the weight of goods or per unit. Several cities, such as Ahmedebad and Bombay, now impose it on the value of goods as invoiced (reserving discretion to assess value independently if the invoice is suspect); this is generally found to yield significantly higher revenues than other means. A variable tariff may be imposed, with a low rate (or total exemption) for essential foodstuffs and high rates for consumer durables. Rates of tax are generally very low, usually under 3 percent of value. A form of _octroi_ also exists in the United States of America for tobacco and liquor goods.

Taxation of Vehicles

21. Almost all countries impose a substantial annual vehicle-licensing tax which considerably exceeds any registration costs. National governments often claim these revenues, because of their size and the argue that vehicles do not stay in one region. Local authorities often have an equally valid claim upon them, insofar as they have to meet the costs attributable to motoring - road construction and maintenance, and parking provision, in particular. A number of countries recognize this and assign vehicle taxes to municipal authorities; Colombia, Egypt, Republic of Korea and Spain are examples. In some countries, such as India, Indonesia and Pakistan, taxes on motor vehicles are reserved to state or provincial authorities but local authorities tax non-motor vehicles, such as bicycles, bullock carts and rickshaws - a dubious, ill-rewarding privilege. A few city governments also receive a substantial tax on the initial registration of vehicles or on subsequent changes of ownership. This is usually a flat fee, but, in Indonesia, it is a percentage of the sale value.

22. The assessment of annual motor vehicle taxes varies considerably. In some countries, a flat rate applies to each class of vehicle - private passenger, public passenger, light commercial etc. Other countries have graduated tariffs, depending on such variables as weight, engine capacity, distance between axles or age.

23. Parking fees are normally regarded as charges rather than taxes.

E: Evaluation

24. To judge the potential and performance of taxes, criteria are needed: these are set out under six headings. Five - adequacy and elasticity, equity, administrative feasibility, political acceptability and

economic efficiency - apply to all revenue sources - tax or non-tax, central or local. The sixth concerns the suitability of a tax for levy and administration by local rather than national government.

Adequacy and Elasticity

25. The first and most obvious requirement for revenue sources is that they should be adequate to meet the costs of the services which they are intended to finance. Small, multiple levies, which neither can nor do yield substantial revenues, are expensive in money, time and public patience. It is usually desirable to concentrate effort on taxes which can raise a substantial portion of the cost of the services to which they are devoted.

26. The costs of services are not static, however. They increase because inflation raises prices, because population is growing, particularly in urban areas, because rising standards of living inspire demands for high standards of services (e.g., by generating additional traffic or use of water) and because national development plans expect services to be improved and expanded. It is, therefore, highly desirable that revenue sources should show "elasticity", i.e., that their capacity to yield additional revenue should respond to the same pressures as the increasing demands upon public expenditure, and that the tax base should grow automatically when prices rise, the population increases, the economy expands etc.

27. Some revenue sources are far more reponsive in these terms than others. Property tax revenues are frequently substantial, stable and predictable - the most substantial tax sources for municipal government, taking a worldwide view. However, the elasticity of property taxes is poor in relation to growth in prices, population and incomes. Real increases in rents or market values are only reflected in the growth of the tax base when revaluations are carried out - often an infrequent process, inefficiently executed. In between revaluations, revenues can only be kept in line with prices by tariff increases which can be politically difficult. Automatic indexation of taxable values improves buoyancy, but this practice is largely confined to some American cities and does not obviate the need for regular revaluation to maintain equity. Population increase does give rise to increases in the tax base, but this is rarely commensurate with the rate of population growth, since many new households are absorbed by overcrowding in existing buildings or illegal construction.

28. National income taxation is buoyant, certainly as far as inflation and economic growth are concerned, and this benefits local authorities which exploit it through surcharging or tax-sharing. Whether it is

responsive to population growth depends upon the structure of employment and the extent to which income taxation extends to the informal economy. The other types of local taxation of income, such as occupation taxes, are inelastic, since they normally depend upon discretionary increases in tariffs to keep pace with inflation. They do, however, capture growth in population and business.

29. Taxes on expenditure are perhaps the most buoyant of all, particularly if tariffs are expressed in percentages of prices and not on a unit price basis. The volume of business taxed (or of traffic, in the case of vehicle taxation) should automatically reflect growth in population or personal incomes. Local tax sources, such as octroi in India and Pakistan and motor vehicle tax in Indonesian provinces, have proved extremely elastic. Between 1975 and 1985, octroi revenues in Bombay increased eightfold, while property tax rose by only 50 percent. The only drawback, of course, is that yields will respond to recession as well as growth.

Equity

30. A second requirement is that of equity - that the burden of maintaining public expenditure should be borne by sections of the community in proportion to their wealth. By these standards, taxation is good if it is progressive, i.e., if the percentage of a person's income paid in tax increases with the level of that income, tolerable if it is proportionate (i.e., if the percentage of income paid in tax is constant at all levels) and bad if it is regressive (i.e., if the percentage of income paid in tax declines with rising income levels). In terms of local taxation, the question of equity has to be seen in three dimensions. First, the incidence of tax should be equitable as between people of different income levels ('vertical' equity). Secondly, it should be equitable between different sources of income; a salaried man should not pay more than one with an identical income derived from business or self-employment. Thirdly, the incidence of taxation should be fair as between different geographical areas: people should not be taxed more heavily in one area than another.

31. Equity has to be seen, however, in relation to both revenue and expenditure. It might not necessarily be unfair to tax people highly, if they live in an area which has an exceptional level of services. The worst inequities occur when people are taxed heavily in relation to their income and, yet, experience a low or substandard level of services.

32. A progressive tax structure is desirable on grounds of social justice. It does mean, however, that people in the

lowest income groups should be subject to very light taxation. This is easy to achieve in well-developed economies, where the bulk of the population is in the middle-income brackets, but difficult in poor societies where most of the population is in the low-income range. In the latter case, the tax base provided by the middle-income and high-income groups might be too small to bear the bulk of public expenditure (the constraints usually being both economic and political).

33. The equitable incidence of a tax is affected by its coverage, by its rate structure and by its methods of assessment. Injustice arising from imperfections in assessment methods will obviously hurt most, if tax rates are high rather than low. As tax rates increase, so does the volume of complaint over any crudity in assessment methods. This means that deficiencies in the system of assessment are a serious constraint to the equitable incidence of a revenue source.

34. Property taxes are crudely equitable, in that there is usually a rough correlation between the income of individuals and businesses and the value of the premises they occupy. There are, however, a number of factors which impair equity, viz.,

- market forces might result in considerable differences in rental or capital values which depend upon location rather than the quality of the premises or the incomes of the occupants;

- the rental or purchase costs of housing or business premises upon which the tax is based, might represent a higher percentage burden on the income of the poor than on that of the rich;

- assessment methods might include an inequitable bias; or

- differences in the size and value of the premises occupied by business firms might reflect the type of business more than its profitability (selling cement needs a bigger shop than selling jewellery).

35. Income taxation is potentially the fairest form and can most readily be made progressive. The problem, however, is to achieve horizontal equity, i.e., to achieve equal taxation of people with incomes that are equal but derived from different sources. Assessing salary earners is easy, assessing the self-employed difficult. Two devices are common - self-assessment or the use of presumptive income criteria.

36. The equity of taxes on expenditure is difficult to determine, because of uncertainty as to who really bears the

tax. Insofar as such taxes are passed on to the consumer, it can be argued that equity is preserved, since expenditure is a reflection of ability to pay. Evidence suggests, however, that expenditure taxes are highly regressive, where they extend to mass-consumption goods, such as food and clothing, since purchase of taxed goods takes a higher proportion of the income of the poor than that of the rich. This rarely, however, constitutes a criticism of local expenditure taxes, such as octroi, since their incidence on final price is normally insignificant compared with that of national levies.

37. Taxation of private vehicles can be highly progressive, particularly if graduated by size, cost, engine power or other appropriate measure.

Administrative Capacity

38. The third consideration in the assessment of revenue sources is administative capacity. Revenue sources vary in the amount of skill, integrity and determination required in their administration. They also vary in the amount of time and money involved in collecting them, compared with the yield. In many developing countries, the bulk of the population is self-employed or working for small "informal-sector" businesses without clearly assessable income. The administrative costs of assessing and collecting any direct property or income tax from such a population are very high, although the average amount that can be collected per capita might be low. On the other hand, a very substantial revenue might be collected through a duty on petroleum, for example, at negligible administrative cost. In such economies, there is a heavy bias of administrative convenience towards dependence upon indirect revenues which can be levied on formal-sector commercial transactions through large manufacturers, importers, distributors etc. This is not necessarily consistent, however, with considerations of equitable incidence.

39. The administrative merit of property taxation is that liability is or should be obvious: i.e., one cannot conceal a plot or a building. Even so, considerable effort is necessary to keep cadastral surveys and taxrolls up to date. Cadastral surveys are expensive in themselves.

40. The biggest administrative problem with property taxation is assessment. This requires technical skill which is often in short supply, though pooling valuers at national level or use of consultants might help. The second problem is that the process often involves a high degree of personal judgement and of contact between assessors and taxpayers which offers wide temptation to collusion in undervaluation. Simple systems, which limit site visits to physical measurement and apply standard formulae, perhaps by

political decision by ministers, members of Parliament, mayors or councillors.

46. Income taxation is sensitive, insofar as it is a direct tax, but collection at source mitigates this to some extent, and increases in payment take place automatically as incomes rise. Taxation of the self-employed, however, is very sensitive, since much argument might arise in the assessment process, and effective collection may depend upon a degree of pressure which can be perceived as harassment.

47. Taxes on expenditure are usually the least sensitive politically, since they are normally indirect and subject to a measure of concealment. They might, however, encounter opposition where they are seen to contribute to price rises which foster discontent or where an attempt is made to impose high rates on luxury items which affect political and business elites.

Economic Efficiency

48. Taxation has a dual purpose - to provide money for public purposes and to influence economic behaviour. Taxes affect the cost of individual decisions: eg., a property tax affects the profitability of building and renting a house, a sales tax affects the cost of buying a shirt, an entertainment tax affects the cost of going to the cinema. Taxes must be judged in terms of their effect upon the decisions of a taxpayer to work, consume, save and invest.

49. Economic efficiency criteria are generally more important in appraising national taxes than local taxes. There are two reasons. First, it is usually central government who keep responsible for over-all economic management and who use taxes to modify economic behaviour. Secondly, the scale of local taxes is usually insufficient to make a significant difference to people's choices. A national Customs duty of 50 or 100 percent will clearly affect the decision to buy a foreign car: octroi at 2.5 percent is not going to make the same goods significantly more expensive to buy. It must be, nevertheless, of concern whether local taxes will have a significant effect - harmful or helpful - on local economic behaviour.

50. Property taxation is often debated in terms of its incentive effects on land use and construction. As already mentioned, unimproved site value taxation is frequently recommended - and occasionally adopted - to encourage high-value development and, conversely, penalize underdevelopment. It is likely that the supposed incentive and disincentive effects of property taxation in most cities are considerably exaggerated, simply because of the low ratio of the tax to the other costs and incomes which influence an owner's choice on development.

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Tax Administration by Local Authorities

51. In addition to the general considerations of types and methods of taxation discussed above, tax administration by local authorities raises specific questions of feasibility. Some, relating to the availability of administrative skills, have already been raised. Others must be mentioned here.

52. The first issue is whether it is clear to which authority a particular tax liability is due. This is rarely a problem with property taxes, since a plot or building is clearly located within a particular jurisdiction. Some argument arises over local income taxation, where an individual resides in a different jurisdiction from that in which he or she works; it is usually held that the area in which a person lives should get the tax, but some towns claim the right to tax commuters. The most difficult question arises over taxes on corporate incomes, where profits might be derived from operations in several locations. Countries with local taxes on corporate profits have developed formulae for assigning tax revenues to different municipalities, but the process is complex.

53. A second and related issue concerns the location of tax collection. Tax may be paid in the area but the payer may effectively pass the cost to someone in another locality. For example, a sales tax may be paid by an importer at the port of entry or a manufacturer where the factory is situated; but the tax may be added to the price of the article and "shifted" to a consumer elsewhere in the country. If the sales tax were a local government tax (or shared with a local government according to its origin) the income would not necessarily go to the local authority where the eventual payer resided. It is desirable that local taxes should accrue to the local government where the taxpayer lives, but this is not easy to insure; even the property tax on a shop or factory may be "shifted" through prices charged to consumers from other localities.

54. A third issue concerns the problems associated with different tax rates or assessment rules. Ideally, a local authority should have discretion to set its own tax rates and to make its own decisions on the levels of taxation it raises and of services it offers. In the case of property taxation, no practical difficulty arises, if one town levies a higher rate than another; this practice might have effects on the local economy and on choices of location, but, at least, the local authority can decide whether to bear the consequences. The biggest problems arise with different rates on expenditure tax in different areas for the same goods. Such variations can lead to significant prices between jurisdictions and, therefore to movements in trade differences. However,one can argue that a local authority should be free to make a decision in the light of all its consequences, beneficial or adverse.

F: General Experience

55. Financing by local taxes maintains the principles of local cost recovery, although the amount of individual tax liability is not always closely related to the benefits received. It enhances accountability, insofar as local representative bodies have discretion to fix tax levels and assessment criteria themselves, and to reconcile these with expenditure priorities.

56. The most widespread base for local taxation is property - the value either of land alone or of land and buildings. The clear connection between such property and the supply of physical services, such as roads and drains, gives it an obvious "local" character; and it is the least vulnerable to poaching by other levels of government. This latter immunity is chiefly due to two characteristics. The first is its high political visibility, since it is normally collected in cash from the ultimate bearer of the tax burden: the second is its inelasticity in relation to inflation, population growth or rising incomes. These weaknesses have led to a widespread decline in the percentage contribution made by property taxation to the support of urban services. In much of western Europe the tax is fast disappearing as a significant source of urban revenue.

57. Local taxes on corporate and personal income - usually by surcharge - are sources of revenue for local authorities in North America, Japan, Republic of Korea and parts of Western Europe. In economies where the bulk of commerce is in the hands of large corporations and most people are in fixed-wage employment, income taxation offers urban government a substantial and buoyant revenue base, provided that the rates of national/state income tax are not too high to preclude a significant local income tax or surcharge. These conditions are rarely obtained in developing countries, and few of their cities directly benefit from this tax base. Kenya, Uganda and Zambia have graduated personal taxes which attempt to tax a large amount of income left unexploited by national income taxes owing to their inadequate administrative coverage and high levels of exemption; These local taxes apply a series of stepped rates between a statutory minimum and maximum. The Uganda tax uses "presumptive income" criteria to estimate personalincomes from all sources of livelihood; the Kenya tax combines a tax on salaries, wages and business occupations with a cess on agricultural produce. Mass personal taxes are a means of exacting a contribution from all citizens, but, in urban conditions, that can be a laborious and demanding process.

58. There are several cities which draw revenues from taxes on goods, services and general business turnover. Octroi provided 67 percent of Bombay's current revenue in 1985/1986 and 71 percent of Karachi's. These taxes can be

lucrative and buoyant, but are extremely heterogeneous and spasmodic, i.e., relatively few cities collect large revenues from taxes which vary considerably in their base and method of assessment. Quite widespread are taxes such as those on entertainment, but these finance relatively small proportions of city budgets.

59. With inflation and rapid growth, city governments might be able to cope with the costs of providing a relatively limited range of physical services - local roads, refuse collection etc. - with a revenue base of property tax and user charges only. Those which have shown the capacity to finance a wide range of services (such as education and slum improvement) and to respond energetically to growing demands have either (a) a revenue base with at least one other substantial tax source (e.g., motor vehicles in Jakarta, _octroi_ in Bombay or Karachi) which effectively exploits the buoyant features of the urban economy, and/or (b) significant and increasing transfers from national/state governments. These are not necessarily preferred options, simply descriptions of past performance. However, a substantial and wide local revenue base might be more secure in the long term than a rising level of dependence on government transfers and grants.

CHAPTER FIVE

CHARGING: GENERAL PRINCIPLES AND PRACTICES

Introduction

1. Some public services are financed by general taxation, and others by direct charging to the consumer. In the one case, every taxpayer has to contribute, regardless of whether the service is immediately available to him/her and how far he/she uses it. In the other, payment depends upon the service being provided and the use made of it. The reasons for this distinction have been discussed in Chapter Three.

2. In practice, this distinction becomes blurred in two ways. First, charges might be imposed which greatly exceed the cost of the service rendered, the surplus being appropriated to a general revenue pool (as opposed to extending the service or subsidizing other users). This is typical of many charges for regulatory purposes - licensing fees, for example - and such 'charges' effectively become taxes. Secondly, a service might only be partly financed by charges, the balance coming from specific or hidden subsidies from general tax revenue.

3. There is also a widely used practice which marks a halfway stage between taxing and charging. This is the calculation of service charges as a percentage of property-tax values. Water, street lighting and drainage charges in many Indian cities have this basis. They approximate to a charge, insofar as they only fall upon taxpayers to whom the service is provided or available, but to a tax, in that their scale is not related directly to the quantity consumed by the payer.

The Extent of Charging

4. There are enormous variations in the extent of public user-charging - variations in charging for a service at all, variations in the extent of direct cost-recovery and variations in the dependence of particular public authorities upon revenue from charging..

5. Taking the first dimension, there are some services for which direct user-charging (with or without subsidy) is almost universal, viz.,

   - Piped domestic and industrial water supplies are normally billed through metered consumption rates, through a rate based on property valuation or the diameter of the mains connection pipe, or through sale from public water points.

   - Public transport costs are recovered, partly at least, from passenger or freight fares (though subject to increasing degrees of subsidization from general revenues in Western countries).

- Postal and telephone services are normally sold per unit of service.

- Gas and electricity are also basically charged according to volume consumed, though unit costs often decline as the amount used increases, i.e. charges are regressive.

- Public-housing tenants almost invariably pay rents (or tenant-purchase instalments), except where subsidized housing is provided to public servants as part of their conditions of service.

- Some form of entrance fee is normally charged for use of certain recreational facilities, such as municipal swimming pools, golf courses or theatres, though not for others, such as parks.

Provision of public-utility services such as water, gas, electricity and telephone, is also, usually, subject to initial connection fees and, sometimes, subject to a basic standing charge, regardless of consumption.

6. There is a wide range of practices regarding the charging for services. The following are prominent examples:-

- Education. Most countries now provide tuition-free education at primary level, though the costs of 'extras', such as uniforms, meals and textbooks, might still be a significant burden for poor families. A minority still charge for primary tuition - mainly where the provision of school places falls far short of the school-age population - though usually at highly subsidized rates. The position at secondary level is not dissimilar, but with more countries charging and at significantly higher rates than for primary level; these charges are frequently counterbalanced by provision of exemptions or scholarships for poor students. In tertiary education, charging can be regarded as the rule; what varies is the extent of subsidization and of scholarship provision. An alternative concept in higher education is the charging of costs to a loan account which the student discharges over his subsequent career. Parental contribution is frequently sought for the capital costs of primary school-building through 'self-help' community effort.

- Roads (and related infrastructure). Construction and maintenance of highways are typically financed from general taxation, but there is, internationally, a variety of specific user-charges for roads.

Trunk roads, with limited access, are often operated as toll roads. Initial construction of estate or neighbourhood roads, together with drainage and street lighting, is frequently charged to landowners through initial service charges or, to local taxpayers as in the case of some Colombian cities through the valorization tax system. These costs can, alternatively, be recovered from developers and residents by public acquisition, servicing and resale of land - a widespread practice by urban-development authorities or new-town corporations - or by the variant of land readjustment. Costs of city-centre roads can be recovered indirectly through parking fees or area licences (most significantly in Singapore). Maintenance of local roads and paths in rural villages or urban neighbourhoods can depend upon obligatory communal labour or some monetary commutation.

- Medical Services. Generalizations are difficult, but two basic models can be discerned. In the first, public hospitals and clinics provide a free basic service, while charging for preferential accommodation or priority treatment for non-emergency cases in hospitals; a substantially free basic service can, nevertheless, be associated with a low flat-rate fee for treatment and/or drugs, subject to exemption for children, the old or the destitute. The other model is full-cost charging by hospitals and clinics - whether publicly or privately run - but with a national medical-insurance scheme or a range of private insurance schemes, to cover patients' costs; some form of protection is usually given to those with low incomes and inadequate insurance cover by graduation of charges according to income.

- Environmental Health. As a demonstrably public good, public-health services are customarily tax-borne, but there are exceptions. Sewerage or refuse collection is frequently charged to those served, occasionally by specific fees but usually, in the case of households, by a rate graduated according to property valuation. Removal of industrial refuse or effluent is usually charged specifically according to volume and effluent strength. Where communal sanitation is provided, users might be expected to maintain it collectively.

- Fire services. Urban authorities occasionally charge their citizens (or their insurers) for putting out fires.

Cost Estimation

7. The basis of charging is cost-recovery, but this can be varied by governmental policy to charge less than the full

cost or to recover more than the full cost, involving, respectively, a contribution from or to general revenue. Issues of subsidization or surplus-generation will be discussed in later sections. However, the first necessity under any charging policy is to define and calculate the full costs of the service under consideration. This raises three issues.

8. The first issue is what expenditures to attribute as costs to a particular service. Where does one draw the boundary between the costs of a particular service and those of general public services in the locality or the general administrative overheads of the local authority concerned? For example, in calculating the costs of a site-and-services plot, one could notionally include all expenditures on:-

- off-site infrastructure such as roads, drainage, street lighting;
- extensions to trunk infrastructure necessitated by the estate (e.g., main roads, water treatment plants and pumping stations, main services);
- social and community services (e.g., schools, clinics, community halls);
- project administration (e.g., managers, architects, engineers); and
- a proportion of central administrative overheads (e.g., planning, personnel and finance departments, the chief executive office).

An intermediate approach is to attribute only the marginal costs of administration, i.e., those increases in overheads caused specifically by the expansion of a service. The community services on an estate might be regarded as part of the general services provided by the local government to public and private tenants and owner-occupiers alike: if this is so, there would be no justification for including them in the housing costs. However, a different case would arise if services provided to a municipal estate were of an exceptional standard and character: here, resort can be made to the principle of charging the marginal costs, i.e., those increases in public expenditure which arise specifically from the provision of the service.

9. The cost 'boundaries' issue arises very sharply in respect of car parking. The full cost of a car park might be regarded as confined to the provision and management of a parking site. It can be argued, however, that the costs of parking include providing access to the general area, thereby including the road and traffic management system in the vicinity.

10. The second issue is whether the costs are calculated according to the actual expense of a particular unit of service or on a pooled average basis. The actual costs of an identical level of service might vary considerably. Amortization of capital costs will vary with the age of the capital assets, because of inflation and because of fluctuations in the interest rates attached to any loans involved. Location affects costs: water and electricity will be costly to supply to outlying areas, because of transmission costs - the length of mains, pumping, leakage etc. Low-density populations consume less than high-density, but the fixed costs of provision will not fluctuate proportionately: a half-empty bus serving a sparsely populated area will cost almost as much to run as a crowded one in the city centre (depreciation and labour costs might be almost constant, and fuel consumption will not be proportionately lower).

11. There are conflicting arguments. If chargeable services are seen as purely private goods, and charging as a market-pricing instrument, each unit of service should be charged according to its own marginal cost. A consumer is only provided with a service, if he/she is prepared to pay the true cost of providing it to him/her. This encourages rational use of a service and an optimal location of settlement. If wealthy commuters choose to live on elevated 4-acre plots 20 miles from the city, they should bear the heavy costs of pumping water to them; the charges might encourage them to live somewhere more sensible in the eyes of town planners.

12. The opposite argument is that the conditions which vary the cost of service are not necessarily of the consumer's making; insofar as the service might meet a basic human need, he should not be penalized, if costs are above average in his case. If the poor live on the outskirts of a town, for example, it might be because that is the only place they can afford land and shelter. Distance from work will increase their essential expenditure in any case, and their burden should not be increased by charging above-average unit costs for essential services.

13. This issue arises sharply in many cases and is difficult to resolve. It faces public-housing authorities when fixing rents of estates which vary greatly in their historical construction costs and interest charges pertaining to particular generations of houses. Two questions, however, affect the balance to be struck between the arguments for marginal cost and for equalized charging. The first is the extent to which the service (or some minimal provision of it) is meeting an essential human need: the second is the degree to which individual consumers choose the conditions - particularly the location - which affect the cost of the service they use. Both questions really involve the degree of consumer choice; the extent to which use of a service at

above-average cost is self-imposed, like buying an expensive piece of clothing.

14. The third issue in cost estimation is whether capital costs are included and on what basis. There are many examples of services which are meant to be self-financing, but only the operating and maintenance costs are charged to the consumer. The capital costs have been met out of general public revenues or from loans which have been fully discharged. Many long-standing water-supply and sanitation systems fall into this category; so does the New York subway.

15. Clearly, where debt charges are still current, these would be included in the chargeable costs of a service, unless it is being deliberately subsidized. Even so, these debt charges might fall below a market level if the loans are 'soft', i.e., they have not been advanced on full commercial terms. There are arguments, however, for including capital costs in the estimation of charges, whether the authority administering the service is currently discharging them or not. Capital investment is regarded as having an opportunity cost; i.e., it could have been used on some other form of public expenditure or left in the taxpayer's pocket. Seen in this light, investing capital in a particular service can only be justified if it earns a rate of return comparable with alternative forms of public or private use. The public's willingness to buy a service at the resulting level of charging is comparable to its readiness to buy goods or services from a commercial operator using the same amount of capital; it is the essential market test of viability. It is even argued that this test of comparison can only be fully met if charges include the equivalent of the taxation which a private operator would have faced.

16. Similarly, it can be argued that it is improvident that users should not contribute to the capital costs of assets, just because the costs have already been fully met by another generation or public body. All physical assets will wear out in time and will require replacement at current costs. Not to pay towards capital costs is to live off the sacrifice of previous and future generations. Charging should, therefore, include the amortization of capital assets at their current rather than historical value, i.e., the cost of acquiring or constructing them now.

17. Marginal-cost pricing is a variation of this approach, aiming to charge all consumption at the unit cost of meeting any additional demand; if extra demand would necessitate new capital expenditure, its unit costs would be reflected in the price of the whole existing supply. For example, if a water supply is capable of supplying twice the present level of demand,

the marginal cost of extra consumption would be zero, but, if its full capacity is already exhausted by current demand, the marginal cost of water is investment in a new supply (extra reservoirs, pumping stations, mains pipes, treatment plants etc). Such pricing is advocated on the grounds that every consumer must be faced with the full cost implications of increasing demand. It is mainly used in relation to utilities such as water and electricity, where increases in consumption can flow from the decisions of existing as well as potential consumers.

18. Including provision for future capital requirements, through depreciation charges, current-cost accounting, marginal-cost pricing or similar approaches, is obviously prudent in theory, but it does have its dangers. Adoption of such principles can give rise to considerable increases in charges which conflict with counterinflation policies. It can also generate substantial cash surpluses which discourage service managers from proper concern with efficiency and economy in expenditure. Surplus funds held against future capital commitments can be too readily diverted to cover deficits in the financing of other services.

19. There are, therefore, a variety of practices in cost estimation. Chargeable costs may include:-

- operation and maintenance only,
- amortization of capital costs on "soft" terms (i.e., interest-free or at submarket interest rates; perhaps with moratoria on repayment or prolonged repayment schedules),
- amortization of capital costs at full market rates of interest,
- depreciation of the value of capital assets over their estimated life,
- a commercial rate of return on the value of the investment in capital assets,
- the marginal cost of investment (i.e., the unit capital costs of providing more than the preseent supply), and
- a notional element of tax liability.

Furthermore, in calculating the value of capital assets for assessing depreciation or rates of return, valuation may be based on:-

- historical costs, or
- current market or replacement costs.

A two-part tariff can be adopted, with a fixed charge for the capital-installation costs and a variable charge based on consumption.

Charging below Cost

20. The grounds for imposing charges would normally suggest that they should be based upon the total costs of the services under provision (though subject to all the question marks over cost estimation just discussed). The extent of this self-financing varies, however. As we have seen, the theoretical justification for charging involves some compromises, and these might result in charges being fixed below full cost level and subsidized from general revenue. There are three cases when this might happen.

21. The first case arises when a service is basically a public good - is provided because of its collective benefit - but a charge has to be imposed to discipline consumption. The charge would then have to be set at a level calculated to deter waste but to permit the minimal essential level of consumption by all income groups. Medical-prescription charges or water-standpipe rates might fall into this category.

22. The second case occurs where a service is partly a private and partly a public good - where it primarily benefits the individual user, but its consumption needs to be encouraged for some public saving or benefit. The most conspicuous example is where rail or bus fares are subsidized to encourage people to use public rather than private transport, as a means of reducing traffic congestion and road maintenance.

23. The third case is where a private good might be subsidized, because it is regarded as a basic human need and low-income groups, at least, could not be expected to meet its full cost. It is difficult to give examples, simply because the conception of 'basic needs' is highly subjective and relative to the general standard of living.

24. To the purist, subsidization is an aberration. Clearly, it can lead to inefficiencies - either because resources are squandered on provision which is not cost-effective or because the subsidy benefits all consumers whether they need it or not. Two solutions are advanced. First, reduced charging should only apply to certain categories of users - low-income groups, children, old people etc. - or, secondly, subsidization should apply only to a minimal level of consumption, above which market pricing should apply. The first 40 litres of water supplied to a person per day might be charged, for example, at a low rate below cost, but consumption above this level would be priced at the full marginal cost. This is known as the 'lifeline' approach, and water tariffs in Hong Kong and Tokyo, for example, are based on this principle.

Charging above Cost

25. In some cases, charges can be based upon recovering more than the full cost of a service, i.e., upon making a profit. There are three cases, at least, where this might arise.

26. The first is where charges are imposed for a basically regulatory purpose, involving little direct cost. There is a wide variety of charges from which municipalities, in various countries, derive revenue - often substantial - of this type. Examples include:-

- Plot-registration fees,
- Land transfer fees,
- Building licences,
- Trading licences,
- Parking charges, and
- Liquor licences.

27. The second is where charges might be imposed at an above-cost level, to reinforce their disciplinary effect upon consumption. Telephone charges can be graduated according to the time of day, to discourage congestion at peak business hours. Parking fees or area-licensing fees can be imposed at punitive levels, as in Singapore, to keep private cars out of city centres.

28. The third is where a service might be in heavy demand and people willing to pay highly for it, because of its importance or popularity and short supply. This is the case where the same service is also provided by private-enterprise.

Charging above cost could be justified, in such circumstances, if the surplus revenue is ploughed back into extending the service, so that many have access to it.

29. Charging above cost, however, more than users gain is analogous to taxation. Its incidence and equity have to be considered. Which sections of the community are paying over the costs for a service, and which sections are benefiting from the surplus revenues? Charging high parking fees might be equitable, insofar as car-owners are generally from high-income groups, but making profits out of bus users, through fares, bus station fees etc., might largely penalize the poor.

Appraisal: Adequacy and Elasticity

30. The extent and practice of charging are subject to such variations that generalizations about the scale of its contribution to local-government revenues would be meaningless. Some comment is possible, however, on elasticity. Charging should be responsive to growth in

population and incomes, since these are generally reflected (often more than proportionately) in the growing demand for and consumption of a service.

31. Charges tend to be unresponsive to inflation, however. They are almost invariably based upon fixed tariffs per unit of service, and a discretionary decision is usually needed to increase them when costs rise. Increasing house rents, water tariffs, and bus fares is unpopular, and these charges frequently fall far behind the rate of inflation.

Appraisal: Equity

32. Charging is traditionally regressive. There are three reasons. First, it falls upon consumption which might be dictated more by essential needs than income levels. Secondly, subsidization often benefits middle-income and high-income groups more than the poor, as already discussed, with public housing and tertiary education as prime examples in many developing countries. Thirdly, because the capital costs of installation have to be recovered, regardless of the level of consumption, and do not vary greatly according to that level, many tariffs are based upon a declining unit cost, i.e., the more water or electricity used, the cheaper it gets. This favours large industrialists, at the expense of small enterprises, and householders with two bathrooms, a lawn to sprinkle and a car to wash, at the expense of poor families with one tap. One other regressive practice has been that of initial connection charges for water and electricity; regressive in the sense that the requirement of a lump-sum payment for initial installation has frequently prevented poor households from getting a service at all.

33. Charging is not usually seen as an instrument of redistribution per se. It is an inefficient tool for this purpose, precisely because consumption is not related only to income but also to family size, for example. Nevertheless, there is a growing concern to curb its regressive tendencies and, even, to use it as a positively redistributive mechanism. There are two reasons. The first is the effect which regressive incidence may have upon the access of the poor to chargeable services regarded as basic needs. The second is the failure of the taxation system in many countries to shift resources from the rich to the poor; if charges are easier to exact than taxes as a general means of financing public expenditure, this may extend their utility in redistribution.

34. There are various methods by which charging can be made non-regressive or positively redistributive. The first is the widespread basing of charges upon property values; water and sanitation are often priced on this basis. However, such an approach remains ineffective in most developing countries owing to lack of up-to-date valuation. The second is the use of differential

tariffs, with high rates for certain classes of user - usually commercial and industrial; this is, of course, a questionable instrument, if the incidence falls on the consumer rather than the shareholder. The third is a progressive tariff which imposes increasing unit prices as consumption rises. The fourth is means-testing, with reduced tariffs or exemptions for the old and the poor (rarely an easy process to administer). Water-supply schemes financed by the World Bank have been widely characterized by cross-subsidization, progressive tariffs on large domestic or commercial consumers and reduction or elimination of the charges for supply to public standpipes and to households consuming small volumes only. However, this practice is being questioned, at least with respect to the charges to large domestic consumers, on the grounds that high water consumption might reflect household size more than wealth and that large families or shared dwellings are characteristic of the poor.

35. Cross-subsidized housing schemes are an object of increasing experiment, with rents or tenant-purchase charges on large houses or commercial premises subsidizing the provision of serviced sites or small units. Remedies for the burden of initial infrastructure connection charges include spacing payments over a number of years and recovering them by instalments combined with the regular consumption charges.

<u>Appraisal: Administrative Capacity</u>

36. Charges are theoretically easy to assess and collect. They are easy to assess, because liability is based on measurable levels of consumption; easy to collect, because people only get what they pay for. If rents are unpaid, the tenant is in principle, evicted; water, electricity, or telephones are cut off if bills are unpaid; people can only enter the swimming pool or the theatre through the turnstile.

37. In practice, there are three sets of difficulties. The first is technical - the problems of controlling illegal water connections and meter bypassing, for example, or of collecting fares from a crowded bus with passengers inside and outside. The second concerns the political will to implement sanctions: evictions rarely win votes and are pilloried by the media; politicians may intervene to stop disconnection of water or electricity supplies to their supporters. The third problem is integrity: tax liabilities are fixed, but those for charges vary with consumption; it is hard to check what collectors should have received.

38. Imposition of sanctions is essential to efficient administration of charges, and some other devices are common. The first is to estimate what income should be

received and then impose target revenues upon collectors: even municipal bus crews in Jakarta are expected to turn in a target collection of fares per route per day. A second is to subcontract charging to commercial collectors who tender lump-sum revenues competitively; this is analogous to tax-farming. Either method stabilizes revenues but can exploit the consumer. Subcontractors become monopoly suppliers and can often make extortionate profits, standpipe water-selling being a notorious case in some countries. A third practice is to require small neighbourhood groups to collect charges and pay these jointly to the service authority. This has been adopted for plot and water charges in the upgraded squatter areas in Lusaka; prompt payment is rewarded by a discount in the form of some communal improvement.

Appraisal: Political Acceptability

39. Most charging is accepted in principle. Insofar as they are directly related to a specific tangible service and insofar as consumption includes an element of choice, charges are understood and met with reasonable willingness. Nevertheless, the level of charging is most sensitive politically. Most charges have to be paid out of pocket, and many relate to what people regard as daily necessities - education, transport, water, housing and the like. Increases require specific political decisions and are unpopular so that representative bodies are often even less willing to raise bus fares, house rents or water rates than taxes. Moreover, the need to raise charges arises particularly in times of inflation, when governments are under pressure not to increase prices.

40. As a result of failure to increase charges, by reason of political inertia, services either deteriorate or require increasing subsidy. Bus services, for example, have become increasingly unreliable because of inability to replace worn-out vehicles. However, increased charges to meet rising costs might result in decreased consumption. Since capital costs and overheads remain constant, this gives rise to increasing unit costs: a vicious circle of declining use and rising charges is created.

41. The direct connection between consumption and charging is not always a political advantage. The public might make invidious comparisons between the service they receive and the amount they pay for it. Such discontent can be helpful, if it spurs managers to seek efficiency; it can be unhelpful where it is based on misconceptions of the true cost of provision.

Appraisal: Charging by Local Government

42. Discussion, so far, has not focused specifically on charging by local governments, since little distinction can be drawn between the practices and experience of central, parastatal

and local authorities in this respect. Many if not most directly charged services are provided, in fact, by local authorities. There are no special problems attached to the administration of charging by local government. The performance of a service is normally located clearly in a given region, and assignment does not create difficulty; local variation in tariffs can cause political dissatisfaction but no insuperable administrative problem; the relative closeness of local representative bodies to their electorate might, however, sharpen their reluctance to increase tariffs or enforce compliance.

Conclusion

43. Acceptability, ease of collection and the need to discipline popular demand are all powerful arguments for charging service costs directly to the consumer. Although not inherently or traditionally an instrument of redistribution, charging can be moulded to this purpose where there is political will and no suitable fiscal alternative. Much charging is highly sensitive, however; revenue might fall below the levels needed to operate a service effectively, particularly in times of inflation, because of political reluctance to increase tariffs or enforce sanctions. The specific connection between consumption and cost, and the direct nature of payment enhance accountability, where representative institutions are involved, but the consequent sensitivity can undermine the viability of a chargeable service.

CHAPTER SIX

CHARGING: SPECIFIC APPLICATIONS

A: Urban Water Supplies

1. Urban water supplies are generally expected to be self-financing. There is a long tradition in both developed and developing countries of constructing and managing such supplies through separate enterprises - often municipally owned. Although such enterprises usually need to borrow money extensively to finance capital costs, they are generally expected to repay the capital and interest and meet the operating expenses through charges levied on the consumer. Some consumers do get a subsidized supply (or even a free supply through public standpipes), but the costs will be met by excess charging of other consumers, often industrial or commercial.

2. This principle of full cost-recovery is not always observed. Some water undertakings get subsidies from governmental or municipal budgets. These may be direct subsidies or provision of loan finance on concessional terms. In other cases, water supplies might form part of ministry or municipal budgets, and no direct effort is made to reconcile the specific revenues from water charges with the specific outlays on the supply (which might not, in any case, be clearly defined in the budget). However, these are generally regarded as unsatisfactory or transitional arrangements, with full cost recovery as the ultimate aim.

3. Just why full cost charging is expected is a matter of debate. Potable water supplies are a basic human need, and they are not purely a private good, since they are important for hygiene and the control of communicable diseases. This is the rationale for at least a degree of cross subsidy within the service, to help poor households. However, a self-financing basis for a water supply as a whole can be justified on at least three grounds:

   (a) Potable water supplies are not universally provided. In most developing countries, treated and piped supplies are not widely provided in rural areas nor adequately throughout all towns. A "free" supply would involve some subsidy of consumers by taxpayers who do not have access to the supply.

   (b) Much water is used as a raw material by industrial and commercial consumers for profit-making operations.

   (c) Water is usually a scarce resource, and consumers need to be subject to some discipline (an effective argument only when charging is based on metered consumption).

4. A feature of most urban water supplies is their heavy ratio of capital to operational costs. The construction of reservoirs, treatment plants, trunk pipeline and reticulation systems is normally costly, particularly where adequate supplies can only be found at considerable distance. Operating costs vary, according particularly to the degree of pumping required for reticulation, but, compared with most local public services, the manpower requirements are small. A further characteristic of water supplies in most developing countries is rapid expansion in demand. This is due to high rates of urban population growth, industrialization and general economic growth, with associated improvements in living standards and expectations. A final factor is that many of the capital assets used in water supply - particularly the pipes and machinery - have a limited life, and they eventually need extensive repair or replacement. Because such costs are heavy in proportion to normal operating costs, they can cause exceptional levels of expenditure in a particular year, difficult to meet purely from that year's budgeted revenue. All these factors put pressure on water enterprises to raise sufficient revenue to meet their operating costs, provide for future replacement of plant and machinery, and finance heavy capital investment in expansion.

Financial Indicators

5. A series of financial indicators are normally used to assess how far water enterprises are meeting the objectives of cost recovery and capital provision. They are examined not just at a single point of time: comparisons of these indices at normal intervals show the trend in financial performance. These indicators are described below:

The first financial priority for an enterprise is to remain solvent. This means being able to pay the costs of staff, electricity, chemicals etc., and avoid debts to employees or suppliers. An indicator for measuring this capacity is the QUICK CURRENT RATIO. This is -

$$\frac{\text{the value of current assets (excluding inventories)}}{\text{current liabilities}}$$

The current assets are cash (including bank balances) and sums owed to the enterprise (mainly in unpaid consumer charges): the current liabilities are sums owed to others - outstanding payments to employees, suppliers etc., deposits and interest owed to depositors. The value of inventories (stores etc) is excluded because it cannot be readily turned into cash to meet liabilities. Clearly, if the ratio is less than 1, the enterprise is in debt on its current operations, but, if the ratio is high, it could mean that tariffs are too high (unless money is being accumulated to pay for pending capital works).

Viability and equity are heavily dependent upon collecting water charges efficiently. This depends both upon the speed at which people are billed and required to pay, and the efficiency with which defaulters are identified and action taken against them. Two indicators are relevant. The first is the COLLECTION EFFICIENCY, which is -

$$\frac{\text{Revenue collected}}{\text{Total billings.}}$$

It is important, in this respect, to look not just at one year's figures but at trends over time, to see whether efficiency is improving or decreasing.

A supplementary measurement of collection is the AVERAGE AGE OF CUSTOMER RECEIVABLES, i.e., the average number of months that all outstanding billings have been due for payment. Again, comparisons over time will show whether default is increasing or lessening.

It is frequently necessary to borrow money to finance capital expenditure. There is, of course, nothing wrong, in principle with such practice, since the loans should be repaid from the revenue earned by the increased supply. It is necessary to ensure, however, that revenue is adequate to cover debt service. An indicator for this is the DEBT SERVICE COVERAGE which is -

$$\frac{\text{Net annual income*}}{\text{Annual debt service}}$$

*Net annual income = gross annual revenues minus operating costs)

It is important that consumer charges meet operating costs, debt service and provision for renewals. As explained above, operating costs should not normally represent a large percentage of these obligations. The tariffs should be designed to yield a substantial surplus of revenue over operating costs. This is represented by the WORKING RATIO, which is -

$$\frac{\text{Operating costs (excluding depreciation)}}{\text{total revenue}}\,\%$$

Finally, it is frequently (though controversially) held that the over-all financial liability of a water enterprise should be measured by the same test as a commercial enterprise, namely, net income as a percentage of capital invested. This is based upon the assumption that investment in the enterprise can only be justified if it raises the same financial return as an alternative use of the capital. Even if this rationale is not fully accepted (because of the social benefits of water supply), rates of return do provide a yardstick for comparing the performance of different water enterprises. They also provide a useful means for looking at the financial performance of a particular enterprise over-all and seeing its trend over time. RATES OF RETURN are:

$$\frac{\text{Net annual income*}}{\text{Value of fixed assets}} \%$$

*Net annual income = revenue minus (operating costs + depreciations)

Ideally the value given to fixed assets should be current value, i.e., what it would cost to construct or purchase the assets now (as opposed to their historical costs). This is rarely done in practice, however.

B: Shelter for Low-income Groups

Introduction

6. The principle of charging beneficiaries is increasingly being applied to shelter programmes in developing countries. Any substantial subsidization merely reduces the size of the programme and, therefore, the number of needy people who can be assisted. It is seen as unfair to provide some with publicly subsidized accommodation but not others who are equally deserving. Cost recovery can be a means of generating additional capital to increase the scale of provision.

7. This section looks briefly at the implications of the principle of full cost recovery and the extent to which it is followed in practice. It is concerned with low-income shelter schemes which are mainly of four types:

- house construction for rental;
- house construction for sale (immediately or by tenant-purchase);
- the sale of serviced sites (again, immediately or

by tenant-purchase);

- Slum improvement, which may include legalization of tenure in squatter settlements.

The categories are not always distinct. Sites-and-services schemes can include building some superstructure, such as latrines, bathrooms, kitchens and, even, a 'core' room. Slum - improvement schemes often include some serviced-site provision for those who have to vacate land needed for public services.

Methods of Cost-recovery

8. A wide variety of methods is used for cost-recovery. They may be classified as follows:

Sale. Land on serviced sites and any superstructure (which may range from a latrine to a complete building) can be sold. There are various combinations, e.g.:

(a) Sale can be at a fixed price or by auction (the latter often chosen for plots for commercial or high-income residential development);

(b) Instalment purchase can be by loan/mortgage or by tenant purchase, either one with varying degrees of initial down payment.

Rental. Land and/or buildings can be rented in two ways:

(a) Rents can be paid by tenants of public-sector houses, flats or commercial premises.

(b) Rents can be paid for the lease of public land (at a price which might include recovery of the cost of on-site or off-site services), the leaseholders constructing and owning the buildings.

Taxation. Initial costs of infrastructure and amenities can be recovered through a special tax (e.g., valorization taxes) or by reassessment of annual property taxes, to amortize capital (loan) and maintenance costs.

Charging. The capital costs of service provision (on-site or off-site) can be the subject of a specific charge. This may be recovered in a single payment, by way of a connection charge, a frontage assessment or a premium associated with the grant of title; in such cases, it may also be covered by a loan. Alternatively, it may be recovered in instalments, collected, in the case of utilities such as water, with recurrent operating charges.

Cost Definition

9. The extent to which costs are recovered depends partly on the way in which they are defined. Public-sector costs of any improvements on a plot - utilities, superstructure, landscaping etc. - are almost invariably incorporated in cost-recovery practices. There is substantial variation, however, in the extent to which these also include the cost of off-plot or off-site infrastructure, community services and administrative overheads. A midway approach is often taken: estate roads, local reticulation, drainage, sewerage etc. are included in the costs recovered, but not extensions to trunk infrastructure; land reserved for community services is included, but not the cost of constructing schools, clinics and social centres on it. The costs of specific project or estate management staff are charged, but not those of a central housing, planning or engineering department.

Affordability and Subsidization

10. Cost-recovery policies are increasingly influenced by a concern that the burden of charges not exclude people totally because of poverty. Attempts are made to ensure that recovery costs are 'affordable' by target groups, particularly low-income groups. Affordability is often determined by taking into consideration the incidence of rents, charges, loan repayments etc. and beneficiaries' willingness to pay.

11. There are several approaches to holding down costs to meet 'affordability' targets:

(a) Minimization of standards for service provision, building etc.;

(b) Specific external subsidization from general revenues, 'soft-term' borrowing etc.;

(c) Concealed subsidization, by excluding costs, such as land acquisition, administrative overheads, trunk or off-site infrastructure, from recovery;

(d) Internal cross-subsidization, by charging above cost for commercial or low-density/high-income residential plots (often by auction or tender).

Subsidization is always a questionable approach to financing a private good and can only be justified if strictly confined to the benefit of the most needy. It is even more questionable in the case of shelter and land as these can be sold eventually to higher-income groups.

Enforcement

12. Experience suggests three elements in determining the success of enforcement. These elements are:

(a) Mechanical efficiency of the process;

(b) Willing compliance by beneficiaries; and

(c) Sanctions.

These are dealt with separately below.

13. The first element is the mechanical efficiency of the process. Initial procedures often involve surveying and mapping, preparation of titles and other tenancy, sale or loan documents, and conclusion of legal contracts, often associated with collection of a downpayment. This can be an extremely protracted process, outstripped by the physical development and occupation of the scheme. Long delays between people getting the benefits and paying the costs not only create immediate cash-flow problems but jeopardize long-term enforcement prospects.

14. These initial steps have to be followed by a regular process of billing recurrent charges, such as rents, service charges or loan repayments, recording payments and reacting to defaults. It is obviously important that procedures identify a default promptly and that records be produced (if not necessarily kept) on a sufficiently localized basis for the managers of specific estates or projects to take responsibility for chasing arrears. Prompt and accurate recording is technically possible by manual processes, but computerized systems have the best record.

15. The second critical element is willing compliance by the beneficiaries. This is an intangible field, but several factors appear relevant:

<u>The nature of the initial contractual process</u>. People occupying serviced sites or tenant-purchase housing are more likely to see themselves as entering voluntarily into commitments than slum dwellers who benefit from site improvement. The latter are easy to charge, if legalization of tenure is involved, since a title is a more tangible 'purchase' than services.

<u>The timing of the initial contractual process</u>. People are likely to honour their obligations, if contractual agreements are made before they get the benefits, e.g., before occupation of a plot or before provision of services. Conversely, they are least likely to do so, if lengthy administrative delays result in their getting the land or the services initially 'for nothing'.

The quality of maintenance. Occupants become increasingly reluctant to pay loan instalments, rents, charges etc., if services are not well maintained, if roads deteriorate, water supplies are intermittent, rubbish is not collected, and so on. Poor maintenance will jeopardize cost-recovery, even where this is not strictly related to the services in question; people might default on repayment of a building materials loan, for example, because the water supplies fail.

16. Finally, the nature and enforcement of sanctions are clearly important. Charging interest on late payment or granting rebates on prompt payment helps to some extent, depending on the rates involved. Promptness in warning defaulters is important, but the critical factor is what happens when all the interim warning and penalty procedures have been exhausted. Foreclosure and eviction are usually the ultimate sanctions, and their use, even in very few cases, is a powerful encouragement to payment. Failure to use sanctions at all can lead to a rapid deterioration in levels of collection.

17. Ultimately, effective collection is a matter of political will on the part of both residents and government. Effectiveness requires a positive view by the community of the benefits secured by a shelter programme (including its ongoing maintenance) and of the commitments into which it entered at the inception of the scheme; it requires also a positive determination by government to recover its costs.

C: Urban Land Development

Introduction

18. The development of land for urban use - whether residential, commercial or industrial - is expensive. Dense human settlement creates conditions demanding water supply, drainage, sanitation, refuse collection etc., on health grounds alone. An expanding urban area puts pressure on arterial and city-centre roads as well as new suburban networks. Rising incomes and traditional urban style lead the occupants of new or redeveloped areas to expect utilities, such as electricity and telephones, social services, such as schools and clinics, and amenities, such as parks and sports grounds.

19. The installation or improvement of urban infrastructure and amenities imposes heavy capital and operating costs on government, but it also yields substantial gains, actual or potential, to the owners of the affected land. Land usually gains enormously in value, when it is converted from rural to urban use or when its services and amenities are significantly improved. Housing development rarely keeps up with population growth in developing countries, and high

rates of return can be earned on housing construction, particularly in middle-income areas.

20. There is a strong case for attempts to meet the public costs of urban development from the gains in land values to which it gives rise. There are at least three reasons for doing so. The first is the fairness of charging the costs of investment to those who benefit from it. The second is the efficiency of facing land developers with the full cost implications of servicing particular types of land use in particular locations. The third is the relative acceptability of charges linked directly and immediately to a tangible service.

21. Various methods have been adopted by urban governments for the recovery of land-development costs. These are categorized under three headings:

(a) the taxation of increased land values;

(b) the charging of beneficiaries; and

(c) the public acquisition and development of land.

Taxing Increased Land Values

22. The most conventional instrument for taxing land values is the annual property tax. Being an annual tax, it is unlikely to yield sufficient revenue to meet capital costs of new infrastructure and amenities directly and fully, but it might provide sufficient additional revenue to service and repay a loan for capital development. The question is how far the revenue from particular pieces of taxed property increases specifically in response to increments in value arising from public investment. This depends first on the basis of assessment; a site-value tax will, in theory, respond more immediately than one based on annual rental values or the capital value of land and improvements, since it should yield increases in the tax base ahead of the development or redevelopment of a plot by its owner. It depends equally on whether revaluation for tax purposes follows directly upon the public investment. Normally, any physical development on a plot is subject to specific re-assessment, except in the case of site-value taxes. However, improvements in roads and other trunk infrastructure are not normally reflected in the property-tax base until a general periodic revaluation of the whole city is undertaken - often at intervals of five years or more. Nevertheless, a specific revaluation of an area subject to general improvement has, on occasion, been undertaken.

23. A second taxing instrument is a specific levy - usually once only - on increases in land value; this is generally known as a betterment tax. This may be levied on accrued or

realized increments in land value. On the former basis, it will be payable by landowners as soon as the increase in land value has taken place, even though the land has not been sold. This creates difficulty for government, in assessing what the notional increment in value has been, and for landowners, in paying the tax when the increase has not been turned into cash. Few governments surmount both these administrative and political hurdles. It is most common to tax realized increments in value, i.e., to impose a betterment levy only when land is sold. While easy to administer, such a tax - in effect, a capital-gains tax - can encourage landowners to hold on to land and inflate market prices.

<u>Charging the Beneficiary</u>

24. Charging owners for the capital costs of services provided directly to their plots or immediate neighbourhoods, such as road access, drainage or sewerage, is a widespread practice. Capital costs are simply divided between owners, usually in proportion to plot size or frontage. Various terms are used for these charges such as special assessments, frontage charges or initial service premia (the latter being attached to the issue of new leasehold title in an urban area).

25. These charges do not, however, recover the costs of area-wide investments in infrastructure or amenities, such as a trunk road, a main outfall drain or a new park. A wide scope of recovery is attempted by the valorization taxes levied most notably in Colombia. Through these lump-sum levies, the cost of a specific urban-development project is shared among all landowners in its "zone of influence". The target yield is based upon the capital costs of the project, with a margin for administrative overheads; distribution among landowners is based upon a formula, of which plot size or property value is normally the basic component but with weightings for factors such as proximity to the project. Valorization taxes have been particularly useful to Colombia in financing neighbourhood road schemes, but great difficulty was experienced in trying to use this tax to finance cross-city infrastructure which was not clearly reflected in changes in local land values.

<u>Public Acquisition and Development</u>

26. In a third approach, urban government seeks to recoup costs by acting as a land developer itself. This takes a number of forms.

27. A public authority might acquire a large tract of land, usually on the periphery of a city, install urban services and then sell or lease the land to private developers (apart from the plots reserved for public purposes). This has been the model for the development

of entire new urban communities by the British New Town Corporations or the New Territories Services Department in Hong Kong. Very large suburban developments have been financed in this manner by the Delhi and Karachi Development Authorities and the Malaysian Urban Development Authority. The operation is intended to be self-financing and is normally carried out by special public corporations rather than municipalities, capitalized by central-government loans. The feasibility of the approach depends heavily on the terms on which land is acquired. The developers' "profit" on the conversion of land to urban use can only be fully secured for the public sector if the original acquisition of land is at previous use value. In New Delhi and Karachi this has been possible because peri-urban land was already in public ownership, and compensation for eviction could be restricted to current use. Compulsory-purchase legislation might also enable acquisition values to be pegged to current use. This may involve however a considerable political risk. Even so, there are dangers that large-scale land banking will lead to land-price inflation well beyond the built up-zone. There are also risks of collusion between urban developers and development authorities, so that the former rather than the latter benefit from the value gain.

28. A variation on this process is land readjustment or "reblocking", as practised in Japan, Republic of Korea and China (Taiwan). Owners of land due for urban settlement are required to surrender it in full to the responsible governmental agency. The latter installs urban services, retains a portion for public purposes, sells off a further portion commercially and returns the balance to the original owners in proportion to their previous holding. The owners are compensated for the reduction of their holding by the high value of the balance in its serviced condition; government recovers its costs by sale of the portion it neither retains nor returns. This process has been politically attractive and avoids the use of public capital in land acquisition. It does, however, give government a vested interest in maintaining high serviced-land prices and is not beneficial to low-income groups.

29. "Excess condemnation" is a further variation. When land is acquired for a specific purpose - typically a new road - adjoining land in excess of requirements is also compulsorily purchased. This is then sold off at a high value, in view of the adjacent public investment.

30. Finally, government - usually in the shape of a municipality or an urban development authority - may join in partnership with private enterprise in developing particular tracts of land. This has been most widely practised in redeveloping city centres in western countries. The public sector

contribution to the equity is often the access to the land, the value of the infrastructure and the goodwill involved in the provision of planning and other consents; the liquid capital for superstructure is mainly supplied by private enterprise.

31. Clearly, the choice made in individual countries and cities between different methods of recouping urban-development costs depends on a variety of historical, legal and local factors. Three significant variables are worth mentioning:

(a) <u>Development or Redevelopment</u>

Devices, such as public acquisition and development, re-adjustment or betterment taxation, are used in situations where large tracts of land on the urban periphery are being brought into urban use for the first time and where it is not feasible to require developers to undertake all the capital works themselves. In such situations the installation of services tends to be a comprehensive and simultaneous operation, with clearly identifiable "once-off" capital costs. This coincides with a change in land values which is also both dramatic and relatively easy to attribute to the public investment. Progressive development or re-development of existing urban settlement is not susceptible to these methods of cost recovery. The nature and scale of the public investment are heterogeneous, and it is not easy to distinguish the impact of public investment on gains in property value from the impact of other factors. Property-tax re-valuations or frontage charges might recoup costs of specific services in the immediate neighbourhood but do not cover those of non-localized improvements.

(b) <u>Land Tenure</u>

There are two important tenurial variables - whether freehold title is in public or private hands and whether land is occupied legally or illegally. Examples have already been given of the political advantages of public ownership in limiting the compensation paid to agricultural users on conversion to urban use. In the case of neighbourhood improvement schemes, legalization of tenure may be the main instrument for securing cost-recovery from squatter occupiers.

(c) <u>Administrative Capacity</u>

Administrative skills and political support are tested by virtually all the methods described. Valuation is involved, for example, in betterment taxes, property tax re-assessment or public land acquisition. Clearly, much depends upon the availability of these capacities to urban government.

Performance

32. As might be expected, the success of different approaches varies greatly, according to place and time. Land re-adjustment, for example, has made contributions to the development of cities such as Nagoya, Japan, and Seoul, Republic of Korea; the phenomenal expansion of Delhi has been greatly facilitated in the past by the land development and sale operations of the Delhi Development Authority. However, two weaknesses are widespread. The first is the relatively restricted range of urban-development costs which are actually recovered from beneficiaries. It is rare for development charges, by whatever method, to recoup costs of expansions in trunk infrastructure, such as bulk water transmission and treatment, or social-service provisions attributable to specific area developments. The second is that emphasis on cost-recovery often leads to concentration of effort on types of urban development yielding high (or secure) rates of return. This tends to be the middle-income or high-income housing estate or the large shopping complex. Low-income groups, petty traders etc. might be neglected or positively harmed by such approaches. They might be squeezed out of occupying an area benefited by public investment, if taxed or charged on notional gains in land value which they are unable to turn into cash, except by selling and moving out. Various types of exemption or cross-subsidization are possible, to avoid such dangers, but might not be adopted, if the political balance is unfavourable or the emphasis on maximizing financial returns too great. Nevertheless, charging beneficiaries does favour equity, insofar as it removes the burden of financing specific costs of urban development from the taxpayer at large.

CHAPTER SEVEN

LOCAL REVENUE ADMINISTRATION

Introduction

1. Revenue administration is concerned with the implementation of fiscal policy - with the process of identification/registration of taxpayers and consumers, of assessment and collection of charges and of enforcement of procedures. It is concerned with the administrative feasibility of using a local tax source or charge - one of the five general criteria by which levies should be evaluated. Two particular measurements can be used:

   (a) Realization - the proportion of actual yield to the potential of the revenue source (the potential being the yield if everyone who should pay does pay and pays his or her full liability).

   (b) Cost - the resources (money and manpower) used in collecting revenues as a proportion of the yield.

2. Fiscal policy and revenue administration are inter-linked. If a revenue source cannot be administered effectively (i.e., if yields fall far short of potential) or efficiently (i.e., if costs represent an unreasonable percentage of yields), it is necessary to evaluate substitutes.

Realization

3. In relation to realization, the objectives of revenue administration are to ensure that

   (a) Everyone who should pay a tax or charge, does so;

   (b) Everyone pays the right amount;

   (c) All revenue is properly brought to account by those who collect it.

4. This means:

   (a) Identifying all those liable to pay;

   (b) Assessing them correctly;

   (c) Collecting the payments as assessed;

   (d) Checking who has not paid and enforcing sanctions;

   (e) Controlling actual receipts by collectors to make certain they are brought to account.

5. Realization is threatened by two factors:

(a) Evasion - the desire of taxpayers to avoid paying a tax or charge, or to pay less than they should;

(b) Fraud and collusion - the temptation to assessors and collectors to -

- allow payers to avoid or reduce payment in return for bribes, or
- to conceal and retain revenue they have collected.

6. These lead to the following risks:

(a) Identification:

- the taxpayer evades identification, or
- the collector identifies but fails to impose the tax/charge.

(b) Assessment:

- the payer conceals his full liability, or
- the collector is bribed to underassess.

(c) Collection:

- the taxpayer fails to pay, or
- the collector fails to enforce, or
- the taxpayer pays, but the collector retains the money.

7. The art of revenue administration is to devise procedures which minimize all these risks. An important element of fiscal policy is also to choose revenue resources to which risk minimization procedures readily apply. The following factors relate to the evaluation and design of procedures:

(a) Identification of Payers

Procedures should make it difficult for payers to conceal their liability and easy for government to check that they have been identified by the revenue staff. It helps if -

- identification is automatic, e.g., everyone who gets an electricity supply pays a bill which also includes a local tax on services and utilities;

- there is an inducement to people to identify themselves, e.g., people have to buy a ticket which includes entertainment tax, in order to enter a cinema;

- identification can be linked to other sources of information, e.g., registrations of land transfers can be used for identifying property-tax payers;

- liability is very obvious, e.g., the number of permanent stalls in a market which should be paying market fees is known exactly and by everybody.

Conversely, it is difficult to identify payers when liability is easily concealed, e.g., the ownership of a radio. It is also difficult to check on fraud and collusion when the headquarters of the revenue department has no easy information on how many people should have paid, e.g., how many lorries passed through a distant road post or how many casual hawkers used a market.

(b) Assessment

Procedures should make it difficult for payers to conceal their full liability or for assessors to under-collect. It helps if:

- assessment is automatic, e.g., a fixed percentage on the hotel bill or a cinema ticket;

- the assessor has little or no discretion, e.g., a fixed fee on a market stall per size, location and type of business;

- the assessment can be checked against other information, e.g., fees for extraction of building materials can be checked against quantities supplied by a governmental contractor.

Conversely, it is difficult to ensure full assessment where full liability can easily be concealed or assessors exercise considerable discretion, e.g., where the business-licence fees are established by a visit to individual premises to verify size and type of business etc.

(c) Collection

Procedures should ensure that payment of liabilities is enforced and that actual payments are brought fully to account. It helps if:

- payment is automatic, e.g., coin-operated public telephones; p.a.y.e./withholding of tax from salaries, contract payments etc.;

- payment can be induced, e.g., when payers need tax clearance certificates to get contracts, licences etc. (tax-clearance procedures need to be used with care; they can be very unfair to payers, if there is no accurate and prompt procedure for issuing assessments, recording payments and providing receipts);

- default if obvious, e.g., a motor vehicle has no current licence disc or number plates;

- penalties are really deterrent, e.g., a high rate of interest on all late payments, and are enforced (penalties also need to increase strongly the longer payment is overdue);

- actual receipts are clear to the controllers in the central tax office, e.g., if fixed fee tickets are issued, rather than receipts with carbon copies which can be altered;

- payment is easy, e.g. it can be made at local cash offices, banks, post offices etc., without long delays or travel.

Conversely, it is difficult if there is no real pressure on people to pay and no clear evidence how much has been collected. It is also difficult if taxpayers are put to great inconvenience in paying, having to travel distances and wait in queues.

Cost

8. Cost is measured by the proportion of a revenue resource devoted to its assessment and collection. Collection costs, as a percentage of yields, can be kept low where:

(a) assessment and collection are linked to some other administrative process (e.g., a surcharge on electricity bills or petroleum duty; pay as you earn or withholding);

(b) a number of revenue sources can be collected in a single transaction;

(c) individual tax or fee payments are large (i.e., there is a substantial revenue return on the cost of collecting each liability), e.g., with a motor-vehicle tax;

(d) transactions (assessments and collections) are physically concentrated;

(e) assessment and payment can be made automatic (as with vehicles passing through a road toll).

9. Conversely, costs can be very high where

   (a) A fee or tax is very small;

   (b) Assessors and collectors are dealing with only one fee or tax;

   (c) Collection is geographically dispersed;

   (d) Visits have to be made by collectors to tax payers' houses, business premises, etc.

Conclusion

10. There is no standard set of rules or practices which can make revenue administration watertight, but certain lessons can be drawn from the previous analysis and experience. Revenue sources which rely upon house-to-house, business-to-business assessment and collection by officials are difficult to make really effective and efficient. Clearly, every effort has to be made to improve their administration by measures such as -

   (a) minimizing the discretion of assessors who have face-to-face contact with taxpayers (e.g., by using formula assessments of property);

   (b) rotating personnel;

   (c) using independent evidence to cross-check assessments;

   (d) applying self-assessment procedures, if strongly supported by sample checks and sanctions for under-declaration;

   (e) keeping comparative data on performance of assessors and collectors to identify those apparently needing close supervision.

   Equally, effort is needed to identify and exploit revenue sources, which do not offer scope for evasion, collusion etc. These include -

   (a) taxes or charges which are paid by automatic processes, e.g., taxes on fuel, electricity consumption or entertainment;

   (b) taxes or charges where the payer "comes to the municipality" rather than vice versa, e.g., octroi, where the taxable goods have to pass through one inspection and collection point;

   (c) taxes or charges with a ready and punitive sanction for default, e.g., disconnection of a water or electricity supply.

11. Good, comprehensive, up-to-date information is vital at all stages of identification, assessment and collection. Co-ordination and exchange of information is important. For example, information on the use of a building for commercial purposes is needed for trading licences, planning control and property-tax assessment, and should be exchanged, regularly between the departments responsible.

12. Finally, the ease or difficulty of revenue administration is heavily influenced by the attitude of the taxpayer. No one enjoys paying taxes or charges but there are differences in the degree of acceptance or resentment which affect the extent to which people actively seek to avoid their obligations. Compliance can be encouraged: simply explaining the purpose and calculation of a tax or charge helps, and so do collection arrangements which do not subject the payer to great inconvenience - for example, having to wait in a long queue or travel a long distance to pay a water charge or license a shop. Most important of all is a visible connection between a tax or charge and the quality of the service for which it is paid. A property tax is acceptable if the streets are repaired and the refuse removed: an increase in water charges might not be resisted, if supplies become regular.

CHAPTER EIGHT

INTERGOVERNMENTAL TRANSFERS

Introduction

1. This chapter deals chiefly with allocations of funds from central governments to local governments or development authorities responsible for urban services and development. Much of the content applies equally to transfers from state or provincial governments to local authorities in a federal or other multitier system. These intergovernmental transfers take a number of forms.

2. The first form is capitalization - the investment of equity capital by central government in a local authority. The latter is expected to utilize it for income-earning projects, such as utilities, markets and slaughter houses. Equity is different from a loan; it may be transferred or sold into other hands but it is not repayable by the recipient enterprise. It may, however, be expected to yield dividends for the central government as investor. Urban-development authorities and utility corporations are frequently financed in this manner, and central government may also invest equity in undertakings administered by provincial or local governments.

3. A second type is tax-sharing - the allocation, in whole or in part, of specific central-government revenues to local government. There are many examples: some are made under revenue-sharing obligations imposed by federal constitutions. Such assignments are not restricted to federations, however. The Philippines allocates 20 percent of net national internal revenue to local government, for example, municipalities receive 20 percent of state value-added taxes and 10 percent of federal income and excise taxes in Brazil, and 10 percent of taxes on production and consumption services and 6 percent of all national taxes in Tunisia.

4. The most familiar form of transfer is grants, subsidies, contributions or subventions. The titles vary, but their nature is the same - a transfer of funds from the budget and accounts of the central government to those of a self-accounting local authority. These are usually discretionary payments. Constitutions or statutes might oblige central governments to make grants to local governments, but, even then, the amount of the payment is not usually prescribed by law.

5. Several basic issues are common to different types of transfers. These will be discussed individually in the remainder of the chapter.

Distribution of Shared Revenues

6. Taxes collected by central government but assigned, wholly or partly, to local authorities can be distributed in two ways. Each region can get its appropriate share of amount of tax collected within its borders; tax yields are assigned according to their origin. Alternatively, the local share can be pooled and distributed according to some need criteria which do not relate directly to the origins of the tax. Which approach is the best? Three issues arise in resolving this question.

7. The first issue is basically technical - the ease or difficulty of determining the origin of revenues. The collecting point is not an automatic indication. Commercial income taxed in town A where a company has its headquarters, might derive from branches in towns B and C: a sales tax imposed when goods leave a factory in city X might be passed on to consumers all over the country. The second issue concerns incentives. If a tax is levied and administered by the national government, there is normally no direct connection between the amount a local authority receives and its own "fiscal effort". There are cases, however, where local co-operation can be important to effective tax administration. A local authority might possess the only field network capable of identifying all those liable to pay a tax, or its own tax, wage or licensing systems might hold information valuable to the central tax-assessment process. In such cases, assignment of shares according to derivation is a far more effective incentive to local-government co-operation than distribution from a central pool, since each authority benefits fully and visibly from its extra degree of effort. The third and most fundamental issue is the problem of competition for resources between those regions which feel that they make the greatest contribution to national revenues and those which might be regarded dispassionately as having the greatest "need". This is matter for political resolution.

Tax-sharing or Grant-in-aid Support

8. If taxes are levied and collected by central government, assigning a share to local government might appear little different from paying grants. Protagonists of local autonomy are apt to dismiss tax-sharing as no better than grants-in-aid and much inferior to the devolution of equivalent direct taxing powers. This is clearly impossible to resolve in the abstract. Much depends upon the buoyancy of the taxes assigned and the size of the local share, and upon the elasticity and flexibility of an alternative grant system.

9. First, although the assignment of a tax share might be as discretionary as the calculation of a grant, it would be unusual for central government to vary an assignment to the

disadvantage of local authorities without consultation and agreement. On the other hand, if the shared tax is elastic, local authorities receive automatic growth in revenue; increases in grants, on the other hand, are purely discretionary, and considerable pressure is often necessary to secure adjustments in formulae to reflect the rising costs of local functions. As far as the third option is concerned, devolution of a productive tax source might not be a practical alternative to sharing of a central levy, either because of administrative constraints on "localizing" a tax or because of political unwillingness on the part of central government to surrender taxing powers in any form.

10. Tax-sharing does convey a slightly different political nuance to the making of grants-in-aid. The idea of sharing taxes is consistent with an image of partnership between levels of government in the performance of public functions. Grants are inherently patronizing; reliance on them can give an impression of poverty and encourage a beggar-type posture by local government.

11. One weakness of tax-sharing is its vulnerability to irresponsible administration by central government: delay in paying over their shares can impose cash-flow problems on local governments. Another problem is the inability of local authorities to vary the rate of a shared tax. From this point of view, a discretionary surcharge on a national revenue - "piggy-backing" - is much preferable to a fixed share of a centrally determined tax rate; surcharging is only advantageous, however, if central government limits its basic rate so as to leave room for a substantial local addition.

12. These differences between tax-sharing and grants-systems generally work in favour of local government. The advantage depends, however, on the elasticity of the tax shared and the relationship between the scale of the assignment and the expenditure needs of local authorities.

Types of Grant

13. Grants include the following types:

(a) Grants towards the cost of specific services or projects, based upon a fixed percentage of agreed local expenditure on them. This can be a 100 percent subsidy; alternatively, it can "match" a contribution from local-authority revenue, according to a pre-determined ratio.

(b) Unit-cost grants, based on a fixed sum per unit of service (e.g., 500 Shs. per kilometre of road maintenance or 100 Shs. per primary school pupil). They may be weighted to take account of local cost variations.

(c) Multipurpose development grants which may be allocated by local authorities to a specified range of functions, according to stipulated guidelines (e.g., labour intensity or employment creation). These grants tend to have a strong infrastructural bias - roads, drainage, irrigation, flood control - but investment in direct agricultural or industrial-production programmes is sometimes covered as well. Expenditure on salaries, routine maintenance or social services is frequently, but not invariably, prohibited.

(d) Multipurpose equalization grants (e.g., aimed to "top-up" direct local incomes in areas of below-average or "below-standard" fiscal capacity).

(e) Multipurpose contributions to balance local budgets, reconciling local revenue with expenditure. These are often known as "block" or "deficiency" grants. They may be based upon an actual budget deficit or may be estimated to meet the gap between expenditure needs and potential local revenue, as defined by national standards.

Specific or Multipurpose Transfers

14. Some forms of transfer determine the purpose for which they are spent. Specific, matching and unit-cost grants fall into this category; so do equity-capital contributions invested in a single-purpose authority. Other types represent general contributions to the expenditure of local authorities who retain discretion over the specific purposes and programmes to which they are devoted. Tax shares, revenue-equalization grants, multipurpose development grants, block and budget grants have this general-purpose character.

15. The differences are not absolute. A specific-purpose allocation might still leave the recipient authority with considerable discretion on how it is spent. A school or health centre construction grant in Indonesia, for example, may leave the choice of location to the local authority. Conversely, limitations may be placed upon the use of multipurpose grants. Certain types of expenditure may be excluded; public works programmes characteristically exclude financing of offices or social services.

16. A specific allocation might be justified where local authorities need to be stimulated to make expenditures, consistent with national policy, which they would not have chosen to make themselves in the desired manner or on the desired scale. This presupposes that a uniform or prescribed minimal level of expenditure is really of national importance and that it is technically feasible for central government to define it. It also presupposes that national government has no better instrument than this for

encouraging local compliance. Specific allocations might be particularly important in federations, such as the United States of America, where central government has no power of direction over state and local levels of government.

17. Nevertheless, transfers should not rely on exaggerated perceptions of central capacity to prescribe what expenditures are useful and relevant in local circumstances; much national developmental "targetry" falls into this trap. In the field of economic investment, such as small industry or agriculture, allocations to a broad developmental range of options are most likely to be effective; central government may retain a veto over local choice, but the initiative in choosing precise programmes is best exercised locally. Furthermore, specific allocations should not outstay their utility: once the desired activity has been stimulated, local authorities should become committed to it, and the central financial assistance can be absorbed in multipurpose aid.

Matching Grants

18. A related issue is whether grants to provincial or local authorities for specific purposes should be on a matching basis, dependent upon some ratio of contribution from the recipient's direct revenues. The matching grant is a classic device for stimulating local-government concern for a new or neglected task to which central government attaches importance. As an intervention, it arouses more positive responses than some form of statutory order. There are however, two criticisms of matching grants.

19. The first charge is that they benefit rich areas more than poor. By their ability to spend from their own resources, wealthy areas can earn large central matching contributions, accentuating existing disparities in levels of service and development. This is a valid criticism of many matching grants, but they do not have to operate in this way. The United States of America varies the ratio of many of its matching grants to states, according to the average *per capita* income of each state: high-income states get a lower proportional contribution from the federal government than others. The matching is not necessarily "open-ended"; a contribution may be offered as X% of total expenditure up to a prescribed limit. The second charge is that matching grants distort the pattern and priorities of local expenditure. Local authorities shift funds within their budget to attract central contributions. Thus matching grants encourage a certain level of expenditure on a service, not necessarily a set standard of achievement.

20. A matching system preferred by central governments (and international aid agencies) involves the use of national funds to construct a capital asset - a road, school or hospital, for example - on condition that local authorities

operate and maintain it. This can be a pernicious practice. The central government gets all the credit for building some vote-catching new facility, often to standards or in locations inconsistent with local priorities, but local authorities get the headaches of operating it, including an expenditure burden which is likely over time to exceed capital costs substantially. The very fact that the national government is not going to maintain the project often leads to construction designs which inflate operating costs.

The Definition of Expenditure Needs

21. The measurement of expenditure-need is critical to most types of intergovernmental transfer. All types, except tax-sharing and grants for matching or topping up local revenue, are related to some actual or desirable level of local-government expenditure, either on a particular function or project, or in general. Defining what level of expenditure should be assisted and what is the expenditure need are issues in central/local relationships.

22. There are two broad approaches to the definition of local expenditure-needs for the purposes of central-government allocations:

    (a) Allocations can be based upon the estimate put forward by each recipient authority, subject to such amendment as central government wishes to impose;

    (b) Allocations to individual authorities can be based upon objective criteria which are not related to their own budget proposals, to be measured in terms of:-

        (i) the functions performed by authorities; or

        (ii) their general capacity for expenditure.

Expenditure needs: Historic Costs

23. The first approach is most commonly used for calculating grants to individual authorities. Qualifying expenditure is calculated on the basis of estimates submitted by each authority, consisting of:-

    (a) the cost of services at their existing level, plus

    (b) increases argued "on their merits".

    These elements are based, in turn upon the historic growth of expenditure in each locality and the success of an authority in convincing central government of the need for whatever improvements, increased inputs or expansions are proposed in its current budget or development plan.

24. The problem, of course, is that existing levels of service expenditure might (and frequently do) contain considerable disparities between areas, reflecting historical development rather than an objective assessment or comparison of need; they usually favour central or economically prosperous areas. Moreover, increases assessed "on merit" involve largely subjective comparisons which often favour developed areas, because of their superior political weight or executive capacity. They can convince central ministries of their "needs", because they have influence or because they can produce carefully prepared or plausible proposals.

<u>Assessing Expenditure-needs: Objective Functional Criteria</u>

25. The second approach is to assess the expenditure needs of individual authorities by use of objective criteria which do not relate to levels of current expenditure. The problem, of course, lies in finding forms of measurement. There is a basic difference between the criteria used for specific and multipurpose transfers.

26. For specific transfers, need will be based on the costs of a particular service, project or programme and some measurement of demand for it. An educational subsidy might be based, for example, upon unit costs for types of schooling or instruction, multiplied by the relevant age-group population of each area. Road development or maintenance grants might be based on unit costs per kilometre, varying with road width, and weighted according to traffic density, topography, soil structure and other appropriate factors. A most ambitious attempt at costing services was made by the Zakaria Report on Municipal Finance in India. This report examined each urban service, such as roads, drains, lighting, water, sanitation and recreation, and estimated unit costs for each per head of population in large, medium-size and small towns; it was proposed as a basis for assessing the over-all expenditure-need of every urban authority.

27. Multipurpose allocations can be calculated, on the Zakaria-report basis, by aggregating the costs of each individual function, using standard criteria based on unit costs. A most comprehensive costing is used for distributing national tax shares to individual local governments in Republic of Korea; unit costs have been estimated for 30 separate items of local expenditure. It is an extremely contentious process, however, since the "need" for many functions is difficult to assess uniformly; topography and climate make radical differences to drainage requirements, for example. There are technical difficulties involved in prescribing uniform expenditure levels in some fields. A distinction can also be drawn between services or components of services where a standard or minimal level of provision is a matter of high national priority and those which might be left to local or, even, individual consumer choice.

28. A compromise approach has been used by the West Bengal Government in projecting local-government expenditure to assess eligibility for deficit grants-in-aid. Actual levels of general expenditure have been taken as a base, but provision is also included for the debt-servicing and operating costs arising from the centrally planned Urban Development Programme.

Assessing Expenditure-needs: General Spending Capacity

29. Aggregating individual functional costs is one approach to assessing expenditure-needs as a basis for multi-purpose allocations. It poses technical problems of measurement and data collection; it also ignores the advantages of allowing local authorities to choose between objects of expenditure, where high national priority is not involved or is difficult to translate into precise units of provision. The alternative is to use objective criteria for calculating a desirable over-all level of local expenditure, either on all functions or on the range of functions to which the allocation is devoted. This aims to give local authorities a standardized capacity for expenditure without attempting to prescribe or cost the components; (at least, not all the components - such a formula might still prescribe certain uniform elements of expenditure).

30. Multipurpose grants or tax shares are frequently based on broad criteria which define need in terms of over-all capacity to spend rather than individual functional costs. The most common basis of allocation is population. The Indonesian infrastructural grant to municipalities is on a straight per capita basis, and population is a large factor in the U.K. rate-support grant distribution, but weighted by the proportion of children and old people to reflect heavy local-authority commitments on educational and social-service expenditures.

31. Area is a second factor frequently appearing in distributive formulae. Weighting can be given simply to territorial size or to the ratio of area to population. Low-density areas often attract high allocations, because of the per capita costs of providing services to scattered populations. In contrast, high-density urban settlement is occasionally recognized as generating above-average expenditure needs.

32. A third factor, often taken into consideration in distributing multipurpose funds, is relative income. Allocation can be weighted in favour of poor areas, to stimulate development, bring services to a standard level, assist in relief measures or compensate for low direct revenue potential. Favouring low-income areas is clearly a critical element in any redistributive policy aimed at reducing disparities. The desirability of this mechanism is subject, however, to the availability of data for comparing standards of living and development. Virtually all

countries produce national income statistics, but relatively few have reliable data by localities.

33. Local authorities frequently argue that they are faced with fixed overhead costs which do not vary proportionately with population, area and income: big and small cities alike have to maintain councils, departments and the like. Central/local relationships are partly a political balancing act, and big disparities in the distribution of funds can cause keen resentment, whatever their statistical justification. Distributive formulae often try to meet these considerations by one of two devices - reserving a proportion of the total allocation for equal shares between recipient authorities or establishing a fixed minimal allocation to each authority.

34. Although basing multipurpose transfers upon such broad criteria avoids prescribing exactly how money should be spent, the weighting given to different criteria should bear in mind the responsibilities which local authorities meet. Population is a dominant factor in relation to education, for example, with area and income levels making a marginal difference to unit costs or priorities for new development: area and, to a lesser extent, income levels might be important in respect to transportation: income levels might be the most critical element where responsibility for agricultural or industrial production programmes is concerned. The relative significance of these responsibilities within local budgets affects the satisfactory balancing of distributive factors.

<u>Expenditure-needs:</u> <u>Cost Differentials</u>

35. Equal amounts of expenditure do not buy equal amounts of service. There can be significant variations between areas, for example, in the costs of labour or of essential materials. To some extent, these variations might balance out: labour rates might be low in a remote area, offsetting heavy transport costs for materials. Any fair assessment of expenditure-needs has to identify and reflect the factors which make significant differences to the local costs of services and programmes.

36. Regional retail-price indices are available in most countries and might be seen as a ready guide to cost differentials in public services. These indices can be very misleading, however. They are usually heavily weighted by the costs of items which are important in household budgets - food, clothing and rentals, for example - but these might have little relevance to the components of local-government expenditure. Allowances for cost variations need to be based on indices relevant to public expenditure patterns.

Relationship of Central-government Transfers to Local Revenue Capacity

37. The size of central-government transfers is often related to the amount of direct revenue which local authorities raise or might be expected to raise. There are two distinct aims in striking such a relationship. The first is to compensate authorities with a below standard "fiscal capacity", because their potential direct revenue is limited by the relative smallness of their tax base compared to some standard fiscal capability: such compensation would normally assume that they made a "standard fiscal effort", i.e., that their tax rates, the precision of their assessments and the effectiveness of their collections represented a standard effort to exploit their tax bases, however restricted they might be. The second possible aim for relating allocations to local taxation is to stimulate and reward local fiscal effort: some standard level of revenue exploitation can be established, with central-government transfers being increased when it is exceeded or reduced when it is not achieved. A current example is the municipal-grant system in West Bengal, where payments of capital-development grant are dependent upon achievement of resource targets in the preceding year.

38. The basic problem is to define and calculate local "fiscal capacity". If a grant is calculated purely on an authority's own estimate of revenue or its actual tax performance, the effect would be to penalize effort and reward laxity. Equity and incentive can only be achieved by using a national objective assessment of revenue potential.

39. Calculation of revenue potential is most accurate if related directly to the revenues which local authorities can exploit. Where they rely on charging, comparisons can be made of revenue collected per unit of service. A common set of taxes with uniform methods of assessment might afford a fair basis for calculating and comparing fiscal potential. Since all local authorities in England and Wales have a single tax base in property rating, uniformly assessed by central-government valuers, it is easy for the block rate-support grant to adjust revenue potential.

40. Where taxes or assessment methods vary, particularly at local discretion, it is difficult to relate an assessment of revenue potential to the actual sources exploited. In such cases, measurement might only be possible by some general comparison of local economies: per capita incomes are often used for this purpose, but this requires caution on two counts. First, the statistics might be based on the value of local production, which ignores transfers of income in and out of the area (such as "exports" of company profits or "imports" of daily remittances or dividends). Secondly, income figures might be heavily inflated by elements which are beyond the scope of local taxation; mining company

profits, subject only to national royalties and corporation tax, might be a significant case in some areas. Proxy measures, such as local consumption of commodities, might be a satisfactory, if crude, indicator of relative taxable capacity.

41. Equalizing fiscal capacity normally assumes standard rates and a standard level of efficiency in assessment and collection of local taxes and charges. It can leave scope to authorities to adopt higher than average rates or to excel in enforcement, generating above-average revenue which can then be devoted to above-standard levels of expenditure. Provided that variable rates are feasible on economic and administrative grounds, it is usually desirable that equalization formulae leave discretion and incentive to local governments.

42. Occasionally, revenue equalization involves transfers between local authorities themselves. These can be used to reduce disparities between the core city and the periphery in metropolitan cities. In Tunisia, they take place between municipalities on a national basis.

43. What degree of revenue equalization can be attempted by central transfers? Should they seek to provide a modest compensation for low-revenue potential, by raising local revenues up to an average per capita level, or to standardize fiscal capacity, i.e., to bring the resources of all authorities up to or near the level of the richest? Part of the answer lies with the method of equalization. This can be through general grants or tax-sharing, with some weighting in favour of poor areas (whether these really equalize local resources depends upon the size of the weighted element in comparison with the disparity in direct revenue potential), or through an allocation which is specifically estimated to raise the potential of direct revenue sources. This may be a discrete grant or tax share for this special purpose or it might be the balancing element in a general-deficiency grant.

44. Just how far equalization should be taken depends upon several factors. The first is economics - the amount of resources which a nation can afford to devote to equalization. This is a problem not only of national poverty or wealth but also of the degree of disparity to be bridged. Overemphasis on equalization might starve high-growth potential areas of necessary levels of investment. The second is a question of political priorities. How far can redistribution be achieved without overstraining the consent of the "surplus" regions? The third consideration is the ability of undeveloped areas to absorb public investment. The relative poverty of these regions might be reflected in low administrative capacity or resource endowment, which constrains attempts to accelerate public spending. Conversely, the high revenue yields of the rich

areas might reflect additional needs for public expenditure. Urban industrialized regions might produce high taxes, but their population density and their production base also require high levels of infrastructure expenditure.

45. It must be remembered, moreover, that the pursuit of equalization, through central allocations to local authorities, only apply to local-government expenditure. Its effects can be largely negated if large amounts of public expenditure are channelled through central-government departments or national parastatal bodies, without concern for spatial distribution.

The Timing of Central-government Transfers

46. The timing of transfers to local governments is important. Matching or percentage grants will normally depend on the local budget. Ideally, for comprehensive, multipurpose allocations, the recipients should be notified before they prepare their budgets. This gives local authorities a clear forecast of their revenue and pins the responsibility for balancing the budget squarely on them.

47. Reference has been made to transfers calculated on the basis of an actual budget, not upon independent criteria. In effect, local authorities estimate their expenditure and their direct revenue on the assumption that the central government will bridge the resultant gap whatever its size. The central government then cuts the expenditure or induces revenue increases until the deficit is reduced to a scale it is able and willing to close. This is in general an unsatisfactory procedure. It leads to very subjective judgements by central government of what income is possible and what expenditure is desirable; it can lead to programmes which do not reflect local needs or priorities; it effectively shifts the responsibility for hard choices in balancing a budget to the central government. It is best that any comprehensive budget-closing grants should be based on national assessments of expenditure-needs and revenue potential which are independent of the actual shape of the local budget and decided before it is formulated.

Case Examples

48. Three examples are given of transfers to municipalities in countries where transfers represent a large source of municipal revenue. They are given to illustrate the variety of approaches to assessing the scale of transfers and distributing them between receiving authorities.

49. In Brazil, municipios receive shares of federal and state revenues, consisting of:-

(a) 20 percent of state value-added tax (15 percent distributed according to derivation, 5 percent by formula depending on population, area etc);

(b) 10 percent of federal income and excise taxes (distributed largely according to population but weighted in favour of sparsely populated municipalities);

(c) 25 percent of motor-vehicle tax (distributed by derivation);

(d) 20 percent of mining tax (distributed by derivation);

(e) 8 percent of fuels and lubricants tax (distributed 40 percent according to population, 40 percent according to consumption and 20 percent according to land area);

(f) 10 percent of electricity taxes (distributed 60 percent by population, 15 percent by consumption, 20 percent by land area and 5 percent by production).

50. In Indonesia, municipalities receive 65 percent of the land and buildings tax (levied and assessed by central government but largely collected by the municipalities) plus a variety of grants, including:-

(a) A grant, covering all the salaries and allowances of established civil servants (including teachers);

(b) A per capita grant for infrastructural development;

(c) An education grant, covering construction and repair of buildings (distributed according to plan targets and service deficiencies);

(d) An education recurrent-cost grant (for miscellaneous school expenses);

(e) A health grant, consisting of two elements: a per capita grant for drugs, and a contribution to the construction of new clinics etc. (distributed according to plan targets and service deficiencies);

(f) A road-construction grant (assessed against project bids);

(g) Highly subsidized loans (interest-free) for market construction (distributed, now, according to bids).

51. In the Calcutta Metropolitan Area of India, a comprehensive deficiency grant is awarded on the formula:-

Recurrent Expenditure - Internal Revenue = Grant

However, for the purpose of assessing grant, annual increases in recurrent expenditure are restricted to:-

(a) 5 percent in salaries and wages;

(b) 10 percent in other expenditure;

(c) actual increases in debt-service costs arising from loans under the Metropolitan Development Plan.

Similarly, internal revenue is assumed, for calculation purposes, to include:-

(a) 5 percent annual increase in collection efficiency until 75 percent of property-tax demands are realized;

(b) 5 percent annual growth in all other revenues.

If the actual deficit exceeds that on which grant has been assessed, additional grant is payable but deducted from the capital-development grant.

52. These three cases illustrate a range of financing instruments including:

(a) revenue sharing,

(b) specific/earmarked grants,

(c) block grants,

(d) formula deficit grants.

The Calcutta grant represents an attempt to combine general assistance with incentives for improvement in revenue generation and expenditure control. The earmarking of the Indonesian grants varies from highly specific control and planning, in the case of personnel costs and new construction of schools and clinics, to very broad limitations, on the use of infrastructural development grants. The distributive criteria for Brazil's revenue-sharing mark a balancing act between derivation and "need" criteria.

CHAPTER NINE

DOMESTIC BORROWING

The Purpose and Extent of Borrowing

1. Urban authorities borrow money for a variety of purposes:

    (a) to finance short-term cash-flow deficits;

    (b) to finance deficits in annual operating budgets;

    (c) to purchase plant and equipment with a medium-term life;

    (d) to finance investment which is expected to earn income; or

    (e) to pay for long-term capital development.

2. Borrowing to meet short-term cash flow deficits is common throughout the world, being necessitated usually by uneven patterns of revenue collection. Bank overdrafts are the normal form of such borrowing, but local authorities, sometimes, seek direct deposits from the public, through short-term bills - usually of one to three months' duration. The traffic is not entirely one-way, however; revenue fluctuations can also produce short-term surpluses which authorities can invest on the money market.

3. Deficit financing of annual current budgets is common for central governments but rarely encouraged or permitted in the case of local authorities. It does happen, however, by default, i.e., when local authorities fail to clear "short-term" overdrafts.

4. The purchase of plant and equipment poses problems, insofar as it involves "lumpy" expenditure - substantial outlays on replacement costs at irregular intervals. Borrowing for purchases spread over the estimated life of equipment is a common solution. A somewhat similar alternative is leasing from suppliers, a solution increasingly popular since it avoids purchasing equipment which might become obsolete in a time of rapid technological change.

5. The concept and practice of loan finance for "self-liquidating" investment is widely accepted. This is expenditure upon operations which earn a direct return on capital, covering both debt charges and operating costs. Urban authorities of the development or utility corporation type are frequently capitalized by loan finance which they are expected to invest in income-earning activities. The "lumpy" nature of their expenditure and their dependence on

large but occasional and infrequent capital outlays make them particularly reliant upon borrowing.

6. The use of loan finance for capital development of services or infrastructure, without a direct revenue return, varies widely. An IULA survey in 1969 showed that the percentage of local-government capital expenditure met by loans varied from 86 percent in Canada and 80 percent in Belgium to 16 percent in Sweden and 19.5 percent in Japan.

<u>Sources and Methods of Borrowing</u>

7. There are several common sources and methods of urban-authority borrowing:-

   (a) loans from higher levels of government (these are normally from central government, but state or provincial governments might lend extensively to local authorities in a federal system);

   (b) loans from a central credit bank or loan fund for local authorities;

   (c) loans or overdrafts from commercial or public savings banks;

   (d) internal borrowing from reserve funds, such as superannuation funds for employees or renewal funds for plant and equipment;

   (e) hire-purchase or rental-leasing of equipment;

   (f) contractor finance for construction projects;

   (g) realization from interest-bearing bonds or stock, normally with fixed dates or redemption;

   (h) mortgages on an authority's physical assets;

   (i) loans from international agencies, such as the World Bank and African, Asian or Inter-American Development Bank, or bilateral-aid donors (usually made to central government and re-lent).

8. There are countries where provincial and local governments rely almost exclusively on borrowing direct from the money market. Local authorities in the United States of America, for example, raise loan finance mainly through bond issues; smaller authorities often join together to float a corporate loan through a bank or a broker. In contrast, there are countries where the weakness of capital markets or the lack of creditworthiness makes local authorities dependent on central government or a central credit institution for loan finance. Central credit institutions can also be used by

provincial and local governments as a convenient device for borrowing jointly on the capital markets. Their role will be discussed later in the chapter.

9. Internal borrowing is attractive, insofar as management expenses and commissions are avoided on both borrowing and investment. The danger is that interest rates credited to the reserve funds and charged to the loan programme will fall below those available on the market. This would be contrary to the trustee obligations of the authority, particularly in the use of superannuation funds.

Loan Conditions

10. The duration of urban authority loans might be anything from 24 hours to 60 years. For capital-investment purposes, authorities frequently seek to equate the duration of a loan to the "life of the project", where a capital asset has a predictable life-expectancy. Alternatively, the maturity is deduced from the level of debt charges which can be recovered annually through taxes and charges. In many cases, authorities operate a consolidated loans fund which borrows comprehensively from the market for all loan-finance purposes and then "lends out" to individual projects on standard terms which average out the prevailing amortization of the debt.

11. Ultimately, the maturity of loans depends upon what the market will stand, and the interests of the lender are paramount. A governmental or international loan fund will often seek to "turn over" its lending as rapidly as possible - with 10-year loans, for example - in order to increase the volume of development it is financing. A private or institutional investor will be influenced chiefly by two considerations - the prevailing market rates on short-term, medium-term and long-term lending and the timing of any liabilities (such as life-insurance annuities or pensions) which will have to be met by the funds invested.

12. There are several methods of repaying loans. The annuity method involves equal instalments, usually paid biannually through the life of the loan, combining repayment of capital and interest; the notional interest element will be great in the early instalments whereas the late instalments will be largely discharging the capital debt. In another method, interest only is paid during the life of the loan, the capital being repaid in full at maturity - the normal system with bond issues. This might be accompanied by a sinking fund to which the borrowing authority pays regular instalments, so that the capital to be repaid is accumulated over the life of the loan. Regrettably, history records many occasions when sinking funds have been raided to meet obligations which seem more pressing than the eventual redemption of a debt.

13. In between these methods are two "loading" methods, combining payments of interest and capital by instalment. "Front-end loading" involves repaying equal instalments of capital at regular intervals, together with the interest on the loan outstanding; the total instalment decreases progressively as the interest payments decrease. By the "rear-end loading" method, instalments of capital and interest increase progressively over the life of the loan, perhaps after an initial moratorium or grace period. Rear-end loading has two potential benefits: it can accentuate the effect of inflation in reducing the real burden of repayment and it can be helpful in providing a breathing space for a project to develop revenues to meet debt charges.

14. Interest rates on borrowings from the capital market will clearly be dictated by prevailing market conditions. Rates below prevailing market levels might appear in two situations. First, public loans are often floated at a discount, so that the potential yield includes both interest and the capital gain arising from the difference between purchase and redemption prices. Secondly, public-authority borrowing might carry some tax exemption which boosts its rate of return compared with fully taxed investments.

15. A government or international aid organization might consider charging rates of interest below market level. In such cases, a distinction is often made between "hard" loans on market terms and "soft" loans. "Softness" might consist of low or zero interest rates, a moratorium on repayment, an exceptional duration or some combination of these concessions. The repayment terms might depend on the project's revenue-producing potential or on the debt-servicing capacity of the jurisdiction to which the loan is made.

<u>Borrowing Capacity</u>

16. How much can an urban authority afford to borrow? A decision, by an authority, to borrow or, by higher levels, to permit it to do so has to be based upon some assessment of its capacity to service the debt. If the loan is "self-liquidating", i.e., for a direct income-earning investment, the concern would normally be only for the internal viability of the scheme and its potential rate of return. For projects which are not directly revenue-earning, capacity to borrow is often judged by some ratio - of the loan to the volume of outstanding debt or the volume of debt to annual revenues, for example. Some West German <u>Lander</u> and state governments in the United States of America limit local-authority borrowing, by setting a maximum percentage of current revenues devoted to debt servicing (15 percent being a common ceiling in Federal Republic of Germany). Borrowing by the largest Indian municipal corporations is limited to a fixed percentage of their

property tax base, i.e., the total assessed value of property subject to the tax.

17. If increasing debt charges have essentially to be met from ordinary current revenue, difficult judgements are clearly involved. It is often assumed that expenditure on infrastructure, such as roads or water supply, on agricultural development or, even, on public health will lead to an expansion in the economy which will automatically increase current revenues and finance the debt. These are seductive arguments but they are open to question on three counts. Does the particular investment financed by a loan actually lead to economic growth? How long does it take for such effects to materialize? Does such economic growth increase the specific revenues which the borrowing authority does or can exploit? A road scheme, for example, might result immediately in new building which increases the property tax base. An increase in industrial production might only be reflected in rising yields of indirect taxes; these might not benefit local-authority revenues, if they are paid to central government.

18. The only real indication of capacity to borrow is projection of recent trends in current revenue and estimation of the potential of any fiscal changes which have already been determined, e.g., a new tax, a reassessment or a tax transfer. Lending by the Jordan Cities and Villages Development Bank is being tied to projections of the gap between revenue and recurrent-expenditure commitments. The basis of this projection is given in the Annex to the Chapter.

19. In some cases, however, the purposes of borrowing are built into expenditure plans which have been approved by central government as part of a comprehensive system of central/local financial relationships. This means that the annual debt charges will be accepted as part of the expenditure qualifying for over-all grant support. The deficit-grant formula for West Bengal Municipalities includes provision for debt-servicing arising from the Calcutta Urban Development Programme.

<u>Central Credit Institutions for Urban Agencies</u>

20. Central institutions, specifically providing loan finance for urban authorities, deserve special mention, because of their number and distribution - a United Nations survey listed 33 such institutions in four continents in 1972 - and their actual or potential importance. The central function of providing a source of long-term or medium-term credit to provincial or local governments is common to all these institutions. Their organizational form varies, however, with some operating as banks, and others as loan boards, trusts or co-operative societies. The former might provide the full range of banking services to local government.

Their control and management also vary. Some institutions, such as the British Public Works Loans Board, the Kenya Local Authorities Loans Fund or the Japanese Finance Corporation for Local Public Enterprises, are constituted and supervised directly by the central government. Some have been instituted and subscribed directly by the local authorities, themselves - the Municipal Credit Bank of Belgium offering an example. Others are jointly owned and controlled by central and local governments. The Bank of Netherlands Municipalities is an incorporated company, with its capital subscribed by central and local governments Fundacomun, the Venezuelan Foundation for Community and Development, was created by central government, but municipalities were invited to contribute share capital and to be represented in management. The Belgian Municipal Bank has entirely created and owned by local authorities. Occasionally, as with the French Credit Foncier, share capital can also be attracted from private investors.

21. Share capital - whether from central or local government - is important in determining control of the institution and in guaranteeing the funds invested in it by the capital market, but it is rarely a source of the funds lent by these institutions. These are obtained from a variety of sources, with six being important.

22. The first category is capital obtained from central government. It takes several forms, including grants, loans, share capital and initial capitalization. In Colombia, the proceeds of a tax on distilled spirits accrue to the fund, and some Canadian provinces contribute the national health-insurance premia. Government social-security agencies in France are required to deposit reserves in the French Caisse des Depots et Consignations. Similar deposits in the Moroccan Caisse de Depot et de Gestion are used for loans to municipalities and local water, power and transport undertakings, through the Fonds d'Equipement Communal.

23. The second source of funds is local government itself. Contributions come from initial share capital or the deposit of reserves and pension funds. Several countries have required local authorities to deposit in the fund the proceeds of a particular tax (such as the alcoholic beverages tax in Guatemala) or a fixed percentage of total revenue, as in Thailand and Turkey.

24. A third source is the capital market, tapped through share capital, deposits, bond and debenture issues or (as in India) the premia on nationalized insurance or reinsurance.

25. A fourth source is a personal savings bank. The most notable example is the communal savings banks in Federal Republic of Germany which deposit their surplus balances in banks at state level. The Egyptian municipal savings banks have operated with similar success but on a modest scale.

26. Operating profits are another source of capital, where loan funds "revolve", the initial capital being increased by interest charges after paying administrative costs. The local authorities' loan funds in East Africa have accumulated capital in this manner since initial appropriations from the central government have not been subject to repayment or interest charges.

27. Lastly, international agencies such as the World Bank or bilateral donors, occasionally provide assistance to local development through such funds.

28. Some national institutions provide finance to both local authorities and other agencies for programmes within a specific sector. They might cater extensively, but not exclusively, to the needs of local government for capital. Prominent examples include the National Housing Bank in Brazil and the Housing and Urban Development Corporation of India which have provided loan capital for municipal investments in housing and related urban infrastructure.

29. Central credit institutions have several strong advantages as sources of loan finance for urban authorities. Most countries, at whatever stage of development, have a substantial capital market, consisting of private and institutional investors, such as pension funds, trusts and insurance societies, which are looking for secure outlets for investment, with guaranteed rates of return and fixed redemptions. A central credit institution has flexibility in timing its borrowing according to fluctuating market conditions and can concentrate expertise in playing the capital markets, so as to spread and reduce the administrative overheads of borrowing.

30. In some cases, these institutions provide not only loan finance but also technical assistance with the design and execution of development projects. The National Institute of Municipal Development in Colombia builds urban infrastructure, such as water-supply and sewerage facilities, itself and then transfers them to municipalities for operation and debt-servicing. The Housing and Urban Development Corporation of India accompanies its loans with model building designs and specifications, based on experience and research.

<u>Conclusion</u>

31. Borrowing is not a direct charge upon the taxpayer and is not susceptible to appraisal by the same criteria as taxes and charges, but how far public authorities should borrow is a highly controversial issue. There are several arguments in favour of loan finance. Borrowing accelerates development, since it frees investment from the limits of current revenue: to depend solely upon the excess of tax and operating revenues over operating expenses would often

severely curtail or eliminate long-term development by urban government. The additional investment through borrowing might generate extra current revenue directly or indirectly. Although borrowing normally involves interest charges as well as capital repayment, the burden of these is often eroded by inflation; indeed, if the rate of inflation exceeds the interest rate, it is cheapest, in real terms, to borrow money. The real burden of interest charges might also be discounted by the accelerated benefits of the project financed by loan.

32. Extensive borrowing by public authorities is criticized, however, on a number of counts. Taxpayers are not faced immediately with the full cost of loan-financed projects; this can weaken financial discipline and accountability. Low-priority or extravagant proposals might not get the hard scrutiny they would receive, if they involved raising taxes or economizing on other expenditure. Excessive borrowing, particularly at high interest rates, can build up a heavy burden of debt-servicing; irresponsible leaders can win cheap popularity or benefits for their supporters by indulging in investment which exceeds any reasonable expectation of increases in revenue.

33. There has been growing concern, in some countries, about the contribution of public-sector borrowing to inflation, where much of this borrowing has been financed by the Central Bank. It is also argued that the security, the guaranteed interest rates and the fixed redemptions attached to public borrowing attract investment, particularly from institutional sources, such as pension funds and insurance companies, which would, otherwise, have to seek outlets in commercial and industrial enterprise: in this way, the productive base of the economy is weakened. Any financial saving to the present generation of taxpayers by passing on capital costs to the future might be more than offset by the economic burden of inflation and the starvation of commercial and industrial investment arising from excessive public sector borrowing.

34. To state the arguments is not to attempt a resolution: this is only possible case by case. Some systems of urban government borrow too much; others could borrow more than they do. What matters is the general scale of borrowing and the care with which individual loan projects are appraised. Insofar as it controls the scale of local-government borrowing or access to loans, national government can use borrowing as an instrument for the achievement of national plans and goals.

ANNEX

Until 1985, the Cities and Villages Development Bank of Jordan calculated municipal borrowing-capacity on the basis that debt service should not exceed 80 percent of each authority's allocation from a national revenue-sharing pool. This was not a realistic guide, however, since the national revenue allocation varied considerably as a proportion of municipal revenue. For those municipalities heavily dependent on the allocation, 80 percent was far too high a percentage to commit to debt service; but, conversely, authorities with substantial other revenue sources could afford a large volume of borrowing.

In 1985, the Bank introduced a projection of resources available to meet new debt. This was calculated, in the case of each municipality, on the basis of:-

	Recurrent Revenues (including taxes, charges and revenue-sharing allocations) - projected according to current trends
Minus	Recurrent Expenditure (projected according to current trends)
Minus	Existing Debt Service (projected according to repayment schedules)
Minus	Outstanding Commitments on revenue-funded capital investments.
EQUALS	Resources available for new debt-service.

To provide a safety margin, new debt-service was then restricted to 75 percent of the projected resources available.

CHAPTER TEN

CASE STUDIES

A: LUKASA CITY COUNCIL:
Stage II - Revenue Estimation

Timing - Mid 1989

The Current Position

1. Stage I of the Case Study (Chapter two) reviewed the financial position of Lukasa CC at the beginning of 1989 and identified major financial problems which had to be tackled and reforms which would be needed.

2. As a result of the review there have been detailed negotiations between the Central Government and the LCC in which potential donors have also been involved. As a result, agreement has been reached on the following package of measures designed over a three-year period from 1990 to 1992, to restore the financial soundness of the LCC and to enable it to tackle major service deficiencies in the city, particularly in the areas of road maintenance and refuse collection.

    (a) A reassessment of property tax values has been carried out; the new assessment values will be brought into effect in 1990 but with some compensatory reduction in the rate of tax; tax rates will, however, be adjusted annually thereafter to maintain the real value of the tax until further revaluation; (the implications are set out in Appendix A).

    (b) Collection procedures for property tax and development levy will be tightened up with the introduction of an automatic computerized system of recording payments and taking action against defaulters. The LCC has accepted a target of improving collection efficiency of property tax by 3 percent *per annum*.

    (c) LCC has agreed to recover the cost of some (unspecified) services directly from the beneficiaries. For this purpose:

        (i) rents and charges are to be credited directly to the Department providing the service in question in the 1990 Budget, so that the net cost to general services is clearly shown;

        (ii) the rates of rents and charges are to be reviewed (see Appendix B).

(d) The formulae for recurrent and capital grants for the primary-education service have been revised w.e.f. 1990, (details are given in Appendix C).

(e) It has been agreed that the Municipal Loans Fund will make shillings 10 million available for LCC capital projects or equipment purchases in each of the years 1990, 1991 and 1992, subject to preparation of an acceptable capital programme. These loans will be repayable over a maximum of 15 years by equal instalments of capital and interest at 10 percent per annum.

(f) LCC has agreed to hold down spending on administrative overheads and to give priority to increased expenditure on refuse collection and road improvement and maintenance. The Municipal Loans Fund allocation may be used partly for purchase of new road plant and refuse vehicles, but LCC is to create provision for a Renewals Fund within its Recurrent Budget.

(g) LCC will attempt to increase the annual revenue surplus available for capital expenditure, by improved revenue mobilization and restraint on recurrent spending outside the priority areas.

(h) LCC will take responsibility for slum-improvement programmes from 1990. Current plans are to improve 250 acres over the next five years at an average capital cost of shillings 40,000 per acre.

(i) LCC agrees to bring the Housing Account back into credit by 1992 by phased rent increases.

Assignment

3. To comply with these arrangements LCC now has to submit forecasts of revenue and expenditure over the three-year period 1990-1992. These will show, in particular, how it proposes:

(a) to improve its recurrent revenue performance;

(b) to eliminate existing short-term debt;

(c) to service increased borrowing from the Municipal Loans Fund; and

(d) to finance continuing growth of the primary-education service (in line with national targets) and improvements (operating or capital) in roads and refuse collection.

At this stage readers are asked to produce the revenue forecasts; (Expenditure forecasts will be made at

Stage III in Chapter 12).

4. They will need to produce the following statements in respect of the period 1990-1992:

   (a) Estimates of revenue from Property Tax, with proposals for tax rates (Appendix A);

   (b) Estimates of revenue from Rents a[illegible] Charges, with proposals for tariffs (Appendix B);

   (c) Estimates of revenue and expenditure on Education (see Appendix C);

   (d) Estimates of revenue from Development Levy (see Chapter Two paragraph 20(2);

   (e) Over-all projections of Recurrent and Capital Revenue under each Head (Performance for 1984-1988 is given in Appendix D, together with Revised Estimates for 1989) and

   (f) Proposals for phased rent increases on LCC Rental Housing Estates (based on data given in Chapter Two, Appendix D).

5. The Retail Price Index at 1 January 1989 stood at 149 (1/1/84 = 100), and inflation, during 1989, is estimated to have fallen to 3 percent. Allowance for inflation should be made in the 1990 projections, but forecasts for 1991 and 1992 should be made at constant (1990) prices.

Appendix A

Property Tax

1. Revenue from Property Tax for the period 1984-1989 has been as follows:

(... million shillings)

	1984	1985	1986	1987	1988	1989
Total Assessed Property Value	403.2	414.1	428.1	440.1	454.0	468.7
Rate of Tax	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
Total Tax Demand	70.6	72.5	74.9	77.0	79.4	82.0
Actual Collections:						
Current Year	54.3	56.5	56.9	57.0	58.0	In Progress
Arrears	2.3	3.5	4.4	6.0	5.3	In Progress
Total Revenue	56.6	60.0	61.3	63.0	63.3	

2. During 1989, a revaluation has been carried out. There has been, on average, a 320 percent growth in values since the last general assessment in 1974. As a result, the revised Total Assessed Value is Shs. 1,500 million as at mid-1989.

3. It has been agreed that the new 1989 Valuation Roll should be used for assessing property-tax liabilities in 1990. At the same time, however, tax rates will be reduced, to cushion the impact of the increased valuations on taxpayers. It has also been agreed that modest increases in tax rates should be made in succeeding years (i.e., 1991 onwards) to maintain the real value of the tax until the next general revaluation is undertaken.

4. It has also been agreed that LCC should aim to improve its collection efficiency by at least 3 percent *per annum*. For this purpose, a computerized system of records has been introduced. Automatic penalties have also been doubled for all payments more than six months in arrears.

5. Assignment

High and low forecasts of property-tax income over the years 1990-1992 should now be prepared, with varying assumptions on:-

(i) Growth of the property-tax base;

(ii) Rates of tax fixed for each year;

(iii) Collection efficiency.

(These assumptions need to be specified).

APPENDIX B

Rents and Charges

1. Revenue from Rents and Charges in 1988 (excluding those accruing to the Housing Fund) totalled Shs 7 million, arising from the following sources:

	Shs
Rents of Shops and Market Stalls	2,870,000
Abattoir Fees	490,000
Commercial refuse-collection Fees	960,000
Car-parking Fees	1,300,000
Sports Centre Entrance Fees	750,000
Zoological Garden Entrance Fees	200,000
Community Centre Hire Charges	150,000
Staff Housing Rents	280,000
	7,000,000

Details of individual charges are given below.

2. Rents of Shops and Market Stalls

The LCC owns and rents blocks of shops and markets. It divides its tariff into two grades, according to location:

Grade I: Central Business District and High-income Residential Suburbs;

Grade II: Other Areas.

Its current (1989) tariff is as follows:

	Grade	No of Properties	Size (sq metres)	Annual Rent (Shs per sq metre)	Total Shs per property
Shops	I	8	40	2000	80,000
	I	15	20	1800	36,000
	II	16	20	1600	32,000
	II	40	10	1400	14,000
Market	I	50	6	800	4,800
Stalls	II	140	6	600	3,600

Actual revenue in 1988 was Shs 2,870,000, which included notional shortfalls of Shs 126,000 due to temporary vacancies and arrears.
The rents were last revised in 1984. Current private-sector

commercial rents are in the range:

Grade I areas: Shs. 2000-5000 per square metre;
Grade II areas: Shs. 1000-2400 per square metre;

(depending on exact location and standards of construction etc.).

Shops and markets are administered by the Markets division of the Finance Department. Established costs of the Division in 1989 are:

	Shs
Salaries and Wages	400,000
Maintenance	330,000
Debt Charges	1,530,000
	2,300,000

3. Abattoir Fees

The Public Health Department provides the abattoir buildings and inspection, although slaughtering is carried out by commercial butchers who use the facilities. Fees are charged for use of the premises and inspection as follows:

Shs 10 per cow
Shs 5 per sheep or goat

Revenue in 1988 totalled Shs 490,000. The Department's costs in operating the abattoirs are estimated in 1989 as:

	Shs
Salaries and Wages	170,000
Maintenance	180,000
Debt Charges	200,000
	550,000

4. Commercial Refuse-collection Fees

The current fee for removal of refuse from industrial and commercial premises is Shs 4 per cwt, set in 1986. Revenue in 1988 was Shs 960,000. Approximately 25 percent of the total refuse collected comes from industrial and commercial premises; (total refuse collected is approximately 150 tons daily). The total recurrent cost of the service is estimated at Shs 19 million in 1989.

5. Car-parking Fees

The LCC collects fees from streetside parking meters, installed in 1972; (other car parks are provided by the private sector); the fee is Shs 2 per two hours. Revenue in 1988 was Shs 1,300,000.
Collection costs in 1989 are estimated at:

	Shs
Salaries and Wages	130,000
Maintenance	35,000
	165,000

6. Sport Centre Entrance Fees

Current entrance charges (last revised in 1982) are:

Annual Subscription: Shs 200 (entitling free entrance)

Daily Entrance: Swimming Pools:

Adults Shs 4
Children Shs 2

Other Sports:

Adults Shs 8
Children Shs 4

(Other sports include tennis, squash, badminton, volley-ball, and basketball). Total revenue in 1988 was Shs 750,000. Operating costs of the Sports Centres are estimated in 1989 as:

	Shs
Salaries and Wages	970,000
Maintenance	900,000
Debt Service	1,130,000
	3,000,000

7. Zoological Garden Entrance Fees

Entrance fees (last revised in 1984) are currently Shs 4 per adult and Shs 2 per child. Revenue in 1988 was Shs 200,000. Operating costs are estimated in 1989 at

	Shs
Salaries and Wages	370,000
Maintenance	290,000
	660,000

8. Community Centre Hire Charges

Charges are levied for hiring community centres for private functions (e.g., weddings). The fee, last revised in 1985, is Shs 80 per hour. Revenue in 1988 was Shs 150,000.

The total cost of operating community centres in 1989 is estimated at Shs 800,000.

9. Staff Housing Rents

LCC provides 150 houses for its employees. Rents are charged at 5 percent of salary. Total revenue in 1988 was Shs 280,000.

Costs of operating the Staff Housing Estates are estimated in 1989 at:

	Shs
Salaries and Wages	200,000
Maintenance	330,000
Debt Service	800,000
	1,330,000

10. Assignment

Rents and fees should now be reviewed, with a view to introducing any proposed increases in 1990. Recommendations should include:-

(1) Any proposed increases in tariffs;

(2) Reasons for proposing increases (or not proposing increases) in the case of each rent or charge;

(3) An estimate of increased revenue to be derived from any changes in tariffs.

APPENDIX C

Education Finance

1. As stated in Stage I brief, Lukasa City Council is responsible for providing primary education. The Government however provides grant aid which is supposed to meet 50 percent of recurrent costs and 66 percent of capital expenditure.

2. In fact, governmental grants have declined as a proportion of LCC expenditure on education, as shown in the following figures:

...million Shillings)

	1984	1985	1986	1987	1988	1989(Revised Estimate)
Recurrent Expenditure	25	33	41	48	56	66
Governmental Contribution	10	12	17	19	21	23
Capital Expenditure	10	17	20	20	23	27
Governmental Contribution	4	5	9	7	7	8

The reasons for this decline will be explained in the following paragraphs.

3. In 1984, Government's Recurrent Grant was based upon 50 percent of the following costs:

(a) Salaries for 1450 teachers, at an average of Shs 12,600 per annum. (The number of teachers was based on an enrolment of 58,000 pupils and a teacher/pupil ratio of 1:40);

(b) Non-salary costs, calculated at Shs.40 per pupil.

The actual number of teachers and enrolments corresponded with the Government's grant basis. LCC expenditure exceeded the grant-aided total, however, because:-

(a) LCC also employed 670 ancillary staff (caretakers, cleaners etc.), at an average wage of Shs 4,200 per annum, for which no grant aid was given;

(b) Non-salary/wage costs averaged Shs. 58 per pupil.

4. (a) In 1984, it was estimated that 85 percent of the children of primary-school age were enrolled. The Government launched an ambitious five year programme to provide primary-school places for 95 percent of the age group by 1989. Allowing for Lukasa's 5.2 percent annual age-group growth, the Government estimated enrolments in Lukasa at 83,700 pupils.

(b) During the 1984-1989 period, the Government also allowed a reduction in the teacher/pupil ratio to 1:37.5. While class sizes have been maintained at 40, this is meant to allow employment of supernumerary headmasters in large schools or part-time specialist teaching.

(c) By 1989, teacher salaries have risen on average to Shs. 18,780.

(d) The Recurrent Grant in 1989 is, therefore, calculated on 50 percent of:

2235 teachers, *i.e.*, $\frac{83,700}{37.5}$, at Shs. 18,780:	Shs 42 million
Non-salary Costs of 83,700 pupils at Shs 40 *per capita*:	Shs 3.3 million
Total	45 million

5. While LCC is receiving recurrent grant based on 50 percent of Shs. 45.3 million, its actual recurrent expenditure has risen to Shs 66 million in 1988 for the following reasons:

(a) Actual enrolments have risen to 96,000. This, LCC argues, is because substantial numbers of children attend Lukasa schools while living in areas outside the city boundaries (while governmental projections are based upon the city's resident population).

(b) LCC decided to reduce its teacher:pupil ratio to 1:35.

(c) LCC continues to employ ancillary staff for whom no grant is received. There are now 1,340 such staff at an average of Shs. 6,260 *per annum*.

(d) Non-salary/wage costs have risen to an average of Shs.69.40 per pupil.

The actual breakdown of expenditure in 1989 is, therefore:

	Shs
2,750 teachers, i.e., $\frac{96,000}{35}$, at Shs.18,780 =	51.6 million
1340 ancillary staff at Shs 6,260 p.a. =	8.4 million
Non-salary/wage costs (96,000xShs 69.4) =	6.6 million
Total	66.6 million

6. (a) Government's capital grant of Shs 8 million in 1989 is based upon accommodation for 170 extra classes (6,800 additional pupils at 40 per class) at Shs 44,000 per class (2/3rds of the estimated cost of shs 66,000 per class)

   (b) LCC actual expenditure of Shs 27 million in 1989 is based upon accommodation for 250 extra classes (9,600 additional pupils at 40 per class) at Shs 114,000 per class.

   (c) LCC argues (as over the recurrent grant) that the additional enrolments are due to children coming to city schools from outside the boundaries. It also argues that its unit cost of Shs 114,000 per class is much higher than the national average of Shs 66,000 because of the high construction standards and the high land-purchase costs associated with a large city location.

7. As part of the 1989 Review of LCC's financial position, the Government has accepted some changes in the funding of primary education to take effect in the 1990 financial year. These are as follows:

   (a) The 1989 enrolment of 96,000 pupils will be accepted as the base figure for calculating school population for grant purposes;

   (b) Increases in school population from 1990 to 1994 inclusive will be estimated on:-

      (i) annual population increases (the current rate of increase in the school age population in the Lukasa region is estimated at 5.1 percent *per annum*;

      (ii) a national target to increase the number of school places from 95 percent of the primary-school-age population in 1989 to 100 percent in 1994;

(c) Non-salary/wage costs will be estimated at Shs 60 per pupil for grant purposes.

(d) Capital costs will be estimated at Shs 90,000 for each additional class.

The Government will continue to meet 50 percent of recurrent and 66 percent of capital costs, based upon the projected enrolments and unit costs. It has refused, however, to include the cost of ancillary staff in its grant or to accept LCC's teacher:pupil ratio for grant purposes.

Assignment

8. It is now necessary to forecast LCC's recurrent and capital expenditure and its education recurrent and capital grant revenue for the three years 1990-1992. This should be done at constant 1988 prices (assuming 3 percent inflation in 1989).

APPENDIX D Financial Operations of LCC

Table I. LCC Total Revenue and Expenditure 1984-1989 (- million Shs)

Item	1984 Approved	1984 Actual	1985 Approved	1985 Actual	1986 Approved	1986 Actual	1987 Approved	1987 Actual	1988 Approved	1988 Actual	1989 Approved	1989 Revised Estimates
Recurrent Revenue	137	123	156	140	185	162	209	181	229	196	250	217
Capital Receipts	10	7	10	10	18	13	12	11	16	14	17	15
Total Revenue	147	130	166	150	203	175	221	192	245	210	267	232
Recurrent Expenditure	96	93	120	116	150	133	171	157	197	176	210	195
Capital Expenditure	51	43	46	44	53	51	50	43	48	41	57	42
Total Expenditure	147	136	166	160	203	184	221	200	245	217	267	237

Table II. LCC Revenue 1984-1989 (- million Shillings)

Recurrent Revenues	1984	1985	1986	1987	1988	1989
						Revised Estimates
Property Tax	56.5	60	61.0	63	63.5	64
Motor Vehicle Tax	25.0	31	39.0	48	60.0	75
Entertainment Tax	12.0	13	18.0	19	20.0	22
Licence Fees	8.0	9	12.0	16	16.5	18
Rent and Charges	4.5	6	5.5	6	7.0	7
Interest	3.0	4	4.0	4	3.0	3
Education Grants	10.0	12	17.0	19	21.0	23
Miscellaneous	4.0	5	5.5	6	5.0	5
Total Recurrent Revenues	123.0	140	162.0	181	196.0	217
<u>Capital Receipts</u>						
Loans	2	4	3	2	5	5
Grants	4	5	9	7	7	8
Sales of Capital Assets	1	1	1	2	2	2
Total Capital Receipts	7	10	13	11	14	15
TOTAL REVENUES	130	150	175	192	210	232

Table III. LCC Expenditure 1984-1989 (- million Shillings)

Recurrent Expenditure	1984	1985	1986	1987	1988	1989
						Revised Estimates
General Administration	3.5	5.0	6	8.5	12	13.0
Financial Administration	3.0	3.5		4.5	5	5.5
Education	25.0	33.0	41	48	56	66.5
Public Health	16.0	21.5	25	31	37	41.0
Solid Waste Management	13.0	16.0	17	18	18	19.0
Roads and Lighting	22.0	26.0	28	32	32	33.0
Fire	3.0	3.0	3	4	5	5.0
Libraries	2.0	2.0	2	3	3	3.0
Recreation	4.0	4.0	5	6	6	7.0
Social Welfare and Miscellaneous Services	1.5	2.0	2	2	2	2.0
Total Recurrent Expenditure	93.0	116.0	133	157	176	195.0
Capital Expenditure						
Education	10	17	20	20	23	27
Public Health	12	12	10	10	8	7
Solid Waste Management	4	2	1	1	-	-
Roads and Lighting	9	10	13	6	6	4
Fire	3	1	1	-	1	1
Libraries	1	-	1	1	-	-
Recreation	2	1	2	2	2	2
Social Welfare Administration and Miscellaneous Services	2	1	3	3	1	1
Total Capital Expenditure	43	44	51	43	41	42
TOTAL EXPENDITURE	136	160	184	200	217	237

B: LUKASA WATER SUPPLY

1. Lukasa water supply is inadequate for the growth of industry and population. The existing supply is a lake some 50 miles inland on the far side of the coastal hill range. Further supplies can be obtained from this source but only with additional pipes, pumping equipment, treatment plant etc. The City Council has asked the Central Government to negotiate an interntional loan for this purpose. You are part of a Central Government team appraising the application. To gain some impression of Lukasa's position, you have decided to compare its performance with that of Katete, which is generally regarded as one of the most efficient water authorities in the country.

2. Attached Tables I-IV are comparative financial statements for the Katete and Lukasa Water and Sewerage Departments. Katete's financial indicators for 1988 (calculated from Tables I, II, III) were as follows:

	%
Quick current ratio	2.8
Collection efficiency	80.0
Debt service coverage	12.0
Working ratio	36.0
Rate of return	10.5

Your team leader has asked you to:

a. Calculate the financial indicators in respect of the Lukasa Water and Sewerage Department.

b. Compare Lukasa's financial performance with that of Katete.

c. Suggest what steps might be necessary and in what order of priority to improve the Lukasa Department's position as a condition of additional loan capital.

Table I. Balance Sheets at 31/12/88

	Katete WSSD	Lukasa W&SB
ASSETS		
Current Assets		
Cash	369.90	57.73
Short-term Investment	656.00	-
Inventories	179.40	79.73
Accounts Receivable		
a) Consumers	293.70	130.53
b) Others	193.20	85.86
Other current assets	287.34	127.70
Total Current Assets	1979.54	481.55
Fixed Assets		
Book Value	3157.62	1296.72
Less Depreciation	1026.42	1013.40
Net Value	2131.20	283.32
Capital Work in Progress	855.60	380.00
Total Fixed Assets	2986.80	663.32
TOTAL ASSETS	4966.34	1144.87
LIABILITIES		
Current Liabilities		
Accounts payable	351.96	263.10
Deposits	177.42	78.85
Accrued Interest	13.00	5.79
Misc. Accrued Liabilities	103.38	45.95
Total Current Liabilities	645.76	393.69
Long-term Debt	863.32	461.11
Total Liabilities	1509.08	854.80
EQUITY		
Government Grant	497.94	221.30
Revaluation Surplus	475.38	-
Operational Surplus	1498.20	68.77
Equipment Renewals Funds	933.30	-
Misc. Surplus Funds	52.44	-
Total Equity	3457.26	290.07
TOTAL LIABILITIES AND EQUITY	4966.34	1144.87

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Table II. Statement of Revenue and Expenditure 1988 (Shs million)

	Katete WSSD	Lukasa WSB
Revenue	624.52	160.13
Operating Expenditure	226.64	153.40
Net (Operating) Income	397.88	6.73
Depreciation	85.14	37.85
Net Income after Depreciation	312.74	(31.12)
Debt Service	33.67	32.06
Net Surplus/Deficit Transferred to Reserves	279.63	(63.18)

Table III. Billing and Collections (Shs million)

	Katete WSSD		Lukasa WSD	
	Billings	Collections	Billings	Collections
1985	492.17	354.36	166.53	111.57
1986	505.65	369.12	176.10	119.75
1987	656.15	511.80	233.40	147.05
1988	780.65	624.52	250.20	160.12

Table IV. Summary of Operating Expenditure 1988 (Shs million)

	Katete WSSD	Lukasa WSD
Employee Costs	90.65	36.80
Chemicals	11.35	4.60
Repairs and Maintenance	31.75	13.80
Electricity	77.02	92.10
Miscellaneous	15.87	6.10
	226.64	153.40

Table V. Water and Sewerage Tariffs, 1989

	Katete Tariff	Katete % of Yield	Lukasa Tariff	Lukasa % of Yield
Water				
Metered Charges				
Domestic	Shs 6/10,000 litres	14	Shs 4/10,000 litres	18
Indutrial & Commercial	Shs 40-120/10,000 litres	42	Shs 30-90/10,000 litres	35
Metered Bulk Supplies	Shs 100/10,000 litres	3	Shs 80/10,000 litres	2
Non-metered Charges				
Water Benefit Tax	6% of RV	15	5% of RV	25
		74		80
Sewerage				
Metered Charges				
Domestic	50% of water charges	4	50% of water charges	3
Industrial & Commercial	50% of water charges	12	50% of water charges	7
Non-metered Charges				
Sewerage Benefit Tax	4% of RV	10	4% of RV	10
		26		20
		100		100

PART III: BUDGETING

CHAPTER ELEVEN

BUDGET FUNCTIONS AND FORMATS

Role of the Budget

1. The annual budget occupies the central place in the management process of virtually all systems of local government. The budget has several roles:

   (a) It is a plan for keeping the local authorities solvent, for ensuring that expenditure is covered by:-

      (i) existing reserves,
      (ii) revenue which can be realistically expected,
      (iii) loans which can be obtained and repaid.

   (b) It establishes priorities for the authority's services.

   (c) It allocates resources among the different activities of the local authority and determines the levels and directions of work to be undertaken during the budgetary period.

   (d) It determines, insofar as the law provides any discretion, levels of taxes, fees and charges to be collected by the local authority during the forthcoming year.

   (e) It provides the legal authorization for expenditure during the budgetary period.

   (f) It provides comprehensive information on the financial position and plans of the authority.

2. The budget has three dimensions:

   (a) a policy-making role in choosing how to allocate resources between outputs in terms of services, infrastructure etc., i.e., in deciding what the authority can hope to achieve;

   (b) a management role in allocating resources to particular agencies (departments etc.) to obtain the inputs (personnel, equipment, buildings etc) required to achieve the outputs;

   (c) a control role in giving legal authority to the local-authority personnel to collect and spend money, and in prescribing exactly who can spend how much on what.

Capital and Recurrent Budgets

3. A traditional form of budgeting normally contains separate estimates of capital and recurrent revenue/ expenditure. The capital budget is normally concerned with creation of long-term assets - roads, schools, water-treatment plants, tube wells. The recurrent budget (sometimes called the routine or revenue budget) is concerned with the regular operation of services, including the salaries, pension contributions etc of personnel, the purchase of short-life equipment, the costs of routine repair and maintenance, and the servicing (repayments of capital and interest) of long-term debt.

4. In this traditional form of budget, regular revenue - taxes, charges, fees, grants in aid - is credited to the recurrent budget. The only revenue credited directly to the capital budget would be loans or grants specifically for capital projects or receipts from the sale of capital assets - land, buildings etc. If recurrent revenue exceeds recurrent expenditure, a transfer might be made from recurrent to capital budgets, so that the surplus can be devoted to capital spending.

5. There are some variations on this traditional breakdown. In some countries, the capital budget is replaced by a development budget which includes spending which is recurrent by nature (e.g. staff costs, travel) but developmental in purpose. An extreme example is financing university scholarships from the development budget on the grounds that the skills of the graduate represent a permanent asset. The purpose of such classification may be largely cosmetic, but it can be a device for funding particular types of expenditure from sources, such as external aid or loans, which are not available for recurrent expenditure. There are, however, considerable dangers in such practices, since they can result in building up a scale of regular commitment, for example, on permanent staff costs or debt service, which is not adequately backed by reliable recurrent revenue.

6. There are also certain notable "grey areas" between capital and recurrent expenditure. Debt-service is sometimes shown as capital expenditure; it should, however, be included in the recurrent budget, if it is a charge against recurrent tax, charging or grant revenues. Vehicles and equipment with a medium-term life (e.g., typewriters) may also appear in either budget. If they form part of the normal operation of services, however, and will have to be replaced at the end of their useful life, it is best to include them in a recurrent budget; if this results in very "lumpy" patterns of expenditure, this can be overcome by operating a Renewals Fund, with replacement costs being charged to the budget in regular annual instalments over the estimated life of the asset.

Budget Classification

7. The traditional form of municipal budget is normally subdivided according to the organizational breakdown of the authority, i.e., into a hierarchy of departments/directorates, sections, subsections etc., so that the amount allocated to each unit and subunit to collect or spend is clearly stated. Recurrent expenditure is further subdivided into "line items" by object of expenditure, e.g., personnel costs, travel, utilities, supplies.

8. A different approach is attempted by Programme Performance Budgeting Systems (PPBS) which classify expenditures by objective rather than organization. Proponents of PPBS argue that the traditional budget is concerned with inputs rather than outputs; it does not allow decisionmakers to apply a true sense of priority to the allocation of funds, because it is not clear how much is spent on particular over-all purposes, e.g. , promotion of public health might be financed through a range of departments responsible for environmental health, water supplies and sanitation. A full PPBS groups expenditure by programmes serving objectives to which a number of operating units might contribute.

9. PPBS formats have proved complex to install, since budgeting across departmental boundaries presents control difficulties, defining objectives can cause controversy, and some expenditures serve more than one objective (policing, for example). A compromise approach widely adopted is to stick to conventional budgetary subdivisions by organization but

(a) to preface each department's estimates with a statement of objectives and output targets (e.g., "provide primary education for 90 percent of children in the age group 6-12"),

(b) to attach performance targets to the vote for each activity (e.g. "improve the percentage of refuse lorries in daily running order to 80 percent"), and/or

(c) to incorporate workload measures to show how variations in the funds allocated relate to variations in the work performed, e.g.,

Activity	Year	Estimated Expenditure	Premises to be Inspected
Food and Drugs	1987	Shs.50,000	536
Inspection	1988	Shs.53,000	571

10. A related problem is that of overheads. Although it might be clear that a department's whole expenditure is incurred on specific activities with specified objectives, workloads,

targets etc, these will also create costs for central departments providing administrative and technical support (personnel, accounting, internal audit, storekeeping, vehicle and building maintenance etc). Even the department's own central management might divide its attention between a number of "outputs". Internal recharging is often used to overcome this problem, so that all expenditure in the budget is charged to activities with a direct output of service to the public. This is described in Chapter Thirteen, paragraph 3 below.

<u>Budget Duration</u>

11. Local authorities traditionally budget for one year. This might be the maximum period for which revenue and service costs can be predicted with sufficient certainty to make firm decisions carrying legal authority for execution. There, are, however, a number of drawbacks to annual budgeting. Capital developments can rarely be completed within 12 months, yet commencement carries at least implied commitment to the full cost over two or more years and, also, to the extra recurrent costs of staffing, supplies etc which might follow completion. Borrowing also involves an obligation to service a debt over the life of the loan.

12. To meet these problems, at least partly, it is normal to show the full cost of a capital scheme in the budget, while only authorizing finally the amount to be spent on it over the budget year. An estimate of the future operating costs should also be included in the memorandum accompanying the budget, so that the full cost implications are shown. This should help the authority to see whether the scheme is affordable and, also, what trade-offs might exist between construction and maintenance costs. Very often apparent savings in capital costs have expensive consequences in recurrent operation.

13. Whether an authority can really afford the long-term consequences of decisions (i.e., in terms of either operating costs or debt service) will only be fully apparent from a multi-year forecast of over-all revenue and expenditure. This is often attempted on a rolling basis, i.e., the forecast always looks x years ahead (normally three years); each year, the forecast is revised to take into account inflation rates and other unpredictable changes, and rolled forward one further year. Legal authority only attaches, however, to the figures for the current or immediately following year; the further years' figures are provided for planning purposes.

<u>Single or Multiple Agency Budgets</u>

14. Some local authority activities might be funded, wholly or in part, from revenues which are specifically collected for that particular purpose, e.g., a consumer charge or a

special-purpose grant. It might also be the intention that such activities are "self-funding", i.e., paid for entirely by the users, so that any charge on the general tax-payer should be limited and, therefore, clearly shown and monitored. For such purposes, budgets must clearly show the relationship between the expenditure, its related revenue sources and any subsidy from general revenue.

15. To achieve this degree of budgetary isolation or flexibility, local authorities often set up a subsidiary agency or enterprise to undertake a self-financing activity, such as a water-supply service, markets or public-transport service, with its own accounts, balances and budgets. Any subsidy from general revenue will be shown as a revenue item in the undertaking's budget and as an expenditure item in the parent authority's main budget.

16. Municipal activities with specific revenue sources might be too small or many to justify full separation from the main budget, and proliferation of separate accounts, balances and budgets makes it very difficult to obtain an over-all view of an authority's financial performance. A compromise approach is to operate "special accounts" or "undertakings" only for one or two self-financing services, such as water supply, but to show tied revenue resources as "appropriations in aid" with the relevant expenditure within the budget, e.g.,

	Shs.
Operation of sports centres	70,000
Less admissions fees and hire charges	25,000
Net General Fund expenditure	45,000

17. There is a further refinement to the relation of expenditure to specific revenue sources. The authorization of expenditure can be tied to the amount of actual revenue collected. In the sports centre example given above, the amount of expenditure authorized by the budget could be

(a) Shs.70,000, regardless of how much revenue is actually collected,

(b) Shs.45,000 plus the actual amount of revenue collected up to a maximum of shs.70,000, or

(c) Shs.45,000 plus the actual amount of revenue collected, however much.

Clearly options (b) and (c) provide the operating department with incentives to market a service and collect revenue efficiently, and also to vary expenditure in response to consumer demand. Option (a) would only be sensible where the service was a significant "public good" and the revenue generated largely fortuitous (e.g. fines for contravention of public-nuisance controls).

Budgetary Responsibilities and Stages

18. Budget preparation normally involves a series of stages:

    (a) Submission of first draft estimates of revenue and expenditure in respect of each organizational division and subdivision.

    (b) Scrutiny of departmental submissions by the central budget staff and initial discussion with the departments. Analysis will focus initially upon the accuracy of the estimates, in terms of costing and legality, but will also seek to establish a sense of justification and priority for proposed increases as well as the possibility of economies.

    (c) Formulation of a draft comprehensive budget with options for revenue increases, expenditure increases/ reductions etc.

    (d) Executive decision on the final draft of the budget.

    (e) Enactment of the budget by the authority's governing body.

    (f) Approval of the budget, if required by law, by a central-government ministry or other supervisory body.

19. Responsibilities for these various stages vary according to the statutory and internal management framework of the local authority. Possibilities are:

    (a) Submission of first draft estimates:- Preparation might be by the operating departments or by central budgeting/accounting staff in consultation with them. Council committees might also discuss and approve drafts for services under their supervision at this stage.

    (b) Scrutiny of the drafts:- This is normally conducted by the central budget staff who might come under the chief executive (whether an elected Mayor or an appointed City Manager/Town Clerk/Municipal Commissioner) or under a chief finance officer (Treasurer, Director of Finance etc).

    (c) Formulation of a draft comprehensive budget with options:- This is normally the duty of the central budget staff. An assessment might be offered of the various options, both in terms of technical feasibility and over-all balance, but this must only be seen as assisting political choice not pre-empting it.

(d) Decision on the final draft of the budget:- This is by the Chief Executive, the Finance Committee or a "Cabinet" of senior political leaders (e.g., a Policy and Resources Committee, a City Commission).

(e) Enactment of the budget:- This is normally by an elected council.

(f) Approval of the budget:- This would be by a central or state government minister or by a provincial governor or commissioner, as required by law, but such approval is not invariably required. A supervisory authority might also scrutinize and comment on the budget before it is enacted.

20. In some countries, there is wide public participation in the budget process. Business firms, voluntary and charitable organizations, neighbourhood associations etc. will lobby the Council either for direct assistance or for extra expenditure on particular services. There might even be formal public hearings at which local-authority officials explain budget proposals, and members of the public have the opportunity to question them and voice opinions.

CHAPTER TWELVE

REVENUE ESTIMATION

Itemization

1. Revenue estimates should be itemized under individual taxes, charges, fees, loans, grants etc. Comparisons over time should be shown, including, in respect of each item, actual receipts in previous year, probable receipts during current year and estimated receipts in forthcoming year for which the budget is being formulated. For example, the 1988 Budget would show:

   Actual Revenue 1986
   Probable Revenue 1987
   Estimated Revenue 1988

The Existing Revenue Base

2. The first stage is to estimate revenue from existing sources on existing conditions, i.e., according to the existing tariffs, the existing rules about liability and assessment and the existing methods of collection. These estimates will normally be based upon projections of recent experience. It is important, however, to analyse each revenue item with regard to the specific factors which cause variations in yield from year to year. Tax yields might vary, for example,

   (a) with changes in the specific tax base, e.g., the number and size of buildings bearing a property tax or the number of vehicles subject to a registration tax, or

   (b) with fluctuations in the general economy, influencing the yield of revenues such as a local sales tax.

   Charging revenues will vary with the volume of service offered (if the service is always fully utilized) or demanded by the public. Once the causes of variation are understood, their impact upon revenue yields in the forthcoming year can be predicted. Above all, it is important to be realistic and to avoid the temptation to support authorization of increased expenditure simply by inflating revenue estimates beyond reasonable expectation.

3. It is then necessary to estimate what increases in revenue could be obtained by specific changes in the existing revenue sources. Such changes could be of several kinds:

   (a) Widening the scope of the tax or charge and increasing the number of people or transactions liable to the payment, e.g., by removing existing exemptions.

(b) Changing the assessment methods, so that some or all payers become liable for a higher rate of tax or charge than previously.

(c) Increasing the tariffs, i.e., the rates of tax or charge.

(d) Changing collection methods to reduce evasion or accelerate payment.

Changing the Revenue Base

4. The criteria for evaluating any proposals for specific changes are those already discussed in Chapters 5 and 6. As a first step, it is necessary to identify the underlying purpose of each revenue source, whether it is meant to be:-

(a) A contribution to general expenditure or a recovery of the cost of a particular service.

(b) If a recovery of a particular cost, whether it is meant to be a straight recovery of the cost, a recovery with profits, a recovery less an element of subsidy to all users or a recovery less a subsidy to certain classes of user (e.g., children, old people, the physically handicapped, the poor).

(c) A "flat" levy or a redistributive one, i.e., meant to fall more heavily upon the rich than the poor.

5. A second step is to appraise the recent performance of each revenue source. Two questions to be asked are:-

(a) In the case of a charge, have yields kept pace with the costs of the service for which it is levied?

(b) In the case of a tax, have yields grown at the same rate as the base upon which it is charged, e.g., have property tax yields kept pace with the growth of property and its value, have sales tax yields kept pace with the growth in local earnings, has a personal tax revenue grown in proportion to local population?

6. A further step in appraising the potential for changes, is to compare revenue yields with those in other comparable authorities. In the case of taxes, a per capita comparison might provide a quick indication of any striking contrast in performance; in the case of a charge, the comparison would have to be in terms of revenue per unit of service (per ton of commercial refuse collected, cubic metre of water supplied etc). Where another authority appears to achieve markedly high yields, it would be necessary to examine differences in coverage, tariffs, collection methods etc, to see where the greatest possibility of improvement lies.

7. Finally, consideration should be given to the possibility of introducing new sources of revenue, whether taxes or charges. Clearly, there are statutory, political and administrative obstacles to new revenues (these are usually greatest in respect of new taxes), and improving an existing source is usually easier than introducing a new one. Nevertheless, many municipal revenue bases are so narrow that the burden of financing urban services is unfairly distributed among the beneficiaries, and/or there is little hope of achieving the scale of increases needed to meet the demands of an expanding town.

8. The range of local revenue possibilities has been explored in Part II, together with the criteria for appraising them. These will not be repeated here.

Summary

9. This stage of revenue estimation will provide an initial estimate of the range of revenue expectations to be reconciled at a later stage, with expenditure estimates. The minimum will be the expectation from existing sources at existing levels (unless there is pressure for an actual cut in existing revenue charges) to which can be added the yields of different possible increases, ranked in order of their desirability and feasibility.

CHAPTER THIRTEEN

EXPENDITURE ESTIMATION

Itemization

1. As discussed in Chapter Eleven, it is normal to classify expenditure according to the departmental organization and, then, by the different activities undertaken within such divisions. In conventional budgeting, expenditure on an activity is further broken down into cost items, such as salaries and wages, transport costs, postal and telephone charges and supplies. Detailed costing of inputs will clearly be needed at the initial estimate stage, to support the proposed expenditure on each activity, but whether such level of detail should be incorporated in the final authorized estimates is more questionable. Too much detail might distract the attention of those approving the budget (particularly the Councillors) from the main choice of priorities; moreover, it might be considered to authorize lump-sum allocations to each activity, leaving spending departments with discretion to allocate money between different cost items while still serving the same purpose. Limitations can still be imposed upon particular types of cost which the authority wishes to control centrally, e.g., additional hiring of staff.

2. The alternative possibility of classifying budgets by objectives has been discussed in Chapter Eleven. Given the difficulties of a full PPBS approach, most systems of local government continue to subdivide the recurrent budget at least by operating department/agency, and, in the case of the service departments, it may be argued that those correspond to outputs such as education, recreation and public health.

3. An intermediate approach to this problem is that of "recharging". This practice relates to departments and sections, e.g., personnel, motor-transport pools, stores, which exist to service other departments rather than to provide a direct service to the public. A budget is prepared for such a section, but its expenditure is then recharged to the functional departments in proportion to their use of its services; these departmental charges are shown as revenue to the service department, cancelling out its expenditure, so that the cost of its work is shown as a net charge on the different functions of the organization. Clearly, such a process enables the decisionmaker to see the real costs of the functions of the organization, e.g., the real costs of education include not only the expenditure of the education department but also the costs of the central accounting staff who pay the teachers' salaries and the personnel staff who keep the teachers' employment records.

Recharging complicates the budgeting and accounting process and how far it can be practised depends upon the administrative capacity of the organization. There is also a danger that recharging reduces the accountability of the central departments, whose costs are offloaded onto the budgets of service departments which have no control over their level. Central departments might then be subject to insufficient budgetary scrutiny, because of a spurious appearance of self-financing.

The Existing Expenditure Base

4. Most governmental budgeting, central or local, tends to be on an incremental basis, i.e., existing costs are accepted as a base to which amounts are added for inflation, expansion in demand or improvements. The weakness of "incrementalism" is that it accepts the historic costs of a service as given and does not examine such questions as:-

   (a) Is the service provided by the expenditure still justifiable or of sufficient priority to merit its current share of resources?

   (b) Is the service fairly distributed among its consumers? Geographical inequity is often prevalent in municipal services, particularly in roads, parks etc.

   (c) Is the service being performed efficiently and economically?

5. The alternative is to use a zero-base approach. This would ignore current provision and estimate expenditure from scratch, according to the following steps:-

   (a) Decide what kind of service is needed (e.g., refuse collection).

   (b) Set a standard of provision for the service (e.g., a twice weekly collection).

   (c) Estimate the unit costs of the service at this standard (e.g., Shs.5 per ton of refuse collected).

   (d) Estimate the quantity of service needed to meet the standards (e.g., removal of 100 tons of refuse per day).

   (e) Estimate the total expenditure needed to perform the service, multiplying the quantity of service by the unit costs (e.g., 100 tons of refuse per day at shs.5 per ton = 100 x 5 x 365 = Shs.182,500).

6. There are obvious difficulties in applying the zero-base approach to the whole of the municipal budget. It is

unlikely that the authority could undertake the amount of analysis required, since some services are much easier to define, in terms of standards, units of provision and unit costs, than others. Assessments of needs, standards and priorities are basically subjective; to define them all from scratch would lead to endless inconclusive debate, whereas definition might be easy to agree in a particular case, e.g., when a particular service is clearly perceived as substandard or when a choice of priority has to be made between a very limited range of "hard" options. Moreover, even if a zero-based budget was constructed, any variation from the historic pattern of expenditure would be difficult to achieve in the short term.

7. Nevertheless, the existing expenditure base should not be accepted without question. Possibilities of savings through increased efficiency need to be examined, questions need to be asked about the justification of a service or its level, and the distribution of the service, particularly geographical, needs to be examined. Unit-costing is a particularly valuable instrument in such examination, i.e., the expenditure per unit of service (e.g., Shs.x per ton of refuse collected, per kilometre of road maintained, per school pupil, per acre of park). Various comparisons of unit cost can be made:

(a) Between the local authority's services and those of other comparable authorities;

(b) Between the costs of services in different parts of the city, e.g., between different schools, different road maintenance gangs or different refuse-collection units;

(c) Between the costs of different departments incurring a similar type of expense, e.g., costs per mile of lorries;

(d) Between the costs of the same department and service over time, e.g., costs per ton of refuse collection over the past five years (after discounting inflation).

Some services might not be readily reducible to units of provision, because output is not easily quantifiable or there is no uniformity in the type of service provided. In such a case, comparison (between authorities or over time) of expenditure <u>per capita</u> might be a proxy measurement.

8. Comparisons of unit costs (or expenditure <u>per capita</u>) do not themselves prove anything. They simply indicate the areas of expenditure which need detailed examination. They raise such questions as:-

(a) If Authority A spends 50 percent less per ton in refuse collection than Authority B, are its collection methods more efficient and worth imitation? (There may be other explanations such as shorter distances to dumping sites or lower market wage rates).

(b) If costs per unit have been rising over time, is this due to improving quality (and is this a priority) or to lessening efficiency?

(c) If a service costs more in one part of the city than another, does this correspond with real public need?

9. Close analysis of all existing expenditure might not be possible in one budget preparation, and selectivity might be necessary. Simple comparisons of expenditure per capita at constant prices on each service either over time or between comparable authorities should provide an initial basis for selectivity. It should highlight expenditure fields where:-

(a) there is apparent scope for substantial economy through improvements in efficiency, or

(b) there is apparent underfinancing and need for increased investment (such conclusion would normally arise from a combination of financial analysis, public complaint and physical evidence of deteriorating service).

10. The existing expenditure base therefore needs some examination in terms of:-

(a) potential savings and improvements in efficiency,

(b) lessening public demand for the service, or

(c) desirable redistributions of costs to achieve an equitable provision of service.

Transfers of responsibility to other agencies might be another ground for saving; departments do not always reduce their staffing and other costs automatically when a task is removed. Savings might well be resisted through fear of the effect upon employment; however, in an expanding city, redeployment of staff might be possible to services where expenditure is justifiably rising.

Increases in Expenditure

11. Once the expenditure base has been determined, a number of potential increases have to be examined. The first set to be considered is of increases arising from inflation. In the absence of itemized information, these might have to be deduced from a general rate of inflation prevailing in the economy or in the organization. However, it would be most accurate to look at each type of cost, e.g., wages, building costs, fuel costs, general supplies, and project an individual rate of inflation for each of these according to

indices available. It is becoming common to include a general provision for inflation in expenditure estimates; however there is the danger that to include specific provision for inflation is inflationary in itself, e.g., by encouraging the demand for wage rises which the estimates themselves predict. The alternative in such a case is to include a budgetary surplus to cover anticipated rises in expenditure above the level authorized in the budget.

12. The next set of increases to be considered would be those arising from prior commitments by the local authority, i.e., those increases which are unavoidable. These might result from previous decisions; for example, if capital development is in progress, increases in expenditure might be committed in the following year under construction contracts, to repay part of the loan or interest upon it and to meet the operating expenses of the completed project. Alternatively, additional expenditure might be imposed on an authority because of the rising public demand for a service which it has an inescapable obligation to provide, e.g., coping with an increasing number of applications for planning consent or emptying the dustbins on a new housing estate. It is important to ensure, however, that the increases in expenditure proposed are in proportion to the increased amount of work involved and to take advantage, where possible, of economies in scale. In this respect, use should again be made of unit-costing.

13. The final set of increases to examine is that of uncommitted proposals for improvement or expansion of services, i.e., those involving expenditure which the authority still has the opportunity to reject or postpone. In examining these proposals, three basic questions have to be asked at this stage:

(a) Are the proposed improvements or expansions of work consistent with the priorities of the authority?

(b) What are the long term costs of the proposal? If it is accepted for the forthcoming year, will it commit the authority to heavy increases in following years?

(c) Is the extra expenditure sought commensurate with the increased amount of work proposed?

14. Uncommitted proposals for improvement/expansion of services have to be considered as part of an objective analysis of public-service needs. Needs are affected by:-

(a) Demographic trends, arising both from natural growth and migration, leading not only to changes in total population but also to its age distribution (in many developing-country cities, for example, the rate of increase of school-age children may be faster than that of the population as a whole);

(b) Economic trends leading to expansion or decline in particular types of business and employment, with its consequent demands upon infrastructure;

(c) Physical trends, leading to growth of urban settlements in particular localities but also to decay of existing settlements in others.

15. Planning expenditure to meet these needs requires both:-

(a) An inventory of existing deficits in the provision of services, and

(b) A forecast of changing demands for a service, both in its total provision and in its physical distribution through a city.

Where changes in provision are required to meet such needs, they cannot be achieved within a single year's budget. A medium-term plan of both capital and recurrent expenditure is required, so that realistic targets can be set for achieving required improvements and expansions over time. Such plans might not be necessary for all services - simply for those where large deficiencies exist and/or significant changes in need can be anticipated.

16. Medium-term forecasts of expenditure needed for changes in service provision might well result in demands for funding at an unattainable level. Only medium-term forecasting, e.g., over three to five years, can provide the basis for such judgement and for assessment of the measures needed to overcome the problem. Solutions might include:-

(a) A fundamental reassessment of the standards of service provision, with substitution of low-cost solutions, (e.g., privies or septic tanks etc. for waterborne sewerage);

(b) Partial privatization, i.e., leaving certain types of service to be provided by the private sector (e.g., commercial refuse collection and disposal);

(c) A renegotiation of financial relations with central government, leading to central government

(i) undertaking more responsibilities itself than before,

(ii) assigning additional grant aid,

(iii) assigning additional revenue sources, or

(iv) revising statutory limitations on local taxing and charging powers.

Summary

17. To summarize, this stage of expenditure estimation will produce:-

(a) A base aggregate expenditure consisting of current expenditure

minus transfers of responsibility,
minus reductions in workload,
minus other economies,
plus inflationary increases,
plus committed increases in workload/obligation; and

(b) A set of proposals for uncommitted increases, preferably in rank order of priority.

This, together with the initial revenue estimates described in Chapter Twelve, provides the basis for the further stages devoted to balancing the recurrent budget.

Capital Budgeting

18. Capital-expenditure budgeting involves a variation in format. Expenditure is based on the phasing and progress of a single project over a number of years rather than on fixed allocations for fixed time periods. The estimates should, therefore, include details of the following:

(a) Total original estimate for the project,

(b) Total revised estimate, taking into account subsequent amendments and increases in cost,

(c) Total expenditure up to the end of the previous year,

(d) Total anticipated expenditure by the end of the current year,

(e) Anticipated expenditure during the forthcoming year (for which the budget has been formulated).

(f) Estimated unexpended balance of the project at the end of the forthcoming year.

19. Approval of recurrent expenditure is ultimately dependent on the reconciliation of over-all expenditure with over-all revenue. Capital expenditure, by contrast, is normally financed on a project-by-project basis. Revenue from recurrent budget surpluses, bond or stock issues or sale of capital assets might be available for capital expenditure,

but otherwise a source of funding has to be generated for each scheme.

20. Sources of capital finance include:-

(a) revenue surplus (i.e., over current expenditure),
(b) external loans (from banks, donors, loan authorities etc.),
(c) internal borrowing (against superannuation funds, renewals funds etc.),
(d) stock or bond issues,
(e) sales of assets (e.g., land, buildings etc.),
(f) hire-purchase/contractor finance.

The capital budget should clearly state the source of funds for each project. Authorization will, then, depend on the realization of the revenue source, e.g., a loan-funded scheme can only be commenced when the loan has been obtained. The exception relates to those projects financed from revenue surplus, i.e., from funds already at the authority's disposal at the time of budgeting. It is not always easy to predict exactly how much capital expenditure on a project will be completed within a financial year. Normally, unexpended balances will be automatically revoted in the following year's budget, assuming that these are supported by unexpended balances of the loans, grants, reserves etc. by which the scheme is financed.

21. Methods of appraising capital-expenditure proposals are not discussed here. They involve techniques of project appraisal which are the subject of separate publications and exercises.

CHAPTER FOURTEEN

BALANCING THE BUDGET

State of Reserves

1. The first question in balancing a budget is whether to estimate for surplus, break-even or deficit. This is partly determined by the state of the local authority's reserves. Reserves are needed:

   (a) to provide a cushion against a large unexpected demand for expenditure or shortfall in revenue (often resulting from natural calamity or a sudden downturn in the economy);

   (b) to insure against year-to-year fluctuations in revenue;

   (c) to provide working balances where expenditure tends to run ahead of revenue in time;

   (d) to accumulate resources to meet a large future commitment such as renewal of plant and buildings.

   Reserves must be reviewed at the beginning of the budgetary process; if they are considered inadequate, the authority should seek to replenish them by budgeting for a surplus of revenue over expenditure during the year. Alternatively, the authority can afford a deficit on its budget to the extent that its reserves are above the safety level. One option is to cover a budgetary deficit by external borrowing; there are (controversial) economic arguments for this practice, but it runs the risk of encouraging a level of expenditure and indebtedness which eventually outstrip the authority's capacity to service its loans and retain the confidence of potential lenders.

Self-financing Expenditure

2. A second stage is to distinguish self-financing from general fund expenditures (see Chapter Eleven, paragraphs 14-17). Items of expenditure which are supposed to be directly recoverable should be compared with the appropriate revenue estimates, and any net 'profit' or 'subsidy' should be carried forward to the general-revenue or expenditure totals, respectively. If expected revenue does not cover expenditure on such items, possible cuts in costs or increases in charges should be examined, to see if the subsidy from general revenue can be eliminated or reduced.

Other Approaches

3. At this stage, three options for balancing a budget can be considered:

(a) The first is to decide upon a total expenditure ceiling and direct each department to budget within a share of this, allotted in advance. Aggregate expenditure would be calculated after examining the state of reserves and revenue estimates, and deciding at what level revenue charges and taxes were to be fixed. The breakdown of this total into departmental allocations might be based upon a flat average increase over the current year's total: it is best, however, if allocations can incorporate some variation based upon priorities, with weightings based on a generalized statement of priorities or on agreed long-range forecasts of expenditure.

(b) The second approach is to call for revenue and expenditure estimates independently and then reconcile them stage by stage. At the first stage, the lowest-priority, uncommitted expenditure increases would be cut until aggregate expenditure was supportable by possible revenue collections. At the second stage, the merits of high-priority uncommitted increases would be compared with those revenue increases regarded as feasible but not necessarily desirable. A balance could then be struck. In a tight situation, however, the feasible revenue increases might only just cover committed expenditures, necessitating the elimination of all uncommitted proposals. If the budget can still not be balanced, economies in committed expenditure will have to be achieved; the normal approach would be to look for reductions in overhead expenditure first, but ultimately cuts in output and service might have to be considered.

(c) A third and intermediate approach is to establish an expenditure ceiling for each department after the first stage of reviewing estimates, i.e., cutting out the lowest-priority expenditures, then setting revenue levels and expenditure aggregates and passing the onus back to departments to achieve reductions necessary. This might be necessary where it is politically or administratively impossible for the financial managers to determine all the real opportunities for economy themselves. Departmental ceilings established at this stage can be weighted accurately to take account of the varying needs and commitments revealed by the first set of estimates, if there are no long-term forecasts as a guide.

4. Arbitrary cuts in overheads, freezing of staff vacancies etc. might be the only effective way of achieving economy. However, where cuts in output and are required, these need to be specified to be effective. Otherwise, the purpose of the economy can be evaded by postponing work, maintenance or payment of bills.

CHAPTER FIFTEEN

CASE STUDIES

A: LUKASA CITY COUNCIL:

Stage III - Expenditure Planning and Forecasting

Timing - Mid 1989

Introduction

1. In Stage II (Chapter 10A), a series of decisions concerning the reform of Lukasa City Council's finances have been announced. The LCC has been called upon to submit a forecast of revenue and expenditure over the next three years, 1990, 1991 and 1992, and to plan the systematic improvement of two services: road construction and maintenance, and refuse collection.

2. In Stage II improvements in revenue from property tax, development levy and charging have been planned, and three-year forecasts of revenue made.

Assignment

3. Readers should now turn to expenditure plans and forecasts. In particular they should now produce in respect of the period 1990-1992:

   (a) Financial plans (capital and recurrent) for improvements in road construction and maintenance (see Appendix A) and refuse collection (see Appendix B);

   (b) Over-all projections of Recurrent and Capital Expenditure under each Head, which should be compatible with the Revenue Forecasts and the Financial Plan for Education produced in Stage II (Chapter 10A).

4. Readers are reminded of the details of performance for 1984-1988 and the Revised Estimates for 1989 given in Appendix D of Stage II.

5. The Retail Price Index at 1 January 1989 stood at 149 (1/1/84 = 100), and inflation during 1989 is estimated to have fallen to 3 percent. Allowance for inflation should be made in the 1990 projections, but forecasts for 1991 and 1992 should be made at constant (1990) prices.

APPENDIX A

Roads and Lighting

1. LCC's City Engineer's Department is responsible for construction and maintenance of all roads, roadside drains, footpaths, bridges, street lighting, road signs and traffic signals.

2. The present road network is as follows:

Trunk Roads:	10 Kilometres	
Principal Roads:	40 Kilometres	
Distribution/ Local Roads	104 Kilometres	(70 asphalted and 30 gravel)

The basic road network has been sufficiently developed to carry the present traffic volume, except for the trunk road leading to the port which is heavily congested, particularly at intersections where through traffic competes with internal city traffic. However, road maintenance has become a problem due to underfunding, low-soil bearing capacities in marshy areas, flood proneness in certain areas and rapid increase in heavy container vehicles and other heavily loaded lorries going to the port and the industrial area. There has been a deterioration in road surfaces in recent years in the downtown area. Moreover, some unsurfaced roads in the hilly fringe areas are becoming impassable due to gully erosion.

3. Routine maintenance costs are estimated as follows:

	Trunk Roads Shs per km pa	Principal Roads Shs per km pa	Local Roads Shs per km pa
Cleaning drains and vegetation, maintaining shoulders etc.	40,000	20,000	10,000
Street-lighting operation	80,000	40,000	18,000
Traffic signs	20,000	20,000	6,000
Grading (gravel roads)			6,000

4. It has been agreed in principle, that efforts should be made to restore road surfaces to a reasonable state of repair over the next three years (1990 to 1992). A survey has shown that the following are needed:

	Trunk Roads kms	Principal Roads kms	Local Roads kms
Resealing	2	3	8
Resurfacing (asphalt)	3	11	18
Resurfacing (gravel)			15
Reconstruction	2	9	14

5. Resealing and resurfacing are normally carried out by direct labour. However, some work has been contracted out by public tender. Average comparative costs in 1988 were:

	Resealing Shs/km	Resurfacing (asphalt) Shs/km	Resurfacing (Gravel) Shs/km
Trunk Roads			
Direct Labour	400,000	2,000,000	
Contract	420,000	1,850,000	
Principal Roads			
Direct Labour	300,000	1,500,000	
Contract	280,000	1,400,000	
Local Roads			
Direct Labour	200,000	1,000,000	100,000
Contract	210,000	1,200,000	130,000

Reconstruction is contracted out by tender. Average costs are estimated at:

Trunk Roads	Shs 5,000,000 per km
Principal Roads	Shs 4,000,000 per km
Local Roads	Shs 2,400,000 per km

6. The Department's fleet of vehicles and equipment consists of:

Vehicle	Unit Replacement Cost Shs	Average Operating Life Years
2 Dump-trucks	1,000,000	5
1 Paver-finisher	2,000,000	10
2 Road-roller	1,400,000	10
1 Bulldozer	2,000,000	10
1 Grader	1,600,000	8

However, it is necessary to replace the grader and road-roller, and the Department should comply with the new policy of inserting renewal-fund contributions into the annual budget.

7. Operating costs are included in the maintenance costs of roads listed above). Departmental supervisory/overhead costs work out at 10 percent of operating and maintenance costs.

8. The details given so far relate to the maintenance and rehabilitation of the existing system. However, a number of new construction schemes have been identified as necessary over the next three year period. They are as follows:

(a) Segregation of the trunk road to the port from internal city traffic:

- Construction of two "flyover" junctions at Shs 20 million

- Construction of a 2-kilometre bypass at Shs 3.5 million per km.

(b) New residential and commercial areas:

- Construction of 10 kilometres of principal road at Shs 5 million per km.

- Construction of 35 kilometres of local road at Shs 3 million per km.

(c) Upgrading of street lighting:

16 km at Shs 10,000 per km.

(d) Traffic management improvements (new signals and junction improvements):

Shs 10 million

Assignment

9. A financial plan should be prepared for progressive improvement of the road system over the years 1990-1992.

APPENDIX B

Solid-waste Collection

1. The LCC's City Cleansing Department is responsible for solid-waste collection and disposal. Collection is twice weekly in most residential areas but daily in the central business district and suburban shopping and market areas. It is estimated that the city generates approximately 250 tons of refuse daily but that only 60 percent of this is collected currently. During the past five years the volume of refuse generated has been growing at approximately 7 percent *per annum*.

2. Collection is basically by lorry. One lorry is estimated to be able to remove 8 tons of refuse per day on average, making two round-trips to the dump sites. The LCC has a fleet of 20 trucks, but only 4 of these have been purchased during the past three years, and most are in need of constant repair. A new vehicle currently costs Shs 600,000; efficient running life is estimated at six years. It has been agreed in principle that vehicles beyond their useful life should be replaced and the fleet increased to a fully operational size over the three-year period, 1990 to 1992, and that contributions to a Renewals Fund should also be included in the annual expenditure budget, so that regular replacement will be possible thereafter.

3. Running costs of each lorry (fuel, insurance and maintenance) are estimated at Shs 150,000 *per annum*. Each lorry operates with a crew of one driver and five loaders. Drivers are paid Shs 12,000 *p.a.* on average, and loaders Shs 6,000. However, the labour force is maintained at 40 percent above daily operating requirements, to cover weekend working, sickness and leave.

4. Approximately 17,000 houses and small shops are located in old bazaar areas and squatter settlements, where the roads are too narrow for the refuse vehicles. In these areas, refuse (insofar as it is collected at all) is moved by pushcart or wheelbarrow to central collection points where it is loaded onto the lorries. These points are little more than piles of refuse on open sites, and much of the refuse blows away into the streets and drains both on the sites and in transit to them.

5. It has been decided to improve the collection in these areas by a series of measures:

   (a) Provision of large bins at the rate of one per five households. These bins cost Shs 200 each.

   (b) Daily collection of bins in pushcarts. It is estimated that 70 staff at Shs 6,000 *per annum* and 35 pushcarts at Shs 2,000 each are required for this purpose.

(c) Construction of 7 collection points where the refuse can be transferred to lorries. These would be properly fenced, with hardstanding, loading platforms etc., and would cost, on average, Shs 400,000 each.

6. Disposal is at dump sites on the edge of the city. Disposal costs are estimated to average Shs 20 per ton (including land purchase, labour and operation of bulldozers). Two bulldozers at dump sites are nearing the end of their useful life and becoming unreliable. Replacements are estimated to cost Shs 2 million each.

7. The Cleansing Department operates two vacuum tankers for emptying septic tanks. Running costs are Shs 160,000 per vehicle, plus Shs 28,000 per annum for the driver and crew. The tankers are adequate in number and in good repair, but it has been agreed that Renewal Fund contributions should be included in the annual budget in future, to cover eventual replacement. Tankers currently cost Shs 1,000,000 each and have an estimated running life of five years.

8. Finally, the Department is also responsible for street sweeping. 165 labour are employed at an average of Shs 6,000 per annum. Tools and other equipment cost Shs 400,000 per annum. Five watercarts are also employed for street cleaning. They cost Shs 800,000 each, with running costs (including labour) of Shs 170,000 per annum. Three watercarts are in reasonable repair; the other two are old and unreliable.

9. The Department's supervisory/overhead costs (i.e., central office costs, senior officers, foremen and clerical staff) are estimated at 10 percent of operating expenditure.

Assignment

10. A financial plan should be prepared for progressive improvement of the service over the years 1990-1992.

B: LUKASA CITY COUNCIL

Stage IV - Annual Budgeting

Timing - Late-1989

1. Budgeting for 1990 is now in progress. At Appendix A are Revised Estimates for 1989, at Appendix B is a summary of estimates of Recurrent Expenditure submitted by each Department for 1990, and at Appendix C is a summary of Capital Expenditure submissions. (Estimates for Education, Roads, Lighting and Solid-waste Management will be assumed to comply with the financial plans formulated in Stage III and IV).

2. A change of format has been adopted. Rents and charges are being credited as revenue to the Departments by which they are collected, and deducted from their Gross Expenditure. They are accordingly deleted from Recurrent Revenue.

Assignment

3. Imagine yourself to be the Treasurer of LCC. Draw up a memorandum to the Finance Committee:

   (a) providing Revenue estimates for 1990 (stating the assumptions on which they are based);

   (b) suggesting the recommendations to be made to the Council on the Estimates including:

      (i) Recurrent Expenditure totals for each Department,

      (ii) Which capital projects are to be included,

      (iii) The suggested rate of Property Tax for 1990,

      (iv) Any other changes in taxes or charges.

4. Your recommendations should refer and relate to the agreements with central government and the forecasts and revenue proposals made at Stages II and III. (Departmental proposals have been made on the basis of the current Rents and Charges).

APPENDIX A

LCC Revised Estimates, 1989 (General Fund only)

(... million Shillings)

Recurrent Revenues		Recurrent Expenditure	
Property Tax	64	General Administration	12.7
Development Levy	75	Financial Administration	2.6
Entertainments Tax	22	Education	66.5
Licence Fees	18	Public Health	40.6
Interest	3	Solid-waste Management	18.0
Education Grants	23	Roads and Lighting	31.7
Miscellaneous	5	Fire	5.0
	210	Libraries	3.0
		Recreation	6.0
		Social Welfare and Miscellaneous Services	1.9
TOTAL			188

Capital Receipts		Capital Expenditure	
Loans	5	Education	27
Grants	8	Public Health	1
Sales of Capital Assets	2	Solid-waste Management	0
	---	Medical Services	6
Total	15	Roads and Lighting	4
		Fire	1
		Libraries	0
		Recreation	2
		Social Welfare Administration and Miscellaneous Services	1
Total Revenue	225	Total Expenditure	230

N.B. These figures pertain to the 1989 Financial Year only and do not include the accumulated debit balance on the General Fund as at 31/12/88.

APPENDIX B

Budget Submissions for 1990 - Recurrent Expenditure

General Administration

	Revised Estimate 1989 (Shs)	Draft Estimate 1990(Shs)
Gross Expenditure	12,980,000	15,160,000
Less Revenue from Staff Housing Rents	280,000	300,000
Net General Fund Expenditure	12,700,000	14,860,000

Explanatory Notes:

Increased provision in 1990 is to cover higher salaries and running costs of existing establishments and services plus the following new proposals:

		Shs
(1)	Two additional Administrative Assistants to deal with expanding Committee workloads	80,000
(2)	Five additional clerk/typists	100,000
(3)	Installation of air conditioning in City Hall (on lease-hire)	1,350,000
		1,530,000

Financial Administration

	Revised Estimate 1989 Shs	Draft Estimate 1990 Shs
Gross Expenditure	5,470,000	6,380,000
Less Rents of Shops and Market Stalls	2,870,000	2,980,000
Net General Fund Expenditure	2,600,000	3,400,000

Explanatory Notes:

Increased provision in 1990 is to cover higher salaries and running costs of existing establishments and services plus the following new proposals:

		Shs
(1)	Operation of new Area Cash Offices (staff and other charges) built in 1989	400,000
(2)	Computer Operators for Property Tax Division	350,000
		750,000

Increases in rents from shops and market stalls are due to completion of new premises. Rents are charged according to the scale last revised in 1984.

Education

The revised estimate of expenditure for 1989 is Shs 66,500,000. Estimates for 1990 should be based on the Education Plan drawn up in Stage II.

Public Health

	Revised Estimate 1989 Shs	Draft Estimate 1990 Shs
Gross Expenditure	41,090,000	48,000,000
Less Revenue:		
Abattoir Fees	490,000	500,000
Net General Fund Expenditure	40,600,000	47,500,000

Explanatory Notes:

Increased provision in 1990 is to cover higher salaries and running costs of existing establishments and services, plus the following new proposals:

			Shs.	Shs.
(1)	Operation of 4 new Mass Immunization Centres (see Capital Estimates):			
		Staff	160,000	
		Other Charges	80,000	
		Vaccines	3,200,000	
			3,440,000	
(2)	Operation of new Health Centre (built in 1989):			
		Debt Charges	600,000	
		Staff	250,000	
		Drugs and Other Charges	200,000	
			1,050,000	
(3)	a 20 percent increase in drug provision to overcome existing shortages at LCC health units			1,300,000
(4)	Renewals Fund Contributions for Ambulances (calculated on a fleet of 5 vehicles with an average replacement cost of Shs 400,000 and running life of five years)			400,000
(5)	Purchase of medical equipment			400,000
				6,590,000

Revenue is based upon the following fees:

Abattoirs:	Shs 10 per head of cattle Shs 4 per head of other livestock (revised in 1985)

Solid-waste Management

	Shillings
Revised Estimate of Expenditure 1989:	18,960,000
Less Commercial Refuse-collection Fees:	960,000
Net General Fund Expenditure	18,000,000

Estimates for 1990 should be based upon the Plan for this service drawn up in Stage III.

Roads and Street Lighting

	Shillings
Revised Estimate of Expenditure 1989:	33,000,000
Less Car Parking Fees	1,300,000
Net General Fund Expenditure	31,700,000

Estimates for 1990 should be based upon the Plan for this service drawn up in Stage III.

Fire Protection

	Revised Estimates 1989 Shs	Draft Estimates 1990 Shs
General Fund Expenditure	5,000,000	5,750,000

Explanatory Notes:

Increased provision in 1990 is to cover higher salaries and running costs of the existing establishment and service, together with the following new proposal.

	Shs
Contribution to Renewals Fund for Fire Engines (calculated on 3 engines with an average replacement cost of Shs 1,200,000 and running life of six years)	600,000

Libraries

Revised Estimates 1989 (Shs)	Draft Estimates 1990 (Shs)
3,000,000	3,275,000

Explanatory Note:

Increased provision in 1990 is to cover higher salaries and running costs of the existing establishment and service, together with the following new proposals:

		Shhs
(1)	One extra staff member per library to allow libraries to remain open in the evenings	65,000
(2)	Restocking with purchase of 2,000 books at an average cost of Shs 60.	120,000
		185,000

Recreation

		Revised Estimates 1989 (Shs)		Draft Estimates 1990 (Shs)
Parks Expenditure		2,500,000		3,040,000
Sports Centres	3,000,000		4,900,000	
less entrance fees	750,000	2,250,000	1,000,000	3,900,000
Zoological Gardens	660,000		680,000	
less entrance fees	200,000	460,000	220,000	460,000
Grants to Cultural Associations		340,000		460,000
Net General fund Expenditure		6,000,000		7,860,000

Explanatory Notes:

Increased provision in 1990 is to cover higher salaries and running costs of the existing establishment and services, plus the following new proposals:

		Shs	Shs
(1)	Operation of new Sports Centre (Completed in 1989):		
	Debt Charges	1,000,000	
	Staffing and other Charges	800,000	1,800,000
(2)	Grants to new Amateur Drama Clubs		120,000
			1,100,000

Entrance Fees are as follows:

(1) Sports Centres: (Revised in 1982)
Annual Membership Shs 200
Daily: Swimming Shs 4 per Adult, Shs 2 per child
Other Sports Shs 8 per Adult, Shs 4 per child

(2) Zoological Gardens (Revised in 1984)
Daily: Shs 4 per adult
Shs 2 per child

Social Welfare and Miscellaneous

	Revised Estimates 1989 Shs	Draft Estimates 1990 Shs
Gross Expenditure	2,050,000	2,200,000
less Community Centre Hire Charges	160,000	160,000
Net General Fund Expenditure	1,900,000	2,040,000

Explanatory Notes:

Increased provision in 1990 is to cover higher salaries and running costs of the existing establishment and services, plus the following new proposals:

(1) Operation of new Craft Centres for the Physically Handicapped:

	Shs	Shs
Instructors	40,000	
Materials	40,000	80,000

Slum Improvement

A new Department is established with effect from 1/1/90 to supervise Slum-improvement Schemes. Estimated expenditures for 1990 are:

	Shs
Salaries	200,000
Other Charges	135,000
General Fund Expenditure	335,000

APPENDIX C

Capital Expenditure 1990 - Departmental Submissions

	Shillings
Education	
Per Stage II Financial Plan	
Public Health	
Construction of 10 Mass Immunization Centres at Shs 1 million each	4,000,000
Construction of one additional Health Centre (in new suburb) - 1st Phase	2,000,000
Replacement of 3 Ambulances	1,200,000
	7,200,000
Solid-waste Management	
Per Stage III Financial Plan	
Roads and Lighting	
Per Stage III Financial Plan	
Fire	
One new Fire Station (for new suburb)	10,000,000
Purchase of Radio Equipment	1,000,000
Replacement of three Fire Engines	1,200,000
Purchase of two extra Fire Engine	1,200,000
	13,400,000
Libraries	
Construction of new Library (for new suburbs)	1,000,000
Stocking of new Library	400,000
	1,400,000
Recreation	
New Parks (7 acres - Land Purchase and Landscaping)	700,000
Construction of new Football and Athletic Stadium	5,000,000
Construction of two new Swimming Pools (for new suburb)	8,000,000
Extension to Zoological Gardens	1,000,000
	14,700,000

Social Welfare, Administration and Miscellaneous Services

New Area Offices (i.e., zonal headquarters for LCC Departments, situated in new suburbs)	2,000,000
Extension to City Hall (to cope with expansion of LCC Departments and provide better facilities for Council members)	2,000,000
Additional Staff Housing	
2 Grade I Houses at Shs 900,000 each	
5 Grade III Houses at Shs 400,000 each	
40 Grade V Houses at Shs 100,000 each	4,100,000
Two New Area Cash Offices	1,000,000
	9,000,000

Slum Improvement

1st Phase - Improvement of 150 acres (Regularization of tenure, paving of access paths, drainage, lighting, security lighting, installation of communal toilets and standpipes, house electricity connections)	6,000,000

PART III FINANCIAL CONTROL

CHAPTER SIXTEEN

ACCOUNTING

Introduction

1. Every local authority needs a set of accounts which fulfil a number of purposes:

   (a) Provide an accurate record of transactions;

   (b) Ensure that all monies passing through its hands are properly accounted for;

   (c) Give up-to-date information on the progress of its budget;

   (d) Give a true picture of its state of solvency.

   This chapter does not attempt to explain how the accounts should be kept. Its purpose is to describe the accounting system so that those with over-all responsibilities for municipal finance can understand what financial statements should be kept and interpret the information they provide.

The Cash Book

2. The most elementary accounting record is a Cash Book which shows all receipts and payments, both in cash and through the authority's bank account, and reconciles these with the current cash and bank balances. This needs to be balanced daily and reconciled with the Bank's records at least monthly.

Ledger Accounts

3. An authority also needs to keep track of its budgetary progress. It needs to know how much has been received under each item of income and spent under each expenditure item, both for budgetary control and for making the next years budget. This information cannot easily be deduced from the cash book where receipts and payments under different items are arranged in chronological sequence. An authority, therefore, needs to keep an account for each revenue and expenditure budget item showing all receipts or payments under that item to date during the financial year and a running total. This is called a ledger account.

4. Not all financial transactions relate to the budget. An authority might advance money as a loan which is due to be repaid. It might for example lend money to an employee to

buy a vehicle, if he or she needs it for official duties: this is not expenditure in a budgetary sense, since it will be repaid. An authority might hold money on behalf of someone else, at least temporarily: it might hold the pension contributions for its staff pending their investment elsewhere; it might act as banker for community-development funds which belong to a neighbourhood group undertaking a voluntary project. It will need to keep a ledger account for each of these sets of transactions. The account for a loan, for example, will need to show the amount advanced, the repayments received and the outstanding balance.

Double-entry Bookkeeping

5. Keeping a cash book and a set of ledger accounts means practising a double-entry system, i.e., every transaction has to be recorded twice - once in the cash book and once in the respective ledger account. Not all ledger transactions, however, involve cash. A loan repayment might be deducted from an employee's salary without cash passing hands. No cash-book entry will be made (at least in respect of the deduction: the net salary after deduction of the repayment might involve a cash-book entry), but two ledger entries are required:

   (a) a charge (or "debit") to the salary expenditure item;

   (b) a receipt (or "credit") to the advance account.

   A "Journal" entry may be used to transfer money between Ledger Accounts in this way without a cash transaction.

The Balance Sheet

6. A budgetary transaction is, in essence permanent. Once a tax payment is received, for example, it belongs permanently to the authority and is not repayable to the payer. Once expenditure has been incurred on an employee's salary or a purchase of supplies, the money cannot be recovered. The "net worth" of an authority is the difference between its revenue and expenditure, often known as its General Fund Account Balance. If this is not in surplus, i.e., if accumulated expenditure has exceeded accumulated revenue, the authority is basically in debt.

7. However, at any given moment, the authority's cash position will probably not reflect its real "net worth", because it is affected by temporary factors. It might be:

   (a) inflated by deposits (or "creditors"), i.e., by sums it is holding for others; or

   (b) reduced by Advances (or "Debtors"), i.e., by loans to others not yet repaid.

The purpose of a Balance Sheet is to show the true position at a particular moment or at the end of a financial year. It is also to make sure that the cash and ledger accounts have been correctly kept, i.e., that they do balance. In a narrative form:

Cash and Bank Balances

+ Advances/Debtors
- <u>Deposits/Creditors</u>

= Net worth/General Balance.

If the accounts balance properly, the General Balance should equal the historic total of Revenue minus Expenditure.

8. An authority might not keep all its "liquid" assets in the form of bank and cash balances. Where resources are to be kept unspent for a substantial period - as a long-term reserve or for the eventual replacement of equipment, for example, - they might be invested in bonds or other interest-bearing outlets. Current assets might, therefore, include Cash, Bank Balances and Investments.

9. A further type of Current Asset is stocks of equipment, such as stationery or building materials, which have been purchased but not yet charged to a particular expenditure item. This occurs where it is economical to bulk-purchase goods to be used by several departments for different purposes and where it is impossible to charge the budget items accurately at the time of purchase. In such cases, expenditure is charged to a Stores Advance Account. When the goods are allocated to a particular department, their cost is then debited to the appropriate budget item and credited to the Stores Advance Account.

10. Bank accounts are often overdrawn. If this is the case, the bank balance should be shown, along with other creditors, on the liabilities side of the Balance Sheet.

11. An authority might decide to keep part of its revenue surplus aside for future expenditure. Examples might be a Sinking Fund to repay a loan which was subject to repayment in full on maturity or a Renewals Fund for replacement of vehicles or other equipment with a medium-term life. These are often known as Provisions. Contributions to such Funds would be charged to an expenditure item in the budget, and then credited to a ledger account for the Fund in question.

12. All these balances would be brought together in a Balance Sheet which would (with variations in title) appear as follows:

Liabilities and Surplus		Assets and Deficiencies	
Current Liabilities:			
Bank Overdraft	100	Cash and Bank Balances	200
Creditors/Deposits	150	Investments	500
		Debtors	150
		Stores Account	50
Provisions			
Renewals Fund	100		
General Fund Balance	550		
	900		900

Accruals

13. So far, we have described a system which is based upon cash transactions, i.e., revenue means taxes, fees etc. actually paid in cash; expenditure means salaries, invoices etc. paid in cash; advances means money lent to others in cash; deposits means money received and held on behalf of others in cash. This does not, however, present a full picture of an authority's financial position. At any given moment, there are revenues due which have not been paid. There are also commitments to payments which have not yet been made - orders for supplies which have not yet been invoiced, for example. It can be regarded as very misleading to show an authority as having a Balance of, say, Rs.3 million when it has ordered but not yet paid for supplies worth Rs.2 million; it does not really have Rs.3 million "at its disposal".

14. An ideal accounting system would, therefore, work on what is termed an "accruals" basis. Revenue is shown as received as soon as it is due, i.e., as soon as it has been demanded; expenditure is shown as soon as it is committed, e.g., as soon as an order has been placed. The problem, of course, is that entering revenue and expenditure in the ledger accounts on an accruals basis does not balance with the Cash Transactions. The only way the ledger accounts can still balance with the cash position is by:-

    (a) showing Revenue due as a debt to the authority until it is actually paid,

    (b) showing Expenditure received as a debt by the authority until it is paid.

15. This means recording two sets of transactions at different points in time. For example:

    (a) When a property tax is demanded from A, the amount is credited to the Property Tax Revenue item but debited (or charged) to a Debtors Account in the name of A. When A pays, the amount is recorded in the Cash Book receipts and credited to A's Debtor Ledger Account.

(b) When school books are ordered from B, the amount is debited to an Education expenditure item but credited to a Creditor's Account in the name of B. When the invoice is paid, the amount is recorded as a payment in the cash book, and B's creditor account is debited, i.e., reduced (or cleared altogether, as the case may be).

Again the double-entry principle is maintained. There must always be two balancing entries, either in the Cash Book and Ledger Account or in two Ledger Accounts.

16. An accruals system obviously presents a comprehensive picture of an Authority's accounts, but there are two problems. First, as soon as income is demanded, it is credited to the revenue item and, therefore, to the General Fund/Account Balances. This is all right as long as it is safe to assume that it will be paid reasonably promptly, but, if there is significant default, the totals shown under Revenue and in the General Balance will be unrealistically inflated, and the Debtors Account on the asset side of the Balance sheet will also be inflated by what are essentially "bad debts", ie., irrecoverable. The picture presented of the Authority's financial position will be unduly optimistic and, therefore, less rather than more accurate. The second problem with the Accruals system is that it is complex. The number of accounting transactions is doubled - in fact much more than doubled, since individual creditors and debtors accounts have to be opened for every supplier and contractor and every taxpayer. The chances of error and delay are multiplied, although less acute where accounting systems are computerised.

17. As a result, many systems of local government or individual local authorities do not adopt a full accruals system of accounting. There are, however, modified Accruals systems which are widespread. These basically operate on a Receipts and Payments basis but modify the Final Accounts of an authority in two respects:

(a) Any revenue due to an Authority in respect of a particular financial year and either (i) received after its end but before the closing of its books or (ii) absolutely certain of payment is credited to Revenue and debited to a Debtor Account at the Year End.

(b) Any expenditure committed but not paid at the Year End is charged to Expenditure and credited to Creditor Accounts in the Final Accounts.

A modified system effectively includes accruals in the final accounts but not in the running accounts during the year. Simplified version is not to reflect accruals at all in the ledger account and balance sheet but to append a footnote to the Balance Sheet with a statement of unpaid bills etc.

Capital Assets

18. It can be argued that the net worth of an authority is reflected not only in the balance of its revenue and expenditure but also in the value of its fixed assets - its land, buildings and permanent equipment. If this view is taken, the value of the Fixed Assets should be shown on the Balance Sheet of the Authority. This means that, once land, buildings or permanent equipment are purchased or constructed, their value should be entered in a Ledger Account, and the total value of Fixed Assets should appear on the Assets side of the Balance Sheet. This would then be reflected in the Fund Balances on the other "Liabilities and Surpluses" side of the Balance Sheet. It is usual, however, to distinguish between the reserves accruing from Revenue Surplus over Expenditure, i.e., the General Fund/Accounts Balance, and those reflecting capital assets.

19. Many capital assets, however, are purchased with the help of a loan. They cannot, therefore, be shown truthfully or wholly as part of the "worth" of the authority until those loans have been repaid. If the value of Fixed Assets is shown on the Assets side of the Balance Sheet, it is necessary to show on the Liabilities and Surpluses side two items:

    (a) Outstanding Balance of Loans,

    (b) Capital Discharged (i.e., the net worth of the Fixed Assets to the Authority after deducting the outstanding loans).

    The value of land, buildings and equipment does not remain the same as at the time they were originally purchased or constructed. Equipment usually depreciates with age, as it wears out or becomes obsolete. Land usually increases in value, with inflation or market shortage. Buildings are variable; physically they depreciate with age, but market changes may increase their value.

20. Changes in value should, therefore, be reflected in the accounts through an annual revaluation. Increases or decreases in value would need to be reflected in adjustments both to the value of Fixed Assets and to the balancing value of capital discharged in the ledger and in the Balance Sheet.

21. If fixed assets are "capitalized", i.e., their value brought to account in the local authority's financial statements,

the Balance Sheet described in paragraph 6 would be amplified as follows:

Liabilities and Surplus		Assets and Deficiencies	
Long-term Liabilities		Fixed Assets	3000
Loans Outstanding	1000	Current Assets:	
Current Liabilities		Cash & Bank	
Bank Overdraft	100	Balances	200
Creditors/Deposits	150	Debtors	150
Provisions		Stores Account	50
Renewals Fund	100		
Balances:			
General Fund	550	Investments	500
Capital Discharged	2000		
	3900		3900

22. An alternative, narrative form would show this as follows:

Fixed Assets (land, buildings and equipment)			3000
Current Assets:	Cash and Bank		200
	Investments		500
	Debtors		150
	Stores Account		50
			3900
Less Long-term Liabilities			
Loans outstanding		1000	
Current Liabilities:	Bank	100	
	Creditors	150	
		1250	1250
			2650
Less Provisions:	Renewals Fund		100
	NET RESOURCES		2550
+ Represented By SURPLUS:	Capital Discharged		2000
	General Fund		550
	NET WORTH		2550

23. As with an accruals system, the inclusion of fixed assets and their net worth in the financial statements of an authority creates a comprehensive picture of its affairs but it also creates problems. First, it complicates the accounting process. Assets have to be valued at the time of purchase and then revalued; additional ledger accounts have to be kept with annual balancing adjustments in respect of revaluations. Secondly, the information presented can be misleading. In commercial accounting, fixed assets are very much part of the practical "worth" of a company (they can be sold and traded), but the capital value of its assets is rarely of much practical financial value to a local authority, unless it actually has land or buildings which are surplus to its requirements. The fact that an authority has a school worth Rs 500,000 does not mean that

it can be sold to pay the teachers. Whether there is enough money to pay the teachers depends upon the relation of revenue to expenditure reflected in the General Fund Balance, and a large "Capital Discharged" figure can give a false picture of financial wellbeing. As with accruals systems, the capitalization of fixed assets is an element to add to an accounting system, if an authority has the skills to account for it accurately and to understand its real significance in its financial statements.

Conclusion

24. Accounts are little use, unless they balance and are up-to-date. Unless accounts have these two features, a local authority cannot be confident that its monies are being handled properly and cannot act in time to correct financial deficiencies. It follows that local government agencies should choose accounting systems which are within their capacity to keep up-to-date. It is better to use a simple system which can be kept up-to-date than a complex one which gets into arrears.

CHAPTER SEVENTEEN

BUDGETARY CONTROL

Purposes of Budgetary Control

1. Part III was concerned with the formulation of a budget; this Chapter is concerned with its implementation. Budgetary control has a number of purposes:

   (a) to ensure that the authority stays solvent, i.e., that expenditure does not exceed its revenues and reserves;

   (b) to ensure that revenue is collected and money spent legally, i.e., that it conforms with the limits authorized through the approval of the budget;

   (c) to ensure that the members of the public meet their legal obligations to pay for public services through taxes and charges;

   (d) to ensure that money is spent efficiently;

   (e) to ensure that money is handled honestly.

Responsibility

2. Budgetary control can only be effective, if personal responsibility for collecting from each revenue source and incurring expenditure under each budget item is clearly identified. After a budget has been approved, it is normal to issue some form of warrant to those authorized to incur expenditure, specifying the items of expenditure under their control and the approved provision under each. The degree of delegation of authority to incur expenditure varies between local-government systems and between individual or local authorities. There are roughly three patterns:

   (a) The Chief Executive (the Mayor, Commissioner, City Manager etc.) or the Financial Manager (Treasurer, Director of Finance, Chief Accountant etc.) has to authorize all expenditure and makes all payments; operating departments have to submit requisitions to him/her when they want to hire staff, order supplies etc.

   (b) The operating departments authorize expenditure within budgetary limits, but the central treasury makes all payments.

   (c) The operating departments authorize expenditure within budgetary limits and make payments.

A variation on (b) or (c) might require the approval of the Chief Executive, Financial Manager or a Committee for items of expenditure above stated amounts of money.

3. Clearly, much depends upon the size of the authority and the ability and trustworthiness of its staff. Generally, it is best to delegate authority to incur expenditure to operating departments within a voted budget, since -

   (a) it helps the department to plan its work,

   (b) it avoids delay in undertaking the departments work, and

   (c) it places responsibility squarely on the department to keep the scale of its commitments within the money voted to it.

   Centralized control can lead to irresponsibility, since the operating departments feel no obligation to be careful about the requisitions they submit, and the chief executive or treasurer lacks knowledge and time to scrutinize the bids he/she approves.

4. The same principles of delegation apply within operating departments. In a large authority, departments might have zonal branches which effectively supervise operations such as road maintenance or refuse collection in their particular areas of the city. There might be other clear operational subunits, such as schools, sports centres or large markets. There are considerable advantages in delegating responsibility for the control of expenditure to subunits, so that they can plan their operations and be held fully responsible for the efficient use of resources.

Budgetary Adjustments

5. Some variation in the budget is inevitable during the course of the year. It might be necessary for a spending department to seek an absolute increase in the amount of money allocated to it; this is usually known as a "supplementary estimate". Alternatively, it might be possible to reallocate money, so that overspending on one item is offset by underspending on another; this is known as "virement". Supplementary estimates almost invariably require approval by the authority's Chief Executive or Treasurer and, often, by its Council, since they affect the over-all budget and financial prospects, but discretion is often given for departments to authorize virements, perhaps within fixed financial limits. This discretion again speeds up work and encourages departments to accept responsibility for matching unexpected commitments in one direction with economies in another.

Revenue Control

6. Assessment of the amount of taxes, fees or charges to be paid by individuals must be conducted strictly and impartially. The aim is to charge the exact amount due to the authority - neither more (to swell the collections) nor less (out of favouritism or leniency). The assessor is usually acting in a judicial rather than a money-raising capacity, i.e., he or she is applying a given set of rules to the situation of individual payer. Random checks are necessary to verify the work of individual assessors and also the information supplied to them by the people being assessed.

7. Many taxes or charges include some provision for remission or exemption. These often benefit old people, school children or the physically handicapped, and, sometimes, those in low-income groups. Again, the rules must be strictly and impartially applied. Those responsible for granting exemptions must be aware of their underlying purpose; for example, poverty due to a physical handicap might be a good reason for exempting a taxpayer, but the physical handicap itself might not be a sufficient cause. Again, it is necessary to make random checks on the award of exemptions and remissions.

8. Progress in collecting revenue must be continuously monitored. A strict timetable must be set for each tax or charge, stipulating the period within which payment is due, intervals at which reminders are automatically sent to defaulters and the date at which legal proceedings or other sanctions (e.g., cutting off a water supply) will be taken, again automatically. In the case of taxes and charges for which people have a regular continuing liability, it is necessary to keep an account in respect of each payer, showing the amounts due, amounts paid and any outstanding balances due to the authority. These must be kept up-to-date, if payment is to be enforced strictly.

9. Apart from instituting a regular phased procedure applying to each individual liability, general progress checks are needed. Comparisons of the total amount or the percentage collected with a similar stage of previous years are helpful guides. If collections are falling significantly behind normal experience it will be important to verify the reasons as quickly as possible. The reason might be a decline in administrative effectiveness, requiring a general tightening up. Alternatively, it might be due to an external economic disturbance, which means adjusting the budgetary estimations as a whole.

Expenditure Control

10. Whoever is responsible for authorizing expenditure on a particular budget item must have regular and up-to-date information on the total amount spent and, therefore, the balance still available for commitment. This means that expenditure must be brought promptly to account in the authority's ledgers and that statements of spending to date must be provided regularly and promptly to those controlling expenditure on each item. Although an operating department might keep its own records of the expenditure it has authorized, it is important that this be reconciled regularly with the records in central accounts. It is, for example, important that departments should be aware of charges that are made to their votes without their prior authorization, such as central overhead charges, debt servicing, salaries or internal recharging.

11. Unless the local authority is operating a full accrual system of accounting (which is rare), ledger accounts might only reflect payments which have actually been made. The total of such payments is not, however, an adequate basis for calculating the amount "unspent" and available for fresh commitment. This is due to the usual time-lag between a decision to incur expenditure, e.g., by ordering supplies, and the consequent cash payment. It is, therefore, necessary for those authorizing expenditure to keep an accurate record of the commitments they have undertaken, so that they know the true unspent balance available to them. The cost of goods or services, for example, should be recorded as expenditure the moment they are ordered, rather than when the bill is paid, since the order effectively uses the money involved.

12. Before payments are made, they must be checked to ensure that no errors or fraud are involved. For example, wage and salary sheets need to be checked against establishment records, official wage levels and, often, against the physical presence of the labour force. Payments for goods need checking against agreed contract prices and stores records verifying receipt and location. Various procedures are used in different authorities, e.g.,

    (a) Payments have to be authorized by two people, one from the spending department and one from the treasury (possibly the internal audit section).

    (b) Cheques have to be signed by two people.

    (c) Wage and salary payments are made by a different section from that preparing the wage sheets etc.

13. Expenditure may be within approved limits and honest but still wasteful. It is the duty of the Treasury (usually

with the help of internal auditors) to check on the efficiency of the authority's expenditure. Example of the sorts of issue that often need to be investigated are:-

(a) Comparing costs of direct building and repairs with the use of contractors.

(b) Examining the running costs of and utilization of vehicles.

(c) Comparing the costs of means of reproducing documents - printing, photocopying, cyclostyling etc.

Chapter Nineteen discusses these processes in detail.

Monitoring Revenue and Expenditure

14. Revenue and expenditure levels under each item need to be reviewed regularly, to ensure that they conform to legal authority and that solvency is maintained. One can only judge progress at any point in the budget year, however, against an expectation of what levels of revenue and expenditure should be at that stage, if the budget is being implemented "according to plan". In some cases one would expect an even pattern of collection or spending throughout the year. This might apply, for example, to staff salaries (assuming all salary increases date from the beginning of the year) or to collection of rents on permanently leased shops or market stalls. However, in many cases, such patterns are either seasonal or lumpy. People might be required to pay property taxes or licence fees within so many months; market-fee income might be higher than normal during a harvesting season or surrounding an annual festival. Annual or biannual payments, such as insurance premia or debt-service charges, might lead to particularly heavy expenditure in certain months.

15. Budgetary progress can only be effectively monitored, if such irregularities in the expected pattern of revenue collection and expenditure are charted. This means drawing up a profile of collection and expenditure at the beginning of the budget year. A sample profile might be as follows:

Budget Item: <u>Road Maintenance</u>
Total Approved Expenditure: Shs.2 million

(Shs.'000)

Month	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Expected Expenditure	120	120	260	120	120	120	130	120	270	350	130	130
Total Expected Expenditure to date	120	240	500	620	740	860	990	1120	1390	1740	1870	2000
% of annual Budgeted Expenditure	6	12	25	31	37	43	49.5	56	69.5	87	93.5	100

The high level of expenditure from July to December might be due to the timing of the annual pay increase. Exceptional levels of spending in March and September might be based upon instalments of debt charges, while insurance premia and annual licensing fees for road machinery might be payable in October.

16. The amount actually spent at the end of any particular month can then be compared with the profile, to see whether any abnormality is occurring. Taking the example in the last paragraph, if expenditure at the end of six months was around Shs.1 million, i.e., 50 percent of the vote, it might easily be regarded as running at a "safe" level. However, comparison with the profile shows that such a level creates serious dangers of overspending, since more than 50 percent is required in the second half of the year, to cope with the exceptional commitments in September and October.

17. Regular reports of budgetary progress are required, to ensure that no serious deviations from the budget are taking place or that corrective action is taken. A variance analysis will provide senior executives with figures whose significance can be grasped quickly. This compares actual collections and current expenditure at a particular date with the level forecast for that stage of the year, and then shows a simple plus or minus variation on the forecast, e.g.,

	Forecast Expenditure at 31 March	Actual Expenditure at 31 March	Variance
General Administration	1.500,000	1,600,000	+100,000
Road Maintenance	3,700,000	3,500,000	-200,000
Public Health	2,600,000	2,850,000	+250,000
etc.	etc.	etc.	etc.

Budgetary Correction

18. Regular use of profiles and variance reports, as just described, should indicate items of revenue where serious shortfalls are likely or items of expenditure where overspending is likely, if current trends are sustained. When such trends become apparent, immediate investigation is needed to determine the cause and see what corrective action, if any, is needed. Investigation might throw up problems which can be readily corrected; for example delays in invoicing for revenue due or excessive ordering of supplies. In such cases, it should be sufficient to warn the department responsible of the need for corrective action. The important element is being aware of the trend early enough in the budget year for such action to be effective. On the other hand, investigation of revenue shortfalls or overspending might reveal causes which are unavoidable. Market-fee collection might be depressed because of a poor harvest; expenditure on drugs might be running high because of an epidemic.

19. Two questions then arise. First, in terms of overspending, is there need for immediate budgetary adjustment to authorize extra provision, preferably by virement, otherwise by supplementary estimate? Secondly, and more important, do trends in revenue collection and expenditure suggest that the budget is fundamentally off-course and that over-all expenditure is likely to exceed revenue? If such a deficit does seem likely, the next question is whether it can be covered by reserve balances or is going to land the authority in serious debt.

20. If a serious deficit is in prospect which cannot be covered by reserves, corrective action is clearly necessary. Again, the important thing is to be aware of the danger early enough to take action. Various steps can be considered, e.g.,

(a) postponing the start of capital development projects (though this may only help if they are financed by general revenue not from some specific grant or loan),

(b) freezing staff vacancies,

(c) subjecting all purchases of supplies and equipment to central scrutiny and approving only urgent needs,

(d) restricting service provision, e.g., early closing hours for libraries or parks.

None of these steps are desirable, but they may be essential if the financial crisis is to be averted. It is advisable to put the responsibility on the operating departments to make the economies, since they are likely to know best where potential savings lie.

CHAPTER EIGHTEEN

MISCELLANEOUS FINANCIAL CONTROLS

Introduction

1. This Chapter deals with a number of aspects of financial control which are not directly related to the execution of the budget. The term "treasurer" refers to the senior officer of a local authority responsible for financial management.

Control of Advances

2. Local authorities frequently advance money, to their staff, to their customers or to the public at large, which they expect to recover. Examples are:

   (a) credit to farmers or businessmen to stimulate production;

   (b) loans to employees to buy vehicles or houses;

   (c) deferred-payment terms to people buying the authority's goods or services.

   Because these advances are recoverable, they are not regarded as expenditure and, often, not closely controlled. However, if they use the whole of the authority's cash, they might actually involve expenditure, if it involves borrowing cash (e.g., by taking a bank overdraft or issuing bonds) at a higher rate of interest than is charged to beneficiaries. If the advances are made at a rate of interest below that prevailing in the general market, the recipients are also being subsidized, in economic terms, out of public funds.

3. Advances, therefore, need careful control in three directions. First and most obviously, for strict control over repayments, these should be secured by banker's order or direct deduction from salaries. Procedures must be developed to spot default instantly and take action. Secondly, care must be taken that the over-all level of advances does not exceed the authority's capacity. Maximum limits need to be imposed upon the over-all level of advances at any given time and also upon the amounts of any individual advance. Thirdly the conditions upon which advances are made need strict control, i.e.,

   (a) the purpose,
   (b) the criteria,
   (c) the rates of interest charged,
   (d) the length of grace periods (if any),
   (e) the duration of the advance.

These conditions need to be compared with those available to borrowers on the open market; public organizations should only accord favourable treatment (if at all) to those deserving special consideration for reasons of social equity.

Reserve Funds and Investments

4. The purpose of reserve funds have been set out in Chapter 14. Reserve funds may be held:

   (a) as working balances,

   (b) as long-term "insurance" against unexpected expenditure or revenue shortfalls,

   (c) as provision for renewal of plant and equipment,

   (d) as provision for retirement benefits for employees,

   (e) as accumulated funds for future capital investment.

   The level of these funds clearly needs regular review, particularly when the authority is drawing up annual budgets. Care must be taken in interpreting the calculation of these funds shown in the balance sheets. There is a danger that the value of reserves can be inflated in the balance sheet, because the "assets" making up the reserves include either debts to the organization which are unlikely to be recovered or buildings, equipment etc. which are not really saleable.

5. Reserves are normally backed by a money surplus which is invested. Public-sector investments are normally in:

   (a) bank-deposit accounts - suitable for day-to-day, very short-term fluctuations in balances,

   (b) treasury bonds - suitable for balances available for short periods (normally 3-6 months),

   (c) long-term gilt-edged securities - suitable for long-term reserves, superannuation funds, renewals funds etc.

   Generally speaking, the longer the term of the investment, the higher the rate of interest. It is, therefore, necessary to select the type of investment with strict attention to the length of time before it is likely to be cashed in.

Staff Establishments and Emoluments

6. Most local authorities operate tight control over staff establishments and emoluments. Budgets prescribe not only the over-all amounts to be spent on salaries and wages but

also the numbers of staff to be employed in each post and grade and the salary scales, allowances etc. appropriate to each. Decisions on the appointment, grading, promotion etc. of individuals to posts are also hedged by divisions of responsibility and other safeguards. Controls in this area are particularly tight, because it is especially vulnerable to corruption and extravagance.

7. The treasurer is responsible for ensuring that departments adhere to the budgetary levels and scales and the establishment procedures governing staff employment and emoluments. It is, also, necessary to keep a careful watch on the utilization of manpower. Salaries and wages are normally the largest element of expenditure and, therefore, most liable to waste of public funds.

Purchases of Goods and Services

8. Control is necessary over the purchase of goods and services, to ensure that the local authority secures the best available balance of quality and cheapness, reaps the potential savings of bulk purchase and curbs corruption on the part of its members and staff. For these reasons, it is normal to "tender" for large-scale purchases of goods or services, i.e., to invite competitive bids from a range of potential suppliers. Such procedures usually govern:

   (a) supply of particular materials which are regularly acquired over the course of a year (e.g., cement, stationery, petrol);

   (b) undertaking of works (e.g. building or road construction) or provision of any service (e.g., architectural design or vehicle repairs) costing more than a fixed amount of money;

   (c) provision of insurance cover;

   (d) sale of assets (e.g., land, buildings etc) other than those regularly available to the public at fixed prices or charges.

   It is normal to publish a notice inviting tenders. This must have wide publicity and provide adequate notice. (There is a danger of collusion so that only one supplier favoured by officials gets the opportunity to submit a tender). It is normal to require submission of bills of quantity, in respect of large construction contracts, and of samples, in the case of supply of goods. Tenders should also specify the period within which the goods can be delivered or the works and services completed.

9. Authorities usually establish special bodies, e.g., Boards or Committees, to award contracts to tenderers. The

customary rule is that contracts should be given to the applicant quoting the best price. There may be reasons for deviating from this norm, particularly where there are doubts over quality or reliability, but it is important that the reasons for not accepting the lowest or highest tender, as the case may be, are clearly recorded. Full tender procedure might be inappropriate for small, irregular purchases of goods or services, but there might still be a requirement that the officials concerned should get more than one quotation (usually three) before deciding on the purchase.

10. Awards of tenders must be widely publicized within the authority, with details of prices, specifications and maximum periods for delivery. This is necessary to ensure that all departments know where they should obtain goods and services and on what conditions.

11. Contracts might have to provide for variation in the amount of work to be done or goods to be supplied, the length of time involved or the price to be charged. This applies particularly to large-scale construction contracts or the supply of goods subject, for example, to tax changes. Any provision for variations in price should, however, be geared to review at fixed intervals and related to official indices.

12. Contracts frequently include penalty clauses covering delays in performance. Construction contracts usually provide that a percentage of the contract sum be withheld for a period (e.g., six months to a year) as a guarantee for repair of any defects in the work which may appear after completion.

<u>Maintenance of Stores and Equipment</u>

13. The treasurer has a responsibility to ensure that stores and equipment are properly looked after. This involves adequate storage, maintenance of records showing their use and location, and security from theft and damage. Inspection is required regularly, to check that stores and equipment can be located and are in good condition. A distinction has to be made, in this respect, between durable and disposable goods, though some audit checks are needed on the rate of consumption of disposable commodities. Procedures are necessary for inspecting equipment and recommending disposal of that which has reached the end of its useful or economical life.

14. Advance bulk purchasing of goods held regularly and in quantity has clear advantages. It reduces delay in obtaining supplies and should earn some reduction in unit cost. There are disadvantages, however. Cash is converted into stores, with loss of interest; stores held over a long period can deteriorate or become obsolescent,

and the storekeepers, watchmen and space all cost money. A balance has to be struck between these considerations, and quantities ordered should relate to a high expectation of use over a reasonably short period of time.

Insurance

15. The treasurer is responsible for deciding on and arranging insurance cover of the authority's assets and liabilities. This can include:

(a) insurance of property (e.g., buildings, plant, vehicles, cash) against loss, theft, damage, or destruction, and

(b) insurance against legal liability to employees or third parties arising from accident or negligence.

Insurance cover might be mandatory or discretionary. In some cases, the law requires the authority to obtain insurance cover, e.g., for its vehicles. In other cases the treasurer will have to weigh up the costs of the cover against the risks. If, for example, the authority is located chiefly in one or two large buildings, insurance against fire etc. will probably be justified; but, if it owns a large number of small and scattered buildings, it might carry the risk itself, since damage would only affect a small percentage of the total property. One important but often neglected requirement is to see that all officials using their own vehicles on business have adequate and current vehicle insurance cover.

Management of Cash

16. Even though an authority budgets to balance revenue and expenditure over the course of a period (usually one year), there will always be temporary imbalances between cash coming in and going out. At some periods, cash receipts from taxes, sales, recoveries of debts etc. might be well above the average rate, and cash surpluses will build up temporarily. At other times, revenue might lag behind expenditure or abnormally large lump-sum payments might be due (e.g., on contracts or external debt service), and temporary cash shortages might occur.

17. It is important that the treasurer forsee and plan his cash flow. On the one hand, it is undesirable to accumulate large cash surpluses in safes, current accounts etc., because they pose a security risk and could earn substantial interest if invested. On the other hand the authority must have arrangements to cover its obligations during temporary periods of cash shortage by bank overdrafts, bond issues or other forms of borrowing.

18. It is advisable, therefore, to draw up a month-by-month (or even week-by-week) estimate of cash receipts and outgoings which will be based upon the budget but will allow for seasonal variations in the flow of income and expenditure, gained both from past experience and from knowledge of when exceptional lump-sum transactions are due. This will enable the treasurer to see how long any bank surpluses are likely to last and invest accordingly, or, alternatively, to arrange borrowing in advance to cover temporary cash deficits.

19. It is sometimes thought to be wrong in principle to have a bank overdraft. This is not the case. If a cash deficit is confined to a few months of the year, it will pay to invest working balances and incur a temporary overdraft, if the interest received over the full course of the year exceeds the interest paid on an overdraft for a short period.

20. The treasurer is also concerned with the day-to-day cash balances held within the authority. Since they are at risk and are also unproductive in terms of interest, regulations are required to ensure that sums kept in hand are at a minimum, and any excess promptly banked. The authority should stipulate the maximum sum which can be held at any cash office at a time.

21. Cash balances represent a temptation, and there must be strict precautions against embezzlement. These normally include the following:

    (a) daily reconciliation between receipts and payments and the balance in hand, checked by an official other than the cashier (and not the same official each day);

    (b) reconciliation at least monthly, between receipts, payments, cash balances and bank statements;

    (c) issue of receipts for all cash income, with counterfoils in case of sums which are not at a fixed level;

    (d) frequent surprise checks on cash books and balances;

    (e) opening of mail by two people and immediate recording of any cash remitted.

CHAPTER NINETEEN

AUDITING

What is Audit

1. The auditor has traditionally been involved in the checking of financial transactions. In such cases he would check on the work of anyone who has some involvement with accounting records, money or valuable goods - for example, a stock-keeper, storeman, debt collector or cashier. This type of auditing has traditionally been referred to as 'probity auditing'.

2. The auditor is also likely to be involved, these days, in examining the way management utilizes the resources of the organization. He will examine the structure of the organization, the way work is organized and the scope of that work, to determine whether the organization is spending public money in an economic, effective and efficient way. This type of auditing is frequently referred to as 'management auditing' or 'value-for-money auditing'.

Difference Between Internal Audit and External Audit

3. The main purpose of audit is to protect public money. To ensure this, part of the audit must be carried out by some organization which is independent of the local authority. This is known as 'external audit', and most public organizations are required by law to have an external audit carried out. In some cases, the external auditor will be a commercial firm of accountants, but, traditionally, it will be part of Central Government, e.g., the Government Auditor General, or part of a Ministry, e.g., Ministry of Local Government. In addition to the above requirement, some local authorities directly employ their own auditors. They are known as internal auditors and are normally responsible to a Chief Executive or Chief Financial Officer.

4. It is important to recognize the difference between these two types of audit, since although many of the techniques used will be the same, the emphasis might be different. The external auditor has to check that the final published accounts of the authority give a fair picture of the affairs of the authority. The internal auditor has no such responsibility and he will be concerned with preventing and detecting mistakes and fraud, e.g., stealing goods, not collecting the correct tax revenues, ensuring conformity with the budget approvals and making sure that the local authority is efficient and giving good value for money. His work can be regarded as complementary to that of the external auditor.

5. Because internal auditors are employed by the authority, the audit is taking place all the year round; this is known as a 'continuous audit'. The external audit, however, usually takes place once a year, just after the accounts have been completed, and is known as a 'final audit' or 'completed audit'. Sometimes, there will have been a visit by the external auditors before this, to do some of the work, and this is known as an 'interim audit'.

<u>External Audit</u>

6. The duties of the external auditor may be summarized as follows:

   (a) examine, inquire into and audit the accounts;

   (b) satisfy himself that all reasonable precautions have been taken to safeguard the proper collection of and accounting for moneys payable to the authority and the assets of the authority.

   (c) satisfy himself that the laws and regulations relating to the collection and payment of moneys by and to the authority have been duly observed; and

   (d) satisfy himself that all expenditure in the accounts of the authority is supported by sufficient evidence, i.e. authority, vouchers and proof of payment.

7. In carrying out these duties, the external auditor would specifically check for the following irregularities:

   (a) proper books and records not kept;

   (b) insufficient evidence of payment or authority to pay for significant items of expenditure;

   (c) expenditure incurred but not in the budget estimates;

   (d) insufficient precautions taken to safeguard the assets of the authority;

   (e) insufficient safeguards taken to ensure all money due to the authority is collected;

   (f) separate funds or accounts required by law not kept;

   (g) non-repayment of loans due to be repaid;

   (h) grants received incorrectly spent;

   (i) unsatisfactory internal control;

   (j) auditors' requirements not met, e.g., explanations not available, books not available;

(k) failure to show in the accounts any information required by the law.

8. Once the external auditor has completed his audit it is normal for him to issue an audit report. In many countries, this is required within a set period of the end of the financial year. In this report, he will indicate whether "the balance sheets and accounts reflect a true and fair view of the financial position of the authority and its transactions and of the results of its trading". He will also be expected to report on "any material loss or deficiency, whether resulting from the misconduct or of misappropriation by any person, or any other matter arising out of the audit which he considers to be of importance or special interest".

Internal Audit

9. Internal audit may be defined as follows:-

> "An internal audit is a review of operations and records, sometimes continuous, undertaken within a business by specially assigned staff. On accounting matters, the main objective of an internal audit is to assure management that the internal check and accounting system is effective in design and operation. Two essential features of an internal audit are that it should operate independent of the internal check and that, in no circumstances, should it divest anyone of the responsibilities placed upon him".

10. Internal control and internal check will be discussed shortly, but, briefly, internal check is the arrangement of work between employees, so that the work of one person automatically acts as a check on the work of another. Internal audit should not be part of the internal check and each employee is still just as responsible for his work as if internal audit did not exist. What internal audit should do, however, is to make sure that the systems of internal check are working and are adequate.

11. The objective of internal audit may therefore be summarized as follows:

(a) to keep the accountancy records in all departments of the authority under review and ensure that these are accurate, complete, up-to-date and suitable for the purpose;

(b) to ensure that possibilities of fraud, error and loss are reduced to a minimum, by installing proper systems of internal check, by adherence to accounting instructions and by compliance with financial regulations where they are in force;

(c) to assist management by constant examination of financial procedures, to ensure that they remain adequate for the purpose and that this purpose remains valid.

12. From all the above, it can be seen that internal audit does not form part of the system within an organization but works outside the system constantly reviewing and checking. It is very common for certain routine control functions, for example, the inspection of bills before payment or control of stationery, to be sited within the internal audit section for convenience. However, it should be remembered that this sort of function is not internal audit by the strict definition of the term and the procedure can lead to delays in processing documents. The involvement of audit would normally be in designing the internal control system and periodically checking that it is being adhered to.

13. The responsibility for internal audit has traditionally been with the Chief Financial Officer (CFO) of an organization. This is because:

(a) The CFO has the responsibility for the accurate recording of financial transactions and control of assets, so he needs to ensure that the extra protection afforded by internal audit is as strong as possible.

(b) In practical terms, the CFO is probably the only chief officer who has the expertise to direct the internal audit section. No other chief officer would have the necessary financial knowledge and expertise.

(c) Internal auditors must themselves be trained and experienced accountants, in order to understand the financial records and systems. If the internal audit section is within the department of the CFO, staff can be moved from financial accounting posts to audit posts and back again, thus ensuring a high standard of financial training and expertise. Rotation is also important as a precaution against corruption and abuse of the financial control systems.

14. There are, however, one or two difficulties about siting the internal audit section within the department of the CFO. If the internal auditors are protecting public money on behalf of taxpayers, perhaps they should be independent of the CFO who, after all, carries out very large financial transactions. If, for example, internal auditors find something wrong with the CFO's department, perhaps even a

fraud concerning the CFO himself, they might have difficulty in finding someone to report it to. One way around this problem is to make the internal audit section ultimately responsible to the Chief Executive or to allow the internal auditors to report to him or, even, directly to the Council or one of its committees, as happens in a number of Indian municipalities. In general, though, the vast majority of internal auditors report directly to the CFO and rely on financial regulations, internal control systems and the external auditor to protect themselves from any irregularities within the CFO's department.

Internal Control and Internal Check

15. Internal control is the cornerstone of audit work. The following definition of an Internal Control System shows precisely why internal control is important.

> "An internal control system is the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the organization in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of the records."

In other words, office procedures should be designed to reduce opportunities for fraud and error, for example, to have work so divided between officers that an error in the work of one would emerge in the work of another.

16. The following are examples of the types of control that should exist in a system of internal control:

(a) Structure. The structure of the organization should be clearly set out in writing, so that every member of staff has a clearly defined list of duties and responsibilities. Included should be the limits of authority for every member of staff and instructions for re-arrangement or delegation of duties in the event of members of staff being absent. The structure should also indicate the responsibilities for promoting, hiring and firing, and the responsibilities for training and supervision. If all members of staff know exactly what is required of them, there can be no excuse for failing to carry out their duties.

(b) Internal Check. This can be defined as "checks on day-to-day transactions which operate continuously as part of the routine system, whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors and frauds." A good example of internal check in operation is in some large stores where, instead of paying cash to the sales assistant for goods, payment is made to a separate cashier. As a general rule, internal check separates authorization and initiation of the transaction from custody of the assets involved and from documentation and recording of the transaction. Of all features of internal control, internal check is probably the most important.

(c) Authorization and Approval. The system should always require checks to be made of supporting documents before action on the next stage of the system. For example, no cheques should be written before examining the authority to pay, no invoices should be passed for payment without a suitable person authorizing them.

(d) Acknowledgement of Performance. Where the system requires an officer to check or examine something, for instance, a clerk inspecting an invoice before payment or a storekeeper checking that stock agrees with his stock records from time to time, it is important that something is done by that officer to put it on record that he has carried out the check. This can be done in the form of a rubber stamp or a signature, as long as it is traceable back to the officer who produced it.

(e) Protective Devices. These must be utilized to provide physical protection of assets. These will include:

(i) Safes for storage of cash and other valuables;

(ii) An adequate system of recording receipts, e.g., cash tills with some form of till roll, to enable a check to be made of the total amount entered in the till and the amount of cash in the till at the end of the day;

(iii) Physically secure premises for the protection of valuable stock and sensitive records.

(f) Review and Amendment of the System. These are necessary because, however well the systems of an organization are designed, they will not be effective unless they are carried out properly and constantly kept up to date. Management must also make sure that the systems themselves do not over-extend the administrative functions of the organization.

Systems Audit

17. One approach to auditing which has achieved prominence, viz, is the System Audit. This has three basic stages,

(a) Determine the system and record it,

(b) Evaluate the system,
(c) Test the system.

The normal method of documenting a system is by talking to all the people involved with it and documenting it by means of flowcharts, internal control questionnaires (ICQs), staff diagrams, notes and samples of forms and records used. The description of the system should be detailed and capable of being understood by other auditors.

18. Evaluation of the system places the greatest test on the auditor's experience, intelligence and commonsense. He must examine places where he would expect internal control to exist and try to discover ways in which the system could allow errors or fraud.

19. Finally, the transactions within the system have to be checked. In following actual examples through the system, the auditor is specifically looking to see whether or not officers are keeping to or complying with the system, as the auditor understands it.

Audit Files

20. Whether an auditor is carrying out an audit of a system or carrying out a full audit, he will keep files and notes to form a record of what went on in the past and to provide information for future audits. The sort of information to be included on an Audit file would include:-

(a) Permanent File:

- short description of the department or establishment,
- list of accounting records and personnel,
- organization plan,
- accounting instructions,
- standing instructions or special instructions from headquarters,
- correspondence with the Head of Department,
- any peculiarities of the audit.

(b) Current File:

- current systems descriptions, e.g., ICQ or flowchart,
- audit programme with results of the audit,

- lists of relevant statistics,

- copy of any financial statements,

- supporting information to show how items have been verified, e.g., bank balance, fixed assets,

- copies of correspondence concerning audit,

- list of queries that were found on previous audits and how they were resolved, with carry forwards, if necessary.

These lists are by no means exhaustive, and a random sample of any internal audit section's files will find many items not mentioned above. On a basic principle, the audit file should contain sufficient information for a competent auditor, who has never carried out that particular audit, to perform it.

Audit Techniques

21. These fall into the following:

(a) the use of audit programmes;

(b) vouching;

(c) test checking.

22. The Audit Programme is a programme of audit work, prepared in advance, which is carried out by the audit staff. It serves as a check list of what is to be done and a check list of what has been done.

23. Vouchers are documents which authorize transactions such as payment to a supplier, referring to the evidence supporting the transactions and bearing the signature(s) of those required to authorize it. They are the essential evidence to support the entries in cash books and ledgers. Vouching comprises the examination of transactions in conjunction with such evidence as will enable an auditor to be satisfied as to their validity and correctness and their complete and proper record in the books of account.

24. Vouching enables an auditor to go behind the books of account, trace entries to their sources and, so, to obtain information concerning the various items. Efficient vouching is the foundation of an audit, the success of which largely depends upon the thoroughness and skill with which the vouching is carried out. Neglect in this respect might result in fraud remaining undetected and in matters vitally affecting the accounts being passed without proper inquiry.

25. With vouching, it should be seen that:

(a) the voucher is addressed to the client;
(b) the date falls within the period covered by the audit;
(c) the voucher is authoritative evidence of the book entry in question;
(d) the particulars in the voucher agree with the nature of the transaction recorded in the books;
(e) any receipt is properly signed and on the authorized form of the payee where an official receipt is used;
(f) where an invoice is marked "copy", the original is not paid as well;
(g) receipt of goods is properly authenticated;
(h) the bank at which the cheque is cleared can be reconciled with the business address of creditor;
(i) charges are in accordance with the tender or quotation;
(j) there are no alterations on invoices;
(k) invoice is not a photostat;
(l) if a statement is used, the invoice to which it refers has not been paid.

As each voucher is passed, it should be cancelled by the auditor by means of a rubber stamp with dating attachment, in order to prevent its being produced again in support of another item. Notes should be made of missing vouchers, and inquiries made.

26. Test Checking and Sampling would normally be used where there are a large number of transactions of similar nature and there is a good system of internal check in existence. There are certain rules to be followed when applying this technique:-

(a) the sample must be selected at random (e.g., every tenth transaction);

(b) there must be a well-designed and well-controlled accounting system in operation;

(c) each item in the sample must be thoroughly examined, and irregularities fully checked out;

(d) the level of accuracy required from the sample must be decided before the test check starts (e.g., if past experience has shown an error rate in a series of transactions of 2 percent, the sample should produce a similar error rate);

(e) if the required level of accuracy is not found, transactions must be fully checked, and the test-check abandoned.

If possible, the test check should be supplemented by a total check, e.g., it might be possible to check the total amount of cash collected with the total amount banked.

27. Recording of checks in the books of account will be done by the auditor marking the item checked in some way, so that it is not checked again and so that items which have not been checked stand out. Every audit section has its own way of "ticking" which is usually done in some special colour, so that it is easily distinguishable from the normal marks made by the accounting officer. These marks made in the books, however, give the officers being audited a great deal of information about how the auditors have carried out their audit. Since surprise is a vital part of audit, it is good practice to make a part of each audit an "unrecorded audit", where no mark is made in the books. The officers being audited should be told that this happens regularly, so that they cannot tell from the lack of marks on the records whether they have been checked or not.

Audit of Income

28. Income can be divided into Cash and Credit, depending on whether it is received immediately for services or goods or only after an account has been rendered.

29. For Cash Income, the auditor's task is to ensure that the system provides evidence of the cash collected and that there is independent verification of the amount accounted for. The evidence normally takes the form of an acknowledgement, such as a receipt or ticket. However, in certain circumstances, provided there is some reliable and independent data available to control the income, e.g., stock records, the auditor should not necessarily insist on the issue of an acknowledgement.

30. The essential features of a sound system of internal control for cash income are as follows:-

   (a) stocks of tickets and receipts should be ordered, recorded and controlled by persons independent of those responsible for receiving the cash;

   (b) stocks of tickets and receipts in the hands of the cashier and his staff should be kept to a minimum;

   (c) receipts and tickets should be serially numbered, and their continuity should be checked before issue to the cashier;

   (d) receipts should be of the duplicate type;

   (e) receipts should indicate the nature of the remittance;

(f) spoilt or cancelled receipts should be attached to the office copy, and both copies should be clearly marked "cancelled";

(g) tickets should be cancelled after issue, to prevent their re-issue;

(h) there should be spot checks by an independent person, e.g., a public transport inspector, on tickets held by customers;

(i) cash registers or receipting machines should have an audit roll which should not be accessible to the cashier;

(j) where cash is collected from a machine, at least two people should be involved in the collecting and accounting process, unless the machine provides an effective, tamper-proof cross-check by recording numbers;

(k) notices should be prominently displayed at cash-collection points, requesting that receipts be obtained for cash handed to the cashier;

(l) there should be a frequent, independent reconciliation of cash banked with audit rolls or the value of receipts, tickets issued etc.;

(m) the cash responsibilities of an individual cashier should be clearly defined, e.g., by the avoidance of communal tills and by a proper discharge for cash transferred.

31. The auditor should check that all cash received by the cashier has been brought into account and properly recorded. In particular, the following tests should be carried out:-

(a) trace remittances received from the appropriate source record, e.g., duplicate receipts or cashier's paying-in vouchers, to the cash book;

(b) examine stocks of unused tickets and receipts;

(c) check readings on cash registers, receipting machines, turnstiles, vending machines etc.;

(d) carry out surprise cash checks, counting the cash in hand and reconciling it with collections since the last banking;

(e) make use of statistics to reveal areas for audit attention (e.g., compare current income with a previous period or in another authority);

(f) make spot checks to ensure that customers hold tickets and that tickets held have not been issued previously;

(g) examine used ticket boxes to check that tickets are not being re-used;

(h) carry out observations to ensure that, where appropriate, sales are properly rung up on cash registers.

32. When examining receipt books, the following rules should be followed:-

(a) see that all books issued are shown to you by reference to audit records;

(b) turn to the last receipt previously examined, indicated by the audit stamp;

(c) check continuity of serial numbers, add up each page (being careful about carry-forward totals), examine the dates, see that words and figures agree and trace total to cash account;

(d) stamp the last receipt which has been taken into account;

(e) make the necessary entry in the audit control record;

(f) examine receipts, to ensure that payments by cheque are clearly marked, and look at the paying-in slips to see whether the receipt number is quoted against all cheques;

(g) never leave receipt books lying about where they can be used by unauthorized persons;

(h) if there has been any alteration of receipts, ask to see the original (employees should be told that, if they make an error when writing out a receipt, they must cancel it and issue another);

(i) always see that, if a receipt has been cancelled, all copies, the original and duplicates, are retained in the receipt book and that they are clearly marked or stamped "cancelled";

(j) as a minimum check, look at the end of the book, whenever it comes into your possession, to see whether receipts have been issued from there, instead of in proper sequence.

33. For Credit Income, the auditor should examine the system and satisfy himself that accounts are promptly rendered for

regular sums due (e.g., local taxes or rents) or for goods supplied or work done, and that effective action is taken to collect the sums due. An adequate separation of duties is an essential part of the system of internal control. The auditor should examine the source records and other related records and satisfy himself that accounts are duly raised. Statistical comparisons can help to establish the completeness of the total due. The possibility of new sources of income arising and being misappropriated should be borne in mind.

34. The effectiveness of the collections system should be reviewed, and departures from standard recovery procedures should be investigated. Reasons and authority for write-offs and allowances should be examined. Arrears can be test-checked by direct inquiry of the debtors. The procedure for dealing with collection through courts and in respect of sums previously written off should be looked at.

35. Statistics are frequently used by auditors to check the amount of cash being collected by individual employees. These statistics will identify the level of income received when each employee has responsibility for collections and, thus, identify variations between employees. The statistics themselves will not be conclusive evidence of fraud but will put the auditor on his guard to check carefully the transactions of that employee.

36. A final point to make regarding the audit of income relates to the type of person made responsible for collecting money. Auditors should make a comparison of salary received and amount of money for which the officer is responsible and conditions in which he works. In particular, junior employees should not be made responsible for regular and substantial collections or be used as relief cashiers, and auditors should report cases where they think such practice exists. There are also substantial collections within local authorities where no receipting system is effective. A fraudulent collecting officer can quickly take advantage of this, if other controls are not instituted.

37. It is important that auditors should not themselves accept money for deposit. There might be times when this practice seems the easiest way of achieving one's end, but it can lead and has led to serious difficulty and should be avoided.

Audit of Expenditure

38. All services of a municipality are provided by expenditure of some sort and, while the implications of spending may be considered under an objective analysis, i.e. service by service, it is possible to look at the audit implications

subjectively, i.e. creditors payments, salaries and wages, stock and stores, inventories and contract audit.

39. Payment of creditors should have a clearly established system of internal check. However, the auditor will want to satisfy himself, from time to time, that the system is working satisfactorily. The essential features of a sound system are a proper division of duties and a sound certification procedure. A division of work into the following groups should provide an adequate level of internal check:

(a) requisitioning goods or work to be done;
(b) issuing orders;
(c) examining incoming goods and recording their receipt or recording receipt of a service;
(d) inspecting work done;
(e) certifying invoices for payment;
(f) recording payments;
(g) processing certified invoices for payment;
(h) dispatching the cheques.

The certification procedures should be clearly defined in the authority's regulations.

40. The auditor should select a number of payments for detailed examination and satisfy himself, by tracing through the various stages, that an adequate division of duties is maintained in practice and that the certifications accord with the authorized procedures. Attention should be given to procedures for controlling progress of invoices through various stages of certification and payment systems to ensure that only properly certified invoices are paid and to guard against the possibility of spurious invoices being added to a partly processed batch. Most payments will be made by cheque, and the auditor will want to be sure that there is a satisfactory control over the design, ordering, storing and use of these, particularly if presigned cheques are used. A fundamental rule will be that no person involved in processing payments should have access to cheques at any time.

41. Whilst the term Salaries and Wages is a useful sub-division of expenditure separate conditions apply to the calculation and payment of salaries and wages, respectively. However, certain audit principles operate over the whole field. The main danger of fraud is the introduction of a bogus employee who is then paid regularly by the otherwise efficient machine of the Finance Department. The following are the tasks connected with salaries and wages. Wherever possible, no one person should be responsible for the work contained in more than one of these areas during a payment cycle, e.g., week or month:-

(a) Appointments, transfers, promotion and dismissals,

(b) Certifying attendance - time and work done,
(c) Payroll preparation,
(d) Payment of salaries and wages.

As an additional check, the auditor might attend wages pay-outs, compare signatures for pay and examine any proxies. It should also be routine for auditors visiting a department or establishment to carry with them a list of staff members who are paid to work there and to try to verify their existence independently of the certifying officer.

42. Audit of stock and stores is approached in a different way by the external and internal auditor. The external auditor is concerned that the stock figure shown on the balance sheet be correct, but the internal auditor's concern is normally that of security and financial control. Stock is basically money in a different form, and very many frauds and other losses have occurred as a result of weaknesses in the stores system. Control procedures to look for are:

(a) goods must be properly ordered, with suitable authorization and a suitable system of knowing when and how much to order;

(b) goods must be checked when received into stores and kept secure at all times;

(c) proper stores records should be kept, showing goods ordered, issues made, write-offs and balance in stock at any time;

(d) all issues must be properly authorized and correctly charged out, using a suitable basis of pricing;

(e) quantities held in store must not be excessive, and stock levels should be realistic, regularly reviewed and observed in practice;

(f) returns to stores should be properly accounted for;

(g) if stock has become obsolete or worthless in any way, it must not have an asset value in the books of account, and procedure for disposal should be examined, including any possible means of realising scrap value.

Independent physical checks of stores items should be made regularly. The auditor should examine the record of these checks, verify the authority for any write-offs and physically check a sample of stocks himself.

43. The audit programme for a stores audit would be made along the following lines:

(a) test-check some invoices for goods ordered to go into the stores;

(b) test-check some stores records for arithmetical accuracy, and check goods-issued notes;

(c) verify that the correct procedure is being carried out for goods received, issued and returned;

(d) examine a sample of write-offs;

(e) test-check some records of goods in stock against actual physical stock;

(f) examine all stocktaking sheets, to see the extent of discrepancies;

(g) make sure that the stock records and prices correspond with the stock figures included in the financial accounts.

44. Contract Audit is an important area of the auditor's work, as most contracts involve large sums of money and, because of the complexity and size of most projects, they can be difficult to control. Because of the specialist nature of this area of audit work, some audit sections appoint a contract audit specialist who will or can be trained in some of the technical aspects of the work. The audit objectives with regard to contracts are as follows:

(a) Assessing and reporting on the adequacy of the authority's internal rules relating to contracts and associated financial regulations;

(b) Reviewing and reporting on the extent to which procedures comply with the policies and procedural rules of the authority;

(c) Reviewing the adequacy of systems for controlling the operation of contract works from initial planning stage to post-completion assessment;

(d) Reviewing and reporting on the extent to which management information is prompt, adequate, accurate and designed for the needs of all the users;

(e) Appraising the system for controlling and recording utilization of resources, including staff;

(f) Reviewing the use of consultants and agency services provided by other organizations;

(g) Monitoring arrangements for securing the authority's assets and recovering the cost of rechargeable works;

(h) Preventing and detecting fraud, error and impropriety; and

(i) Identifying losses due to waste, inefficiency etc., and recovering where appropriate.

45. Inventory is used to mean a record of furniture and equipment in use rather than in store. An inventory should be insisted upon in the financial regulations, and audit should make use of it in checking the existence of durable goods.

Fraud

46. There is no specific crime called "fraud". It is a term used to cover a number of types of crime - embezzlement, robbery, blackmail, obtaining money by false pretences - all of which are theft of one sort or another. Some examples of common fraud are:

(a) Making up the amount to be banked (or handed over) out of later receipts not shown as included in that banking, the process being repeated time after time (Thus, some cash received on 10 January might be stolen by the cashier who, when banking his collection for that day on 11 January, makes up the amount out of money received on 11 January and so on, day after day. This type of fraud is known as "teeming and lading" and can be very difficult to detect. It emphasizes the importance of performing cash checks of all cash at the establishment at the same time, so that no cash can be switched from one fund to another);

(b) failing to record cash sales;

(c) inserting fictitious payments in cash book;

(d) inserting fictitious names on a wages time-sheet, known as "dummy employees";

(e) pilfering stock;

(f) re-issuing used tickets at cinemas, car parks, etc.

47. When investigating a fraud, an auditor must tread warily, not only because of the potential publicity it might receive but also because it is likely to result in legal action, and the auditor must be ready to present his case and be cross-examined in court. The following guidelines are offered for fraud investigation:-

(a) At least two auditors should be present when conducting interviews,

(b) A written summary of interviews should be prepared, giving who was present, the date and the place and showing signatures of auditors (in no circumstances, should the suspect be asked to sign anything),

(c) Suspects should be treated carefully, to avoid the possibility of accusations of intimidation or duress,

(d) No inducements should be offered,

(e) Explanations should be invited by question, e.g., "Can you offer any explanation for ..?" etc.,

(f) Leading questions should not be asked,

(g) Charges should not be made against suspect,

(h) As soon as there are reasonable grounds for suspecting that the person has committed an offence, he must be cautioned that,

   (i) he is not obliged to say anything,
   (ii) anything said will be taken down and may be used in evidence in Court,
   (iii) he is entitled to legal representation,

(Unless this caution is administered, subsequent information obtained from him will not be admissable as evidence in court),

(i) A lawyer and the police should be brought in at an early stage,

(j) All facts should be double-checked, even when admissions of guilt have been obtained (admissions can be retracted later).

48. A fraud investigation can be a harassing and time-consuming business for the auditor as well as the suspect. Therefore, it is cost-effective to promote measures which prevent fraud, e.g.,

(a) strong internal checks;
(b) well-designed records and systems;
(c) up-to-date accounting work;
(d) responsible posts filled by reliable officers;
(e) duties of individuals changed from time to time;
(f) surprise audits.

<u>Value-for-Money Audits</u>

49. This is often referred to by other names, such as management auditing and efficiency auditing. In all cases, the audit activity is basically looking at the way the organization carries out its responsibility and determining whether it is

being done in the most economical, efficient and effective manner. Efficiency must be distinguished from low-cost. It is possible to reduce costs again and again, by reducing the level of service provided, but this is not the same as being efficient. As an example, a common way of cutting costs is to reduce the level of maintenance, e.g., painting, repairs on buildings. Although this saves money in the short term, the inevitable result is that the buildings deteriorate and what were small repairs become large repairs, so that the amount to be spent on carrying out these repairs becomes much more than that which would have been spent on routine maintenance. This is obviously not a very efficient way of maintaining buildings.

50. Efficiency can be defined in the public sector as "providing maximal service at minimal cost". It is easy to measure cost; but it is not always easy to measure level of service provided. It is tempting to try to use comparative statistics on unit costs, for example, cost per patient in a clinic, cost per pupil in a primary school, cost per kilometre of road maintained, but it is debatable whether unit-costing measures the level of service provided. In the above examples, the cost per patient would depend on the size of the clinic, its geographical location and the level of care provided as well as how efficient it was; the cost per pupil would depend upon the geographical location and the quality of education provided as well as the efficiency; the cost per kilometre of road would depend on the standard to which the road was maintained and the geographical location, e.g., whether urban or rural, as well as the efficiency of the authority in maintaining roads. Despite the inherent dangers in using comparative statistics, however, it can be useful to compare unit-costs of different authorities to try to establish the reasons for differences, and an authority might then find it can change its practices and systems without any loss of service.

51. To get an accurate measure of the value for money that is being provided within a particular service area, some form of output measurement for that service is required. For example, it is possible to measure educational achievement by means of the examination results of pupils. It is arguable that education means more than merely passing examinations, but, even if examination success were accepted as a measure of output, the question then arises, "How good were the pupils before they entered the education system?". In other words, it is often not enough just to measure output, and in order to evaluate what has been achieved, input must be measured also, i.e., what sort of pupils entered the school? In the education example, this is fraught with difficulties, especially as part of what is achieved educationally will be derived from outside the educational system, e.g., home environment. These are very variable factors and will be dependent upon,

amongst other things, geographical location and social class of parents.

52. One further point regarding efficiency is that it should not be confused with "working hard". An employee who works solidly for 10 hours a day might be less efficient than another employee who sits with his feet on the desk for six hours and only works for two hours, if those two hours are more productive than the other one's 10. This does not mean that the second employee could not be more efficient than he is, if he worked harder than he does, but it is a fact that, sometimes, a lot of effort can be unwittingly put into tasks that are totally non-productive, e.g., producing detailed statistics and records that nobody ever reads or needs.

53. Despite these problems, it is possible to increase efficiency and eliminate waste, and one way for public-sector organizations to be seen to be efficient is for them to be seen to be regularly carrying out value-for-money exercises. Because the auditor has financial expertise, detailed knowledge of the systems that operate within the organization and experience of other departments and organizations, it is reasonable for him to review management activity, to ensure that it is being done efficiently. However, it is not the auditor's job to question the decisions of management; he should merely be looking at efficient means of doing the same job. Audit's role, therefore, is not to substitute audit's judgement for management's judgement but to provide a positive force to promote effective management of costs. This might be achieved most effectively by auditors teaming up with one or more specialists from the department under review, so that the auditor's knowledge and experience of systems and financial procedures can be complemented by the technical expertise of the departmental representative(s).

CHAPTER TWENTY

CASE STUDIES

A: GULSHAN MUNICIPAL CORPORATION: Stage I

Time: Beginning of 1990

The following is the 1990 Approved Budget for Katete CC:

(.... million Shillings)

Recurrent Revenues		Recurrent Expenditure	
Property Tax	40	General Administration	11
Motor Vehicle Tax	50	Financial Administration	3
Entertainment Tax	12	Education	42
Licence Fees	12	Public Health	26
Rents and Charges	13	Solid-waste Management	12
Interest	2	Roads and Lighting	27
Education Grants	16	Fire	3
Miscellaneous	3	Libraries	1
		Recreation	4
	148	Social Welfare and Miscellaneous	2
			130

Capital Revenues		Capital Expenditure	
Loans	8	Education	10
Grants	5	Public Health	3
Sales of Capital Assets	1	Solid-waste Management	2
		Roads and Lighting	14
	14	Fire	1
		Recreation	1
		Administration	1
			32

Assignment

Using the information in Appendix A and B, work out a monthly profile of projected Recurrent Revenue and Expenditure during 1990, under each Head. (N.B. For illustrative exercise purposes, this is a simplified version of a profiling procedure which would normally be applied item by item).

Appendix A

1. The monthly profile of actual Revenue Collections in 1989 was:

(..... million Shillings)

	Property Tax	Motor Vehicle Tax	Entertainment Tax	Licence Fees	Rents and Charges
January	1	3.8	1.0	3.8	0.9
February	7	5.0	0.7	4.0	1.0
March	4	4.7	0.9	1.2	0.8
April	2	3.6	1.1	0.3	0.8
May	2	3.5	1.0	0.2	0.7
June	1	3.5	1.2	0.1	0.9
July	7	3.8	1.0	0.1	0.8
August	4	4.8	0.6	0.2	0.7
September	2	3.8	1.7	0.1	0.7
October	2	3.9	0.6	0.2	0.8
November	1	4.0	0.6	0.2	0.9
December	2	3.8	1.4	0.6	1.0
	35	48.2	11.8	11.0	10.0

All rates of taxes, fees and charges are set for a Calendar/Budget Year

Property Tax is payable in two instalments, due in January and July. Demand notices are normally issued in January, however.

Development Levy: Wage earners pay monthly by deduction from salaries/wages. The self employed are required to pay in biannual instalments due in January and July.

Entertainment Taxes are paid as part of the admission charges to cinemas, theatres etc.

Licence Fees (for trading etc.) are payable annually in January or at the commencement of a new licensed activity.

Rents and Charges cover rents for corporation shops, market stalls, staff houses etc., paid monthly, together with fees for commercial refuse collection, plus admission to Sports Centres and use of abattoirs, collected on a daily basis.

Interest is received twice yearly on long-term investment and quarterly on Bank Deposit Accounts.

Education Grants (Recurrent) are payable in equal monthly instalments.

Miscellaneous Income is, by definition, unpredictable.

Appendix B

The breakdown of Recurrent Expenditure Estimates for 1990 is as follows:-

(.... million Shillings)

	Personnel Costs	Debt Service	Other Charges	Total
General Administration	5.6	1.1	4.3	11
Financial Administration	1.1	-	0.9	2
Education	31.0	0.9	10.1	42
Public Health	12.7	2.0	11.3	26
Solid-waste Management	4.0	-	8.0	12
Roads and Lighting	8.8	2.0	16.2	27
Fire	1.6	-	1.4	3
Libraries	0.6	-	0.4	1
Recreation	1.4	1.2	1.4	4
Social Welfare	0.7	-	1.3	2
	67.5	7.2	55.3	130

Notes

(1) Personnel Costs provide for increments payable w.e.f. 1 January, and a rise in salaries and wages averaging 4 percent w.e.f. 1 July.

(2) Loan Charges are payable in two instalments on 1 June and 1 December.

(3) Insurance Premia on Corporation Vehicles and Buildings are renewable on 1 October. Provision is included in Other Charges as follows:

General Administration	Shs 0.5 m	(all building)
Public Health	Shs 0.2 m	
Solid-waste Management	Shs 0.5 m	
Roads and Lighting	Shs 0.2 m	
Fire	Shs 0.1 m	
	Shs 1.3 m.	

(4) Roads and Lighting 'Other Charges' include Shs 2.5 million payable to the Electricity Board for street lighting in quarterly bills in March, June, September and December.

B: Gulshan Municipal Corporation: Stage II

Time: June 1990

The following is a statement of actual Recurrent Revenue and Expenditure as at 31/5/90:-

Recurrent Revenue

	million Shillings
Property Tax	14.1
Motor Vehicle Tax	21.8
Entertainment Tax	4.7
Licence Fees	10.6
Rents and Charges	5.2
Interest	0.7
Education Grants	5.3
Miscellaneous	1.1
	63.5

Recurrent Expenditure (.... million Shillings)

	Personnel Costs	Other Charges	Total
General Administration	2.22	1.82	4.04
Financial Administration	0.42	0.34	0.76
Education	14.01	4.83	18.84
Public Health	5.14	5.37	10.51
Solid-waste Management	1.53	3.01	4.54
Roads and Lighting	3.50	5.83	9.33
Fire	0.58	0.48	1.06
Libraries	0.32	0.19	0.51
Recreation	0.53	0.95	1.48
Social Welfare and Miscellaneous	0.18	0.33	0.51
	28.43	23.15	51.58

Assignment

(1) Using the monthly Profile drawn up in Stage I, compile a Variance Report.

(2) List matters requiring urgent investigation.

(3) Analyse possible implications for the over-all financial position (The General Fund Balance at 31/12/89 was Shs 2,308,600).

(4) Suggest any corrective action which might be required.

<u>Sessions 1 & 2</u>:	Wednesday 23 August
Topic:	Defining Competence In Urban Management, Finance And Training
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	These sessions will provide an opportunity for each role group within the course (e.g. general managers, finance officers, training officials) to identify the competencies required to carry out their job roles and responsibilities.
Training Approach:	To include a small group exercise, reports and general discussion
Readings:	- <u>Guide For Managing Change For Urban Managers And Trainers</u> (to be referred to from this point on as <u>The Guide</u>) pp 7-10. The exercise to be completed in these sessions is a substitute for the exercise outlined in <u>The Guide</u> and is designed to accomplish the same learning objectives. - From <u>The Reader</u> (supplemental readings for the course) "Helping Adults Apply What They Learn".

Session 3: Wednesday 23 August

Topic: Common Values, Norms And Skills For Effective Performance In The Urban Local Government Environment

Discussion Leader: Fred Fisher/Wanjala Wa Muricho

Overview: Building on the results of Sessions 1 & 2, this session will look at the similarities and differences among the competencies required to carry out each of the major roles represented in the course. There will also be a review of work done by others to define competency in each of these fields.

Training Approach: Short presentations and guided group discussion

Readings: From The Reader: "The Professional Decision Maker".

Session 4:	Wednesday 23 August
Topic:	Managing Change: An Overview
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	A major part of the course will focus on the process of managing change. This session will review various approaches to increasing managerial and organizational performance and set the stage for an in-depth look at the action research and planning approach to planned change which will form the basis for the final two weeks of the course.
Training Approach:	Short presentations and guided large group discussion
Readings:	The Guide: Organization Change: Concepts and Strategies", pp 18-24

Session 5: Thursday 24 August

Topic: Municipal Financial Reform: Analysis Of Problems And Formulation Of Objectives

Discussion Leader: Professor Davey/Mr. Kayila

Overview: Responsibilities for urban development and services are usually divided between many public agencies including central government industries, provincial and state governments, metropolitan and municipal authorities and parastatal boards or corporations. Whether a particular service is financed by the national taxpayers, the local taxpayers or the consumer, depends upon the institutional arrangements and this can affect the adequacy of the funds available for its operation and development. Attempts to improve a city's environment and services may involve a package of reforms at different levels of government.

The purpose of this session is to examine the necessity of a package of financial reforms within any comprehensive programme of urban development.

Readings: Required: Course Manual, Chapter 1

Supplementary: An Introduction To Urban Management, by David Grossman

Session 6-7: Thursday 24 August

Topic:	Analysis Of Financial Problems And Formulation Of Objectives
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	Working groups will analyse the financial performance and problems of the City of Lukasa and formulate objectives of a reform programme
Training Approach:	Group Exercise
Readings:	Course Manual, Chapter 2

<u>Session 8</u>:	Thursday 24 August
Topic:	Analysis Of Financial Problems And Formulation Of Objectives (continued)
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	Working groups will report their findings on the City of Lukasa Exercise, Stage 1
Training Approach:	Group Exercise

Session 9:	Friday 25 August
Topic:	Revenue Mobilisation: General Principles
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	This session will examine two issues underlying questions of revenue generation:
	- principles for allocating costs between national taxes, local taxes and consumer charges
	- criteria for evaluating sources of revenue
Readings:	Course Manual, Chapter 3

Session 10-11: Friday 25 August

Topic: Options For Development Of Local Taxation

Discussion Leader: Professor Davey/Mr. Kayila

Overview: This session will examine the different types of local taxes levied in Africa and other parts of the world. They will be categorised in three classes:

- taxes on property
- taxes on income
- taxes on expenditures

Participants will discuss how far increases in local tax revenue might be achieved in their own countries or cities by:

- improvements in the administration and tariffs of existing taxes

- adoption of a new tax base

Readings: Required: Course Manual, Chapters 4 and 7

Supplementary: Linn, Johannes F. "Automotive Taxation in the Cities of Developing Countries"

Session 12:	Friday 25 August
Topic:	Local Revenue Reform In Kenya
Discussion Leader:	Mr. Kayila
Overview:	Recent innovations in local government revenues in Kenya will be described and discussed
Readings:	The Introduction Of Local Service Charges in Kenya: A Case Study by J. Kayila

Session 13:	Monday 28 August
Topic:	Consumer Charging: Principles And Practices
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	This session will deal with general issues of charging. Among the issues to be discussed are:

- Why and when do governments charge for services?
- What are the correct ways of recovering capital costs?
- When are subsidies (charging below full costs) justifiable?
- Is it ever justifiable to charge more than the full cost of a service?

Participants will be invited to comment on these issues from their experience

Readings: Required: Course Manual, Chapter 5

Session 14: Monday 28 August

Topic: Charging For Individual Services:

- Land development
- Shelters
- Water supply

Discussion Leader: Professor Davey/Mr. Kayila

Overview: This session will be devoted to cost recovery in relation to provision of water supplies, low income group housing and development of land for urban use.

The first period will look at the development of land for urban settlement. This usually imposes heavy capital costs upon government but also increases land values to the considerable gain of the owner. Various agencies have tried to "tap" this increase in land values to finance their investment costs. Methods include:

- taxing increases in land value
- direct charging of capital costs to the beneficiaries
- public acquisition and development of land

Participants will be asked to describe any experience in their own countries or cities in applying these approaches, and to consider how far recovery of the capital costs of infrastructure could be achieved.

This session will then look more specifically at cost recovery in low income shelter schemes such as sites and service and slum improvement. Again participants will be asked to share experience and consider what improvements in practice might be effective.

Finally issues in water supply charging will be discussed including tariff structures and measurements of financial viability.

Readings: Course Manual, Chapter 6

Sessions 15-16:	Monday 28 August
Topic:	Revenue Improvements And Projections
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	Working groups will discuss and project revenues to the City of Lukasa over a three year period undertaking the tasks specified in Stage 11 of the exercise. Individual tasks should be assigned to sub-groups and their recommendations collated later by the group.
Training Approach:	Group Exercise
Readings:	Course Manual, Chapter 10

<u>Sessions 17-18</u>:	Tuesday 29 August
Topic:	Revenue Improvements And Projections
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	Working groups will present their findings on Stage 11 of the City of Lukasa exercise.
Training Approach:	Group Exercise

Sessions 19-20: Tuesday 29 August

Topic: Intergovernmental Transfers: Introduction and Cases

Discussion Leader: Professor Davey/Mr. Kayila

Overview: The required reading provides the framework for discussion. Among the issues for discussion are:

- How far are transfers needed?
- What are the advantages of transferring funds through revenue sharing?
- What are the comparative advantages of specific, matching and block grants?
- Can transfers be used to encourage local effectiveness in revenue collection and service delivery?

Examples of transfer systems in a number of countries will be described and compared.

Readings: Course Manual, Chapter 8

Sessions 21-22:	Wednesday 30 August
Topic:	Budgeting: Estimating Expenditure And Revenue
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	These sessions will examine the process of formulating revenue and expenditure estimates in preparing an annual budget. They will discuss the stages and tasks involved including criteria for examining new proposals, the use of indicators and unit costs, and the ordering of priorities.
Readings:	Required: Course Manual, Chapters 11,12,13
	Supplementary: "Municipal Budgeting" by David Grossman

<u>Sessions 23-24</u>:	Wednesday 30 August
Topic:	Budgeting: Estimating Expenditure
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	Working groups will prepare expenditure estimates for the City of Lukasa on the basis of Stage 111 of the exercise
Training Approach:	Group Exercise
Readings:	Course Manual, Chapter 16A

Session 25: Thursday 31 August

Topic: Budgeting: Estimating Expenditure

Discussion Leader: Professor Davey/Mr. Kayila

Overview: Working groups will present their recommendations on Stage 111 of the City of Lukasa exercise

Training Approach: Group Exercise

<u>Session 26</u>:	Thursday 31 August
Topic:	Balancing The Budget
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	This session will examine alternative approaches to balancing a budget and share participant experience on this stage of the budgetary process
Readings:	Course Manual, Chapter 14

Sessions 27-28:	Thursday 31 August
Topic:	Balancing The Budget
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	Working groups will prepare a budget for City of Lukasa in accordance with stage IV of the exercise
Training Approach:	Group Exercise
Readings:	Course Manual, Chapter 16B

<u>Session 29</u>:	Thursday 31 August
Topic:	Balancing The Budget
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	Working groups will present their recommendations of stage IV of the City of Lukasa exercise
Training Approach:	Group exercise

Sessions 30-31: Friday 01 September

Topic: Financial Information

Discussion Leader: Professor Davey/Mr. Kayila

Overview: These sessions will examine the types of accounting records kept by municipal authorities, and discuss the use which should be made of the financial statements in management.

Readings: Required: Course Manual, Chapter 17

Supplementary: "The Theory of Municipal Accounting" and "The Practical Side of Accounting Theory" by Philip Gidman

Sessions 32-33:	Friday 01 September
Topic:	Budgetary Control
Discussion Leader:	Professor Davey/Mr. Kayila
Overview:	The session will begin with a general discussion of the methods employed in budgetary control. Working groups will then proceed to carry out the exercises in preparing expenditure profiles and variable reports for Katete City Council
Readings:	Course Manual, Chapters 18 and 19

Session 34: Friday 01 September

Topic: Internal Audit

Discussion Leader: Professor Davey/Mr. Kayila

Session 35-38:	Monday 04 September
Topic:	Private Initiative: How To Recognize The Opportunities And How To Capitalize On Them
Discussion Leader:	Michael Lippe, Director, Regional Housing and Urban Development Office, USAID, Nairobi Town Clerk, Karatina
Overview:	A field trip to Karatina: This small Kenya town has carried out several public sector projects designed to provide and support private initiative. The field trip will provide an opportunity to tour these projects and consult with individuals who have been involved in their planning and implementation.
Training Approach:	Field tour and discussion
Reading:	USAID booklet on promoting private initiatives

Session 39: Tuesday 05 September

Topic: The Urban Management Challenge: Defining Managerial And Organizational Effectiveness

Discussion Leader: Fred Fisher/Wanjala Wa Muricho

Overview: Effectiveness within work organizations is defined in a variety of ways but most often it is viewed from the perspective of managerial effectiveness (is management performing in an effective manner?) and organizational effectiveness (is the organization achieving its purpose?). This session will look at these two separate but interrelated issues.

Training Approach: Small group exercise and group reports

Readings: From The Guide: "The Urban Management Challenge" pp. 12-16

THE ROLE OF THE URBAN MANAGER

Written for

The Course On Urban Finance and Management
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By

Fred Fisher, IDIOM
July, 1989

Perspective

There are at least two streams of thought that permeate the universal application of management and organizational theory. One stream contends that managerial and organizational issues and solutions have become increasingly similar as commerce and development expand across national boundaries. The other would argue that national, and even local, cultures still have a dominant influence on the way managers and organizations behave. The truth is probably somewhere between these two points of view. The intent, herein, is not to take a stand on either side of this ongoing academic exercise but to draw from the writing of others and my own experience to help you better understand the role of the urban manager and how it can be enhanced through training and development.

Early attempts at defining the urban manager's role were both insightful and simplistic. Luther Gulick's acronym POSDCORB, coined in the 1930s, has withstood decades of theory bashing by other academics. POSDCORB stands for Planning, Organizing, Staffing, Directing, Coordinating, Reporting, and Budgeting. Gulick saw these functions as the core responsibilities of the local government manager.

Later, theorists divided the management function by employee and production centered styles (Rensis Likert) and people and task oriented management (Robert Blake). These two-dimensional concepts of management dominated in the nineteen fifties and sixties but were seen as a bit simplistic as we entered the decade of the 70s. The academic community, concerned with such things, then began to talk about "contingency" theories of management. In other words, "It all depends on the situation".

At a minimum, one can say that management is a complex business. Urban management with its added dimensions of community involvement and local politics is <u>very</u> complex - even impossible at times.

As stated earlier, the intent is not to take a stand about what urban/local government management is, or should be, but to shed light on it. Peter Drucker, in a paper about public administrations's deadliest sins, said, "In public service, increasingly we start out with a 'position' - that is, with a totally untested theory - and go from it immediately to national, if not international application." Unfortunately, "Successful application still demands adaptation, cutting, fitting, trying, balancing".[1] The application of these "tailoring" concepts is

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[1] Peter Drucker, "The Deadly Sins of Public Administration", <u>Public Administration Review</u> (Vol. 40, No. 2, March/April 1980, pp. 103-105

good advice as we try to find a set of urban management ideas to fit our own particular situation.

The Big Picture

Henry Mintzberg, in his classic look at The Nature of Managerial Work, published in 1973, identified eight approaches to managerial work that have dominated the literature over the years. These wide ranging "schools of thought" about management account for the equally diverse conclusions their proponents come to in "helping" us understand what we do, or should do, as managers.

These schools, according to Mintzberg, are:

(1) The *Classical* school, which emphasizes composite pictures or sets of functions that characterize *all* management jobs

(2) The *Great Man* school, which selects "effective leaders, observes them, and presents them as models for other would-be great men

(3) The *Entrepreneurship* school, which focuses on the manager as innovator, creative thinker, and opportunity finder

(4) The *Decision Theory* school, which focuses on how managers make decisions in a complex environment

(5) the *Leader Effectiveness* school, which looks at personality traits and management style as *the* factors that lead to effective performance

(6) The *Leader Behavior* school, which looks at what some managers actually *do* on the job to draw conclusions about management behavior and required skills

(7) The *Leader Power* school, which zeros in on sources of power managers can use to maximize their control

(8) The *Work Activity* school, which relies on diaries of practicing managers, paying particular attention to time, as a way to identify trends and draw conclusions about management activity.[2]

Most contemporary management literature falls into the leader

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[2] Henry Mintzberg, The Nature of Managerial Work (New York, Harper & Row, 1973)

behavior school - focusing on what managers do - how they behave in given situations. It recognizes behavior as the bottom line of management. Paul Appleby, who wrote some of the early texts on public administration, had a behavioral prescription for what the manager should ask him or herself before acting: "Who's going to be mad? How mad? Who's going to be glad? How glad?"

The Mintzberg View

Mintzberg carried out a comprehensive study of chief executives from a variety of organizations and concluded there were some "organized sets of behavior" common to most management jobs. While they may be somewhat culture bound (his research was limited to Western managers and institutions) the way he defines the various managerial roles are useful in helping managers think about what they do, regardless of the cultural or organizational context.

The managerial roles Mintzberg identified fall into three major categories, interpersonal roles, informational roles and decisional roles. Here is a more detailed description of these roles and their subsets.

I. *Interpersonal Roles*, related to the manager's formal authority and include:

(a) Figurehead: carries out representational and ceremonial duties

(b) Leader: performs the role as formal head of the organization, someone who directs and motivates subordinates to achieve organizational goals

(c) Liaison: works with people outside the formal chain of command in efforts to bring information into the organization and to gain favor from others.

It is through these roles that the manager builds a network of support within and outside the organization.

II. *Informational Roles*, put the manager in the "nerve center" of the organization. These include:

(a) Monitor: The manager continually scans the environment to receive and collect information

(b) Disseminator: Passes along special or privileged information that subordinates may not otherwise be able to obtain

(c) Spokesperson: Speaks for the organization and repeats it to others

III. *Decisional roles*: How the manager uses available resources, personal and otherwise, to take action. They include:

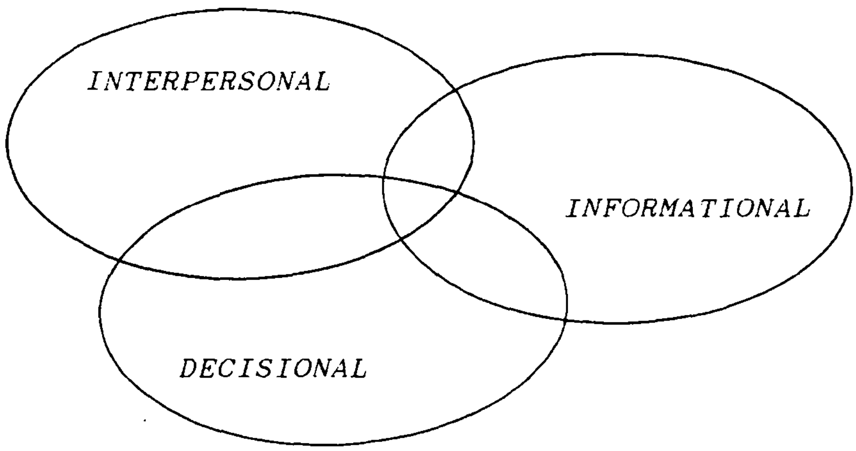
(a) Entrepreneur: Works to improve the organization, bringing about planned, voluntary, controlled, positive changes

(b) Disturbance Handler: Takes corrective action in response to pressures or changes that are beyond personal control

(c) Resource Allocator: Decides who will get what resources

(d) Negotiator: Discusses and bargains with other organizations, or work units, to obtain advantages for his or her own unit or organization[3]

The overall responsibility of the manager is to use each of these roles individually, or in combination, to get things done for the organization and its members.



Skills Of The Effective Manager

Robert Katz defines managerial effectiveness in terms of skills. These skills are needed in varying degrees, depending upon the level of the organization at which the manager is operating. I would also argue that the degree to which the manager exercises these skills depend on the size of the organization and its programs and services. Katz defines managerial skills as:

[3] Henry Mintzberg, "The Manager's Job: Folklore and Fact", Harvard Business Review, July-August, 1975, p.58

(1) *Technical Skills*: The methods, processes, procedures and techniques required on the part of the manager to carry out managerial functions. They include specialized knowledge of various internal processes, whether they are infrastructure maintenance, budgeting, or administrative in nature, and analytical abilities to break down these processes into "manageable" pieces. Normally, the closer to the line (e.g. first line managers) the manager is, the greater the need to be proficient in technical skills.

(2) *Human Skills*: The skills which not only help the manager "get along" with employees but help them manage the employee's productivity, conflicts, motivation and development in an effective manner. People management skills may be the most difficult to learn as a manager. It takes a full measure of awareness about our own attitudes, assumptions and beliefs as well as those of others. Communication is at the heart of human skills - not just the ability to speak effectively, but to listen with understanding and empathy. Effective human skills serve all levels of management and are particularly telling at the first line and middle management levels where officers must work constantly with subordinates and superiors to get their tasks accomplished.

(3) *Conceptual Skills*: The final category of skills are those involving the ability to see the organization as a whole, recognizing how various functions depend upon each other, and visualize opportunities which aren't evident to others. Conceptual skills enable the manager envision new opportunities and perceive new ways of tackling old problems.[4]

Many believe that technical skills become less important as managers move into positions of greater responsibility. In large organizations this is often the case, but it does not hold true in smaller organizations - or in many larger organizations in less developed countries. In such organizations, there is often a scarcity of technical skills and managers, and senior managers, are called upon to fill the technical void. My experience as a city manager in a small community in the United States provided considerable insight into this problem and created opportunities for me to learn new skills. In one small community where I served, the financial and personnel systems were in shambles. It was necessary to design new budget systems

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[4] Robert L. Katz, "Skills of the Effective Administrator", Harvard Business Review On Management, New York, Harper and Row, 1975

and procedures and to carry out comparative analyses of job responsibilities and pay levels. I also learned to develop routine street and sewer maintenance programs. In a larger organization, these would have been delegated to others who already had the skills and experience.

Many urban managers in developing country settings may have to "get their hands dirty" by learning and applying technical skills that aren't in the management curriculum of most colleges and universities. More importantly, it is the manager's responsibility, in these situations, to help others learn to do what they should be doing.

The application of technical skills can be rewarding to the manager, particularly first line supervisors, because it gives the satisfaction of getting things done. Unfortunately, it is often doing what someone else can and should be doing. Technical tasks often put the manager in a position of neglecting other more important responsibilities.

Most developing country managers, no matter how high they climb in the organization, have heavy responsibilities for developing others in the organization. While employee development is time consuming, and sometimes frustrating, it may be the urban manager's most important role. Without leaving behind more self sufficient, self reliant, stronger organizations, their legacy as community leaders will be empty.

Habits of Mind

Peter Drucker, a world resource on management practices, believes being effective is what the manager's job is. "Whether he works in a business or in a hospital, in a government agency or in a labor union, in a university or in the army, the executive is, first of all, expected to get the right things done. And this is simply that he is expected to be effective".[5] Drucker says effectiveness is a "habit" or a complex set of practices. Here are five "habits of mind" the manager needs if he or she is to be effective.

(1) Managing the portion of their time that they can control and knowing where their time goes.

(2) Focusing on outward contributions, gearing their efforts to results rather than work.

(3) Building on the strengths they have at their disposal, including their own strengths as well as

[5] Peter Drucker, The Effective Executive, New York, harper and Row, 1966, p.1

those of their colleagues, subordinates, and the situations they face.

(4) Concentrating on the few major areas that will produce the most outstanding results by setting clear priorities and sticking with them.

(5) Making effective decisions, knowing that a decision is "a judgement based on 'dissenting opinions' rather than on 'consensus on the facts'".[6]

Drucker's "habits" are worth reemphasizing. The effective manager: manages his or her time and *knows where it goes*; focuses on results rather than work; builds from strengths (their own and the organization's); concentrates their efforts on the most important issues and concerns; and makes effective decisions.

On this later point he emphasizes the importance of "creative dissent" within the organization. Drucker does not trust "consensus based on the facts".

The ICMA Perspective

The International City Management Association (ICMA) has always been the bellwether of opinion regarding what constitutes effective urban or local government management in the United States and Canada. Its voice is increasingly heard in other countries as it defines systems and standards for improving local government performance.

The following is a summary of some of their pronouncements about effective local government management over the last decade, starting with a synopsis of views expressed in their 1983 publication, The Effective Local Government Manager.[7]

The Urban Manager's Role

In the 1983 publication the authors defined the urban manager's role and responsibilities as: (1) relating to the community; (2) working with the governing body; (3) managing with effectiveness (getting the right things done), efficiency (accomplishing them in the right way), and economy (limiting the use of scarce resources); (4) creating conditions for excellence in the organization; (5) promoting the community's future; (6) representing the community with other governments; and (7)

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[6] Ibid pp.23-24

[7] Anderson, Newland and Stillman, The Effective Local Government Manager, Washington, D.C., The International City Management Association, 1983

maintaining personal effectiveness. Cutting across these management responsibilities are four themes: managing people, managing change, building and maintaining relationships; and managing publicity.

When we compare this vague list of responsibilities with the practical POSDCORB of the 1930s, we can't help but wonder what has prompted the dramatic shift in definition. Is it because most urban managers in the United States and Canada have the basic knowledge and skills to carry out the POSDCORB mandate? Do they have a depth of staff that allows them to be more "conceptual" in their approach to the role of urban manager? Or, is it in response to a growing trend to describe the manager's role in increasingly vague behavioral terms?

ICMA, a year after publishing of The Effective Local Government Manager, launched a research effort to define the basic elements of local government excellence. This effort was in response to the Peters and Waterman best seller, In Search of Excellence, that described the characteristics of successfully managed private sector organizations. While these elements of organizational excellence do not directly describe the role of the urban manager, one can assume they define the mandate within which the individual would operate to provide local leadership. The "local government excellence" criteria defined by ICMA at that time are:

(1) *Action orientation*: Excellent local governments identify problems and deal with them quickly, fighting through structural, political, legal, and environmental constraints that make action more difficult than for private companies.

(2) *Closeness to citizens*: This attribute includes establishing and maintaining a variety of close linkages with citizens being served, including those who are regulated against their will. Excellent local governments listen and are sensitive and responsive to public input.

(3) *Autonomy and entrepreneurship*: Excellent local governments have developed a climate conducive to thinking up and doing new things to solve problems and have a track record of implementing creative solutions even in the face of declining resources.

(4) *Employee orientation*: For a local government to be excellent, this criterion requires more than lip service to employees and their needs. Excellent public organizations insist on intense, pervasive treatment of employees as human beings and adults.

(5) *Values*: Excellent local governments have defined a set of values. Their thrust is toward being the best - providing superior quality and service to the public. Their values are communicated and demonstrated to employees and provide the source of enthusiasm and inspiration.

(6) *Mission, goals, and competence*: Mission is the underlying premise of the organization. Excellent local governments have evaluated their missions based on changing resource levels and citizen demands and have used mission statements as the foundation for establishing community and/or organizational goals. Within their mission, excellent local governments provide consistent, uniform levels of service.

(7) *Structure*: In excellent local governments, the potential negative effects of antiquated, bureaucratic structures have been minimized. These organizations have fewer management levels and fewer central and support staffs and provide firm central direction while giving maximum autonomy to employees.

(8) *Political relationships*: This criterion departs most radically from the Peters Waterman model - but it is perhaps the most important of the attributes. Political relationships in excellent local governments have three characteristics: (a) they involve positive, open respectful relationships between policy makers and management staff; (b) they deal openly, forthrightly, and effectively with their environments; (c) they possess environmental stability at the political level.[8]

Other Conceptual Roadways To Managerial Excellence

At the risk of burdening you with too many "snapshots" of the manager's role, I believe the following are also worth a brief look. They represent different perceptions of what is involved in effective management and together convey a pattern of consistency about the manager's role.

"The Competent Manager"

Richard Boyatzis examined, in depth, the functions, responsibilities and expectations of over 2000 managers in 12 organizations representing 41 different management jobs. From his findings he isolated and identified 19 competencies directly

[8] George Sipel, "Putting In Search Of Excellence To Work In Local Government", Public Management, April 1984. pp 3-4

related to successful managerial performance. He describes effective job performance as "the attainment of specific results (i.e. outcomes) required by the job through specific actions while maintaining or being consistent with policies, procedures and conditions of the organizational environment".[9]

To define the characteristics of managerial competence, Boyatzis categorizes the competencies he isolated and studied into five clusters: (1) *goal and action management; (2) leadership; (3) human resource management; (4) directing subordinates;* and *(5) focus on others.* Here is a brief description of the components of each cluster.

I. The "*Goal and Action Management*" Cluster

(a) Efficiency orientation represents a concern for doing something better

(b) Proactivity, a disposition toward taking action to accomplish something

(c) Diagnostic use of concepts is a way of thinking that identifies or recognizes patterns from an assortment of information, by bringing a concept to the situation and attempting to interpret events through that concept. The person has a framework or concept of how an event should transpire.

(d) Concern with impact is the use of symbols of power to have impact on others. For example, such people dress in a fashion and style considered desirable and attractive in their surroundings.

II. The "*Leadership*" Cluster

(a) Self confidence, often called decisiveness or presence. People with self confidence feel they know what they are doing and that they are doing well.

(b) Use of oral presentations, a competency with which people make effective verbal presentations, whether in one-to-one meetings or before an audience of several hundred people.

(c) Logical thought, a process in which the person places events in a casual sequence.

(d) Conceptualization, the ability to identify or recognize patterns in an assortment of information.

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[9] Richard E. Boyatzis, The Competent Manager (New York, John Wiley & Sons, 1982) p. 12

This individual develops a concept that describes a pattern or structure perceived in a set of facts.

III. The "*Human Resource Management*" Cluster

(a) Use of socialized power to build alliances, networks, coalitions, or teams.

(b) Positive regard, is belief in others and a positive belief that people are good.

(c) Managing group process, the ability to stimulate others to work together effectively in group settings.

(d) Accurate self assessment, the capacity to see one's own strengths and weaknesses and to know personal limitations, a characteristic sometimes called self objectivity.

IV. "*Directing Subordinates*" Cluster

(a) Developing others is a competency with which managers specifically help someone do his or her job.

(b) Use of unilateral power is the ability to use various forms of influence to obtain compliance. Others see such people as "being in charge".

(c) Spontaneity, expressing oneself freely and easily.

V. The "*Focus On Others*" Cluster

(a) Self control is the ability to inhibit personal needs or desires in service of organizational needs. People with this trait constantly weigh costs and benefits to themselves and the organization before expressing or acting on personal needs or desires.

(b) Perceptual objectivity is the competency to be relatively objective and not limited in view by excessive subjectivity or personal biases, prejudices or perspectives.

(c) Stamina and adaptability describes those people who have the energy to sustain long hours of work and have the flexibility and orientation to adapt to changes in life and the organizational environment.

(d) Finally, concern with close relationships is seen as a characteristic of the competent manager who cares about and builds close relationships with individuals.

The competencies outlined above go far beyond commonly accepted managerial skills and knowledge. They are described as "underlying characteristics of a person which results in effective and/or superior performance on the job". These competencies, or underlying characteristics, may be motives, traits, skills, aspects of one's self image or social role, or a body of knowledge which he or she uses. While they may seem abstract and somewhat idealistic, the American Management Association has used the Boyatzis competency model as the basis for a graduate degree program in management.

Work Place Basics

The American Society for Training and Development and the United States Department of Labor recently completed a two year research study of the role of training and development in the work force. Part of the study focused on the basic skills employers want and workers need in today's work place.

Beyond basic reading, writing and computation skills, employers increasingly expect competence in the following areas:

- **Learning to learn** - the ability to acquire the knowledge and skills needed to learn effectively, no matter what the learning situation;

- **Listening** - the ability to heed the key points of customers', suppliers', and co-workers' concerns;

- **Oral communications** - the ability to convey an adequate response to those concerns;

- **Problem-solving** - the ability to think on one's feet;

- **Creative thinking** - the ability to come up with innovative solutions;

- **Self esteem** - the ability to have pride in one's self and believe in one's potential to be successful;

- **Goal setting/motivation** - the ability to know how to get things done;

- **Interpersonal skills** - the ability to get along with customers, suppliers, and co-workers;

- **Teamwork** - the ability to work with others to achieve a goal;

- **Negotiation** - the ability to build consensus through give and take;

- **Organizational effectiveness** - the understanding of where the organization is headed, and how one can make a contribution;

- **Leadership** - the ability to assume responsibility and motivate co-workers when necessary.[10]

The list of basic skills or competence areas is not unlike what I would recommend for managers, irrespective of their country, culture or organizational work setting.

To reinforce the shared belief and commonality of these competencies, here are two lists of managerial characteristics generated by participants in a management workshop for East and Southern Africa managers held in 1986 in Nairobi, Kenya. One group brainstormed a list of <u>ineffective</u> characteristics and the other a list of <u>effective</u> characteristics. They are presented without editing although the lists have been reorganized to provide some parallel comparison.

<u>Effective Managers</u>	<u>Ineffective Managers</u>
- good communication	- gossips
- good listener	- antagonistic
- charismatic	- mistrusting
- collegial relationships	- doesn't consult - unapproachable/no team spirit
- fatherly/motherly	- dictatorial/brash
- makes decisions	- indecisive - evades making decisions
- public/human relations skills	- does not care about welfare of workers

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[10] Carnevale, Gainer, Meltzer and Holland, "Workplace Basics: The Skills Employers Want", <u>Training and Development Journal</u>, American Society for Training and Development, October 1988, p.24

	- excessively critical
- has integrity	- blames others when things go wrong
- intellectually honest	- dishonest
- exudes confidence	- lacks self confidence
	- looks for cheap publicity
- patient	- unforgiving
- knowledgeable	- technically incompetent
- knows what needs to be done	- theoretical/not practical
- develops staff	- does not motivate others
	- lacks motivation
- "contented"	- divisive (divides and rules)
- generous	- favoritism/not fair
- dynamic	- resists new ideas
- good contacts	- lacks coordination
- firm and fair	- lacks follow up
	- doesn't discipline
- practical	- lack of direction and purpose
- delegates responsibility	- does not delegate
- sense of humor	

While the list of characteristics of the effective manager are interesting, I find the list describing the ineffective manager more important from a training and development perspective. It identifies those areas which need to be targeted for improvement. It also suggests that interpersonal and personal traits of behavior are critical to effective performance as a manager.

A Deviant View

A different perspective about organizations and the role of the manager appeared several years ago, based on the research and writings of Jeffrey Pfeffer and Gerald Salancik. They make a persuasive argument that organizations, rather than being self-directed, autonomous, and presumably "managed", are instead other-directed, involved in a constant struggle for autonomy and discretion, and confronted with constraint and external control.[11]

Given the constant struggle most developing country local governments have for any degree of self-control or autonomy from the central government, this perspective is not new. What may be new are the authors' insights about how to manage these externally controlled organizations. They suggest three managerial roles in the face of external resource dependency. They are: symbolic, responsive and discretionary.

The Symbolic Role

"The manager is a symbol of the organization and its success or failure". As a symbol of control and personal causation, managers can be used as scapegoats, rewarded when things go well and fired when they go poorly. By creating the symbolic role of the manager, the organization also creates a mechanism for dealing with external demands. Changing managers offers a way of altering appearances and removing external pressure without losing much discretion. Unfortunately, many local governments have less discretion over the retention and removal of chief administrative officers than the central government has. Given this, the symbolic role of the manager may be less than meets the eye in these situations.

The Responsive Role

Pfeffer and Salancik reluctantly admit that managers do make some difference in the direction and performance of their organizations. ("Even though administrators or organizational leaders may not have tremendous effects in actions and outcomes, they do account for some variance".)[12] One managerial role in the face of outside dependency is what they call the responsive role. This role is defined by processing and responding to the demands and constraints confronting the organization. In this role, the manager assesses the situation, determines how best to

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[11] Jeffrey Pfeffer and Gerald R. Salancik, The External Control of Organizations, A Resource Dependent Perspective, New York, Harper and Row 1978, p. 257

[12] Ibid, p. 265

adapt the organization to meet the constraints of the situation and implements the adaptation. This calls for a reactive mode of management. It is in variance with much of the literature which calls for proactive management, where decisions by the manager not only impact on the organization but its environment as well.

The Discretionary Role

Finally, the authors describe a discretionary role for managers in externally controlled organizations. This response is proactive where managers focus on altering the system of constraints and dependencies confronting the organization.

The thesis put forth by Pfeffer and Salancik has one major flaw. If all organizations are externally dependent, who, if anyone, has the power or influence to bring about changes? If local governments in Bangladesh or Kenya are largely dependent on the central government for resources, is the central government also resource dependent? Maybe so. If all organizations fall into this web of dependency, as described by these authors, there would appear to be some mystical outside force within the universe that ultimately influences all organizational performance. Given this state of external dependency, what can managers do to be more effective? Pfeffer and Salancik recommend the following strategies:

(1) *Do a better job of scanning the environment*. This means, among other things, a greater capacity to gather, process and interpret information from beyond the boundaries of our organizations. For local governments to be effective, they need their own source of information about what is happening in the Ministry of Local Government and other key national agencies as it might affect local government decisions and operations.

(2) *Loosen external control by loosening dependency upon them*. While this is not an easy thing for most local governments to do, opportunities to become less dependent are often ignored or forfeited. For example, most have more elasticity in their local revenue potential than they want to admit or exercise. The lack of political will, creative management, and administrative sagacity all have a negative impact on local government's ability to be more autonomus. As long as the local revenue base is a meager share of the total budget, there will continue to be a dependency on outside sources.

(3) *Establish multiple centres of control and authority*, thus diffusing the system the manager has under his or her control. This corresponds to the use

of various operating authorities at the local level of governance to carry out specific functions such as water supply or waste disposal. While the authors see this as a way of dealing with external control, they ignore the potential negative spinoffs of establishing diffused local government operating systems.

Six Critical Roles

We have looked at a variety of concepts and ideas about the role of the effective manager. Some of them apply directly to local government administrators while others are more general. In closing this discussion, I want to share with you some of my own thoughts about the roles and responsibilities of the urban manager. They are based on first hand observations and what I believe would be most beneficial in building strong, viable local governments in developing countries. The six roles encompass many other sub-roles and are, at times, overlapping. They are: *the policy advisor; the strategic planner; the implementor; the human resource developer; the communicator; and the resource manager.* These roles are not presented in any order of importance. They all are important. Some are just more important than others at certain times. The competent manager is also one who knows when it is more important to perform one role at the expense of others.

The Policy Advisor

There is a tendency among urban managers in less developed countries to deny any role in policy formulation. Most, it would seem, believe policy is the sole purview of the local elected leaders - or the national government. There is a tremendous policy leadership void at the local level and urban managers can help fill the void. With their experience, knowledge about urban problems and opportunities, and access to data and information about problems and trends in the community, they have a responsibility to advise elected leadership about policy matters.

There is also a tendency to elevate "policy" to such a lofty plane that it immobilizes many appointed officers. What is policy? Well, it's many things - statements of intent, an expression of some desired outcome, agreed upon community goals and programs and services that have been given greater priority than others. Often policy evolves out of an accumulation of many operational decisions or responses to problems first perceived at lower levels in the organization. City askaris (guards) who routinely take action against hawkers without direction from the city council are, in fact, making policy. A decision by the Town Clerk to provide better and more frequent sanitation services to the business community may be setting a policy. Policies involve inaction as well as action. The Town Clerk who ignores infrastructure maintenance, which has long term service and economic implications for the community, is involved in policy development - albeit negative in its tone and consequences.

The skills involved in policy advising are not inconsistent with those of strategic planning. They involve: being aware of community and organization problems and communicating them to the policy makers; looking for opportunities to capitalize on opportunities that will benefit the organization and community and communicating them to the council; collecting data on critical services and programs, projecting their trends, and assessing their consequences; and, helping councillors and other local leaders gain a clearer vision about the future of the community so better policy decisions can be made. Few individuals are in a position to be more helpful in the policy arena than chief local government officers. They understand what is happening in and to the community and have access to data and information that can be used to formulate alternative courses of action. The manager, as policy advisor, has his or her finger on the community pulse and constantly scans the environment for its impact on the community. Policy advising is a managerial prerogative and responsibility. Whether or not it is spelled out in the job description is irrelevant. It is inherent with the role.

The Strategic Planner

At the heart of management is decision making. And decision making is synonamous with strategic planning. While the act of making decisions is usually associated with implementation, (getting things done within the organization), I believe decision making is integral to the planning phase of management. Planning is decision making. Implementation should result from planning decisions and not represent a time when planning decisions are made. To state it differently, implementation is the act of carrying out decisions arrived at through planning.

When we think of decision making as a skill associated primarily with the planning process, it forces us to redefine our thinking about planning and implementation as management events. In this context, the true output of planning is a set of decisions it causes to be implemented.

Recent comparisons of Japanese and American management styles are interesting and instructive in terms of decision making as planning or implementation. Japanese managers have a tendency to spend, at least in the minds of most Americans, an inordinate amount of time on "problem finding". This often means getting agreement on the questions to be asked. In Japanese organizations implementation results from consensus decisions which emanate from in-depth discussions and reflection on the issues involved (problem finding).

American managers, by contrast, tend to rush into situations with the mind set of problem solving. Solving problems is where the action is (or, at least, that is the myth) and the American manager wants to be remembered as someone who gets things done. Unfortunately, this approach to problem solving ignores, even denies, the planning (decision making) phase of management we've been talking about.

What often results from this precipitous behavior on the part of the American manager is an enormous expenditure of time and energy after the decision is made, either selling the solution or justifying it to others. The American manager often arrives at his answer to the problem while the Japanese manager is still trying to figure out what questions need to be asked. The results from these two approaches are becoming increasingly clear to those who research managerial and organizational behavior. The Japanese, once a decision is made (largely through widespread consultation and consensus building), are in a position to implement it quickly. They can move knowing there is agreement on the statement of the problem or opportunity and the planned solution or course of action to be taken.

The American, on the other hand, has confused problem solving with decision making. Consequently, the American manager spends valuable time in what I would call backward planning. Backward planning is the act of validating or justifying decisions (planning) already taken on the job.

Since I have written a companion piece about strategic planning, let me refer you to that paper for the skills, knowledge and tasks involved in strategic planning. As emphasized in that paper, planning is a management process and responsibility. Strategic planning is at the centre of effective decision making. In fact, planning is decision making.

The Implementor

Project implementation, and the ongoing operation and maintenance of programs and services, are the bane of Third World development. Some of the blame falls on donor countries and international agencies that loan funds and put projects into place with little concern for future operation and maintenance. Sometimes they build, or support the building of, inappropriate high tech facilities that cater primarily to the needs of their own country's commercial interests. One major donor recently completed a "state of the art" water purification plant and distribution system in Bangladesh. Less than a month after dedication by the President of Bangladesh, the plant stopped functioning, requiring spare parts and technical assistance from the donor country.

More attention must be given in the planning (decision making) stages of project development to such issues as ongoing operation, maintenance, cost recovery, the appropriateness of the technology (both social and technical) and the development of more viable, responsible institutions. While the ability and the will to implement projects, programs and services is critical to local government development, they are given short shrift by almost every agency involved in the development business.

Implementation means to carry out, accomplish, produce, fulfill, complete, maintain and operate. Implementation is doing what was said would be done in the local government's strategic plan, budgets and policies in terms of community projects, programs and services. The emphasis is not on initial construction of facilities or the initiation of new programs and services but the ongoing operation and maintenance of these new efforts and those that are already on line. Implementation doesn't just happen. It must be managed aggressively and continuously.

The key managerial roles that support implementation are: (1) strategic planning (decision making) to assure that inappropriate and unnecessary projects and programs are not brought on line in the first place; (2) human resource development to assure an adequately trained and motivated cadre of employees to operate and maintain the investment of programs and services; and (3) resource management, making available adequate funds, time, personnel, materials and equipment to implement, operate and maintain projects, programs and services.

The Human Resource Developer

One of the most pervasive problems afflicting local governments in developing countries is the lack of qualified personnel. There are many culprits.

(1) Most local governments donot have adequate funds to employ and retain competent and qualified personnel.

(2) Many local governments, particularly those located in rural areas, are not competitivee, as employers.

(3) Training institutions and programs are not geared to effectively serve the training needs of local governments. They tend to be too academic and wed to traditional modes of curriculum development and delivery. Local governments need hands on, practical, problem solving approaches to training.

(4) Most urban mangers do not have a commitment, strategy, plan or the resources to develop their organization's personnel.

Human resource development tends to be seen by many managers as an external function, largely the responsiblity of training institutions. I would argue otherwise. While developing subordinates involves many things, there are three interrelated activities that are solely in the hands of the supervising manager. They are: direction, support and delegation.

Direction involves telling subordinates what to do, where to do it, when to do it, and how to do it. It also involves the close supervision of performance. Is the subordinate performing tasks according to agreed upon standards? If not, what does he or she need to do to improve their performance?

The manager's support of the subordinate is the second major feature of effective on-the-job training and development. Support involves personal interaction with the subordinate: listening, providing encouragement, and increasing the subordinate's involvement in decision making. Supportive behavior is characterized by: active listening, honest praise, and interaction - the give and take of mutual decision making and problem solving.

Managerial support of subordinates goes beyond the personal realm. It assures the availability of resources to perform at the standard agreed upon. Depending upon the situation, it may require manpower, equipment, materials, time, expertise and much more - whatever it takes to get the job done.

Supportive behavior doesn't end with good personal interaction between the manager and subordinate and the resources required to perform adequately. It also involves managing the larger work environment to assure that policies, procedures, rules and regulations support effective job performance.

The final key to developing subordinates is delegation - pushing decision making to the lowest level in the organization. Tom Peters says, "The plain fact is that nine of ten managers haven't delegated enough". My experience in working with managers in many parts of the world confirms this. One gets the impression that delegation is not only seen as unnecessary but forbidden in many organizations.

The human resource developer role is crucial in countries where there is a shortage of qualified personnel and a dearth of competent mid-managers and supervisors. Contrary to popular opinion, human resource development is a management responsibility not a task to be relegated to training institutions. While these institutions have a supportive role, and an important one, human resource development begins and ends in the work environment.

The Communicator

The urban manager needs to be an effective communicator. This not only means getting information and ideas out to the council, employees and community, but the ability to listen actively and uncritically to the many messages that flow to the manager who is open and accessible. The urban manager's position is, or can be, akin to the nerve center of the community, but only if the manager makes a conscious effort to manage this aspect of his or her role. Effective community and organization development involves constant efforts to gather, process and disseminate information from and to all corners of the municipal organization and community.

The Resource Manager

The local government manager must manage scarce resources. Again this role is tied to others discussed earlier. For example, it is impossible to talk about human resource development without recognizing this is a major aspect of overall resource management. So is strategic planning.

But resource managing is much more. It is: the mobilization of new and continuing revenue sources; the effective allocation of resources among the many program and service responsibilities of the local government (budgeting); attention to infrastructure and equipment maintenance needs, preferably by setting up preventative maintenance programs; seeing that equipment, tools and materials are available to do the job; and managing the time variables. Time is one resource that is equally available to all managers and organizations, no matter how rich or poor they might be in terms of other resources. And yet, time is often poorly managed. Because resources are so scarce in most local governments, it becomes even more crucial to aggressively manage them. The ideas stated above are only a few of the ways the manager can maximize the resources at his or her command.

In Summary

The roles of the urban/local government manager are many. I've briefly commented on what I believe are six of the most important roles of the urban manager in developing country settings: policy advisor; strategic planner; implementor; human resource developer; communicator, and resource manager. You may already be saying that the roles I have identified are incomplete, not the most important, and inadequately defined. I hope this is the case. The important issue is not whether you agree or disagree with what has been said about the role of the urban manager, but how to develop a highly qualified and dedicated cadre of urban managers. The task is complex, difficult, challenging and critical to strong, viable, and responsive local governments. While developing competent urban managers involves training and, therefore, training institutions, the task demands, above all, self development on the part of the manager.

Session 40:	Tuesday 05 September
Topic:	The Individual And The Organization: Goal Ambiguity And Conflict: How To Deal With Them More Effectively
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	Using the information and ideas generated in the previous session, participants will identify points of potential conflict between the individual and the organization.
Training Approach:	Small group exercise; reports; large group discussion and short presentations
Readings:	From The Reader: "Thriving On Chaos"

<u>Sessions 41-42</u>:	Tuesday 05 September
Topic:	<u>How Personal Preferences Affect Job Performance</u>
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	These sessions will provide each participant with an opportunity to reflect on their own personality traits and how they impact on the individual's performance and the work organization.
Training Approach:	Self assessment instrument; group discussion and short presentations
Readings:	<u>The Reader</u>: "The Use of Models"

Session 43: Wednesday 06 September

Topic:	Strategic Planning: A Case Study
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	Small work groups will discuss a corporate plan of a major West African city (the case study is to be read during the weekend) and participants are to be prepared to report on its strengths and weaknesses as a statement of local government's intent for future action.
Training Approach:	Small group discussions; reports
Readings:	The Corporate Plan For Accra, Ghana

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

FOREWARD

It is with great pleasure and satisfaction that I commend for your attention to this first issue of the Accra Metropolitan Authority Five Year Rolling Corporate Plan. It is not without some degree of pride that I am able to announce that this is the first plan of it's kind produced by a Local Government body in West Africa. I accept that the plan will of necessity change before it is fully implemented, due to changing circumstances and national policies, but the very exercise of producing this document has exerted a discipline and fostered a team spirit within the organisation which engenders well for future years. I would like therefore to congratulate and give thanks to all Chief Officers and their staff for the contribution they have made to the successfull completion of this first publication of the Corporate Plan. In particular I would like to make mention of the efforts of the City Treasurer who with the assistance of the Financial Adviser has prepared the necessary information to enable the plan projections to be expressed in terms of cost and affordability.

ENOCH T. MENSAH
EXECUTIVE CHAIRMAN
ACCRA METROPOLITAN AUTHORITY.

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

CONTENTS

CHAPTER

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

CHAPTER 1 - PURPOSE OF THE PLAN

1.1 PREFACE

Accra Metropolitan Authority is directly responsible for the Revenue Mobilisation Component of the Accra District Rehabilitation Project, funded by the World Bank, is now a model in both Local Government general administration and financial management within Ghana.

The A.M.A. commenced the project in 1982 with an overdraft of C25m and ended the year 1987 with a favourable credit balance of C330m which is no mean achievement for the five year period.

The stage has now been reached where it is thought reasonable and practical that the A.M.A. should embark on a long term planning exercise embracing the next five years which will be rolled on year on year. The object of this rolling programme is to enable the A.M.A., in collaboration with other agencies, to provide services both to the individual and the community as a whole to enable the citizens of Accra to live happy, useful, peaceful and complete lives. It is noted that all efforts will need to be intensified to raise the levels of services to the level expected by the residents and business community falling under the jurisdiction of the A.M.A..

1.2 THE STRENGTH OF THE PLAN

In all well run organisations management must establish goals and then develop plans to achieve them. This document sets out the corporate thinking of Accra Metropolitan Authority for the next five years. The plan focuses attention on the key results areas defined over the last five years, 1984 -1988, and identifies the policies and objectives which the A.M.A. needs to achieve to support its long term goals.

The Corporate Plan is an authoritive document in that it represents the considered views and collective expertise of the A.M.A. and its officers. The plan is, therefore, a statement of good practice to be followed on all occasions unless there are irrefutable reasons for divergence. The plan is not cast in tablets of stone but is rather a dynamic document capable of corporate modification to meet the changing needs of both the A.M.A. and the citizens of Accra.

1.3 MEASUREMENT OF PERFORMANCE

The Corporate Plan is intended to be the central reference point for defining the objectives for Local Government in the area under the jurisdiction of Accra Metropolitan Authority. It will be appreciated that the preparation of the plan is only part of the exercise in the attempt to provide better and more efficient services to the ratepayer. In recognition of this, the A.M.A. will develop over the succeeding months main indicators which will identify measurable performance against that projected in the plan. It is intended that these measures, will in the future be capable of being used to assess comparative performances of Local Government units both within the Metropolitan area of Accra and over the country as a whole.

1.4 LIMITATIONS OF THE PLAN

The Corporate Plan is based on the best information available at the time of preparation and it is recognised that internal and external factors will emerge which may necessitate major changes to the framework of the plan. Changes in National Policy will necessitate a review of the Councils policies whilst changes of a more local nature may require the modification of objectives.

It is therefore of paramount importance that the plan be reviewed on an annual basis and that unforeseen circumstances be taken into account when assessing perceived against projected performance. The recognition of the unpredicted will not be taken as an excuse or used as a disguise for poor or inadequate performance.

1.5 PROCEDURE FOR THE REVIEW OF THE PLAN

The Corporate Plan will be reviewed annually in accordance with the timetable laid down for the preparation of the annual budget and fee fixing resolution. Any requests for amendment will be forwarded to the Administrative Committee, through the City Managers office, at which forum they will be debated after any cost or revenue implications have been identified by the City Treasurer. All amendments approved by the Administrative Committee will require ratification by the A.M.A. before being incorporated into the Corporate Plan.

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

CHAPTER 2 - PLANNING GUIDELINES

2.1 PLANNING POLICY

The A.M.A. Long Term Plan Guidelines express the approach of the A.M.A. to the planning of the public services for which it is responsible. The standard of these services is based on local needs as perceived by the A.M.A. acting as a corporate entity. In balancing the competing claims for resources, made by or on behalf of different services and pressure groups, against each other and against the implications on rates and charges and thus consequently on the public, the A.M.A. needs to continually be aware of its major objective to fulfil its statutory duty to provide effective local services to the citizens of Accra. This iterative process both asserts the proper independence of the A.M.A. as a tier of government and requires the chief officers and their departments and all other subordinate decision makers to observe its disciplines. To this end A.M.A. will hold regular meetings of Heads of Departments in order to promote corporate thinking and the exchange of ideas.

2.2 PLAN STRATEGY

The Corporate Plan has been built around the objectives established by the A.M.A. which call for attention in respect of fourteen "Key Results Areas". In addition the A.M.A. is committed to maintaining and developing those systems and associated equipment put in place as a result of attaining the "Key Results Areas" which are as follows:-

- i. Basic Health Services
- ii. Housing and Town Planning
- iii. Education and Social Welfare
- iv. Markets and Lorry Parks
- v. Parks and Gardens
- vi. Roads and Drainage
- vii. Staffing and Manpower Development
- viii Administration and Logistic Support
- ix. Public Relations
- x. Public Safety and Comfort
- xi. Trade and Industry

xii. Traditional Authorities
xiii Transport and Communications
xiv. Korle Lagoon Recreational Scheme

N.B. The Korle Lagoon Recreational Scheme did not constitute a separate key results area until the preparation of this plan, when it was felt that due to its projected impact on many of the other key results areas it should be isolated to facilitate control and development.

2.3 OBJECTIVES OF PLAN GUIDELINES

The first year of the plan will form the basis of the A.M.A. 1989 budget, geared to its defined financial targets and adapted as necessary to achieve a smooth transition from the conceptual to the implementation phase.

Chief Officers of the A.M.A. have agreed on the guidelines and categories set out in Chapter 3 which outlines the method of overall planning of A.M.A. spending in the years 1989 - 93. These guidelines are subject to change as planning skills develop and performance measures identify strengths and weaknesses in the overall plan.

The guidelines request chief officers of the A.M.A. to develop integrated and complimentary policies and provisions in areas where their delegated responsibilities over lap in order to promulgate the ideals of Corporate Management and Responsibility. Furthermore chief officers are charged with cooperating with other statutory, parastatal and public sector agencies in order to achieve lasting and cohesive developments within the City of Accra.

It is taken as read, within both Planning and Operational Guidelines that chief officers will observe the cardinal virtues of cost effectiveness, optimum efficiency and value for money.

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

CHAPTER 3 - OPERATIONAL GUIDELINES

3.1 MANPOWER

In the course of the first year of the Corporate Plan a systematic analysis of all established posts will take place with the objective of preparing a definitive manpower plan. This plan will evaluate the following:-

- *i. Justification for the post*
- *ii. Experience/educational requirements*
- *iii. Training needs*
- *iv. Career structure/progression*

Chief officers will be required to consider job rotation for staff in order to increase skills and promote job satisfaction. Following the production of the Manpower Plan a manpower audit will take place to assess the suitability of existing post incumbents and determine any needs for retraining, redeployment or relocation.

Employee numbers will reflect the aims of the manpower plan although departments should be allowed to vary their staff either permanently or temporarily provided they can establish the following:-

- *i. The variance will result in better use of resources in meeting approved priorities.*

- *ii. Failure to take action would seriously prejudice the operation of the department.*

These justifications presuppose that the long term implications have been taken fully into account and that overall cash limits will not be exceeded.

- *iii. Legislative changes have created new duties and responsibilities which could not have been foreseen prior to budget preparation.*

Accra Metropolitan Authority recognises that its employees are its most valuable resource emphasis will be placed on the health and well being of the staff by:-

i. Provision of adequate and appropriate training.

ii. The promotion of job satisfaction including where appropriate job rotation.

iv. The appointment of qualified staff.

v. The development of incentive schemes to facilitate motivation.

.2 OPEN GOVERNMENT

Accra Metropolitan Authority will utilise the skills and learn from he views not only of its own employees but from the general public, and uch groups and organisations as may be fitted to comment, in an attempt o enhance its effectiveness providing the right services at the right l.

3.3 VALUE FOR MONEY

Chief Officers should endeavor to improve existing standards of service by constant striving to improve effectiveness and efficiency within their departments. At all times optimum value for money should be obtained and incentives introduced for suggestions leading to improved cost effectiveness of the department. To assist in the achievement of this objective a central purchasing department will be created, headed by a qualified Procurement Officer, whose objective will be to ensure that the A.M.A. obtains the optimal price for all goods purchased.

3.4 DIRECT LABOUR ORGANISATION

The Councils Direct Labour organisation should be used to its full bility during the plan period. The use of contractors should be discontinued in all cases where it can be shown that the use of in house labour and equipment is more cost effective. Persistent contracting out of similar tasks or activities will be placed under scrutiny.

3.5 CHARGING POLICY

During the plan period charging policy will be reviewed with the object of developing a cohesive and comprehensive scheme of charges which is understandable to and affordable by the payers whilst at the same time gives the A.M.A. the necessary revenue buoyancy and cash flow to finance its stated objectives. Charges will be regularly reviewed due to the current world-wide inflationary spiral and new sources of revenue will be sought in order to uphold the taxation cannon of fairness.

3.6 ACCRA METROPOLITAN AUTHORITY PROPERTY

High priority will be attached to the effective management and optimum use of all A.M.A. property, so as to provide maximum support for the provision of services. This will necessitate the creation of property registers and inventories of plant, machinery and equipment.

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

CHAPTER 4 - KEY AIMS AND OBJECTIVES

4.0 PURPOSE

The purpose of this chapter is to set out in words the aims and objectives which it is hoped to achieve during the lifetime of the Accra Metropolitan Authority first Corporate Plan period (1989 -1993). No differentiation is made in this chapter between capital and revenue expenditure as this information is contained in the financial five year models shown at Appendices A -E. The Key Aims and Objectives are outlined over the A.M.A.'s previously defined Key Results Areas.

No account is taken of the A.M.A.'s ability to fund all projects within the plan period but rather represents a "wish list" of what is desirable if Accra Metropolitan Authority is to meet its stated objectives. For this reason costs have been omitted from this statement of Key Aims and Objectives.

4.1 BASIC HEALTH SERVICES

i. It is intended to convert all public toilets, within the sewered areas, to water closets and connect them to the main sewers. It is estimated that during the plan period fifteen pit toilets will be connected. In addition a further five toilets already connected will require major maintenance or replacement.

ii. Solid waste management will be extended over the plan period to cover 100% of the city. This expansion will be phased over the plan period and will involve private participation with stringent A.M.A. control. It is envisaged that the A.M.A. will provide some 60% of the service with 40% being in the hands of private contractors. Hospital waste collection will be provided solely by the A.M.A..

iii. The emptying of pan latrines, which was 80% privatised in 1987 will be gradually phased out as improved technology is introduced. It is hoped that in the first year of the plan period that all pan latrines in Asylum Down, Osu, Mateheko and Mamprobi will be phased out in favour of KVIP toilets or water closets.

iv. The permission granted to quasi-governmental bodies to operate cesspit emptying vehicles will be withdrawn during the second year of the plan period and the Waste Management Departments fleet increased to undertake the service within the city.

v. during the plan period there will be a concentration of effort on the enforcement of the cleansing bye-laws and other related laws to prevent the following:-

a) The selling of inadequately protected foods, and foods with expired dates.

b) Hawking and selling in unauthorised places and on pavements.

c) Unauthorised structures e.g. kiosks or illegal conversions of residential property to commercial usage.

d) The rearing of sheep and goats and cattle in residential areas without valid licences. The rearing of pigs and cattle will be prohibited within the City.

e) The owners of straying sheep, goats and pigs.

f) Unauthorised and unlicensed auto and vulcanising workshops and containers sited by the main arterial and other busy roads into ACCRA.

g) The indiscrimate dumping of waste and the non clearance of silted drains. The Task Force from the department of the M.O.H. will be made more mobile for this exercise.

vi. It is intended during the plan period to complete the renovation of the old slaughter house. In addition small satellite slaughter houses will be created within Mallam Atta and Osu Markets for the killing of sheep and goats. In support of this it is intended to procure meat vans for the hygenic transport of meat and to improve meat stalls in Salaga, Mallam Atta and Adabraka markets. Plans are also in hand to provide a new and completely modern meat processing centre ensuring the highest standards of meat handling. Modern methods of de-hairing sheep, goats and cattle hides will be tried and evaluated.

vii. It is planned to provide model chop bars for the workers in the industrial areas at Karneshie and South Ring Road, and possibly at the new lorry parks.

4.2 MARKETS AND LORRY PARKS

i. Larger refuse containers (18 cubic metres) will be introced from 1989 onwards and thereafter be maintained throughout the plan period, it is envisaged that additional costs be incorporated in market fees.

ii. From year one of the plan period fortnightly early closing of markets will be imposed in order that they may be flushed with water and all places swept clean. After the initial load has been assessed it may prove practical to extend the period between major cleanings at certain markets, but the once fornightly toilet cleaning will be maintained.

iii. The following developments to markets and lorry parks will take place:-

31st December Market	*Corn Mill, Pepper Mill, Chop Bars, 15 sheds, Toilets, improved meat shops.*
Accra New Town Market	*Fencing, 20 stores, warehouse, toilet,concreting, drainage, 30 sheds, corn and pepper mills, extension of day care centre and building of satellite slaughter house.*
Osu Market	*30 stores, 10 sheds, toilet and drainage, meatroom, ACC offices, satellite slaughter house.*
Nungua Market	*10 sheds, clinic, day care centre, fencing, toilet, meatshop, corn and pepper mills.*
Labadi Market	*Fencing, 8 sheds, toilet, meatshop, drainage, ACC offices.*
Tuesday Market	*30 stores, toilet, warehouse, drainage, ACC office/information centre.*
Salaga Market	*Meatshop, 10 sheds, toilet.*
London Market	*Meatshop, 10 sheds, toilet, refuse point.*
Tema Station Lorry Park	*Slabs and kerbs for pavements, tarring of other surfaces, 4 snack bars, 6 chop bars, passenger lounge, two service stations.*
Central Lorry Park	*9 snack bars, 5 chop bars, filling station, passenger lounge, tarring of surfaces.*
Arena Station	*Tarring of surfaces, toilet, 3 snack bars.*

Neoplan Station	*Tarring of surfaces, slabs and kerbs for pavements, passenger lounge, 10 chop bars, 5 snack bars.*

iv. All markets to be equipped with a cold store during the plan period.

v. In order to alleviate traffic problems in the centre of Accra and improve wholesale trading conditions three peripheral markets will be developed to cater for the wholesale trade. These will be sited at Lashibi, in the eastern corridor, Domi, to the north and Mallam in the west.

4.3 ROADS AND DRAINAGE

i. In the first year of the plan period drains in residential areas shall continue to be the resposibility of residents. The A.M.A. will commission a feasability studies during this period with a view to introducing a self financing scheme for the cleansing of residential drains, with fees being based on frontages, for those not capable of carrying out this essential task themselves.

ii. The cleansing of drains on major and strategic public roads will be phased on to a contract basis through the plan period. Contracts will be based on specific lengths of highway and teams will be established during the plan period.

iii. Waste Management Department to undertake the cleansing and desilting of selected storm water channels on contract from Architectural Engineering Services Corporation.

iv. Street sweeping will be put out to contract during the course of the plan period. The labour force being shed to the private sector.

v. The Mosquito Control Unit will establish contact with agencies interested in the drainage system within the City as well as examining new technology for the control of mosquitos and other pests. The M.O.H. Department will seek funds, equipment and supplies to reduce the menace of Malaria.

4.4 STAFFING AND MANPOWER DEVELOPMENT

i. Waste Management Department will employ three engineers on technician grade from year one of the plan to augment the expertise currently available in the workshops waste treatment and KVIP construction.

ii. As part of the programme to rehabilitate the Metropolitan Works

Department a number of qualified staff will be appointed.

iii. All tasks and activities of the A.M.A. will be reviewed during the plan period with a view to privatising those functions which can be more economically performed outside the public sector. This will benefit the A.M.A. by facilitating the shedding of the labour force, although stringent control will be vested in the A.M.A. at all times.

iv. To promote higher standards of health, sanitation and hygene vigorous attempts will be made to recruit qualified staff for graduate studies in environmental control. In addition training facilities will be strengthened in order that all technical staff are adequately equipped to carry out their duties. This will be achieved by the organisation of regular refresher and basic training programmes.

v. It is the intention of the City A.M.A. to develop schemes to reward excellence of performance, thereby creating the neccessary incentives for staff to strive to achieve high levels of efficiency and effectiveness in the performance of their duties.

1.5 ADMINISTRATIVE AND LOGISTIC SUPPORT

i. All A.M.A. vehicles shall be properly insured at all times

ii. All area offices will be renovated to a reasonable standard.

iii. The Fadama Offices will be renovated and developed for more effective use by the Metropolitan Works Department.

iv. The inception of the new Accra Metropolitan Authority, with four tiers of administration, namely Metropolitan Authority, District Councils, Town Councils and Neighbourhood Units will demand a strong and effective admistrative and support unit. This unit with its associated procedures will be developed during the course of the plan period under the guidance and control of the Director of Administration.

v. The A.M.A. will continue to expand its activities in computerisation both by the development of the current main-frame equipment and by the procurement of stand alone and networked micro-computers.

vi. During the plan period a new City Hall complex will be developed to facilitate the efficient and effective administration of services at the all levels in the Metropolis.

vii. It is anticipated that a public mortuary will be constructed at Labadi and a crematorium will be built at Awudome.

4.6 PUBLIC RELATIONS

i. The A.M.A. recognises the great importance of keeping the public informed of its activities and therefore proposes to create a new professional department to promote good relations with the citizens of Accra using the following means:-

a. The Waste Management Department van will go out to the public to ensure that residents are aware of public health programmes and facilities. Staff will be made available for the public education in the use of these facilities.

b. An information and cinema vehicle will be procured for the express use of the Director of Administrations Public Relations unit.

c. The ratepayers and citizens of Accra will be kept well informed of all the A.M.A.'s activities by use of the media and the A.M.A.'s publicity vehicles.

d. Assembleymen and Officers of the A.M.A. will meet as necessary with various organisations and pressure groups to discuss and seek opinions for the improvement of Local Government activities within Accra.

e. The A.M.A. will conduct a publicity campaign to increase the awareness of the citizens of Accra and the business community of its aims, objectives and services provided.

4.7 PUBLIC SAFETY AND COMFORT

i. Three mini-buses will be procured in order that the City Guards of the Legal Department can perform more adequately their duties with regard to public safety and comfort.

ii. The A.M.A. will ensure during the plan period that more pedestrian crossings and more adequate street lighting are provided in line with the recent traffic survey produced by De Leuw Cather,

iii. More street wardens will be engaged to assist the elderly and school children in crossing the busy streets of the city.

iv. The A.M.A. will introduce those measures outlined in the Accra District Traffic Management and Improvement Study which can be achieved without major capital works. Particular attention will be paid to the improvement of footways and sidewalks.

4.8 MAINTENANCE OF TRADITIONAL AUTHORITY

i. A suitable and respectable vehicle will be provided for the use *of the Ga Mantse, the President of the Ga Traditional Council, thus*

ensuring his mobility. Until this vehicle is procured the A.M.A. will ensure alternative transport is made available.

ii. The palace of the Ga Mantse will be renovated and refurbished.

iii. The A.M.A. wish to express a firm commitment throughout the plan period to the maintainance and upkeep of the Ga Mantse and his sub Chiefs both by active and fiscal support.

4.9 TRADE AND INDUSTRY

i. The Waste Management Department will commence manufacture of frames for canopies for use at funerals in support of the Industries Branch Coffin Manufacture which will also expand its production.

ii. The present motor hearse will be repaired and hearse hire reactivated. Two minibuses will be procured and will be suitably modified for use as motor hearses.

iii. A new site will be procured for the relocation of the Carpentry and Joinery sections of the Metropolitan Works Department.

iv. Machinery currently in use in the carpentry and joinery sections will be rehabilitated or replaced.

v. Modern machinery will be procured for the tailoring section.

vi. The A.M.A.'s Direct Labour Organisation will actively compete for all constructional works, housing rehabilitation and such other works as may be within its capabilities both internally and on the open market.

vii. The A.M.A. will aquire land in the oldest parts of Accra, namely Gamashie, Chorkor, Osu, Labardi, Teshie and Nungua for the purpose of constructing funeral parlours and social halls.

viii. During the plan period the workshop in the Waste Management Department will be further strengthened to enable work to be carried out on non A.M.A. vehicles.

4.10 EDUCATION AND SOCIAL WELFARE

i. Work will be put in hand to ensure that by the end of the plan period at least 90% of all schools have toilet facilities (W.C or KVIP).

ii. Collaboration will take place with parent-teacher associations to ensure that all schools have at least one litter bin by the end of *the plan period.*

iii. Every effort will be made to ensure that adequate and comfortable facilities are provided for the well being of the elderly.

iv. Places will be made available where children can safely congregate for the benefits of playing together and exchanging ideas. For example the present Timber Market sit will be converted to a playground when the new periphery markets are ceated.

v. The home for the destitute will be increased in capacity by a major refurbishment plan so as to ensure a lower number of vagrants on the city streets.

vi. Within the plan period 33 schools will undergo major refurbishment or repairs, 14 schools at present under construction will be completed, 12 new schools will be built and 130 Junior Secondary School workshops will be established.

vii. New equipment and furniture will be procured for the new school buildings and workshops. In addition canteen facilities will be provided at a number of schools.

viii The A.M.A. will increase the number of day care centres throughout the city.

4.11 HOUSING AND TOWN PLANNING

i. It is anticipated that agreement will be reached under the Urban II project for the provision of suitable vehicles required by the Metropolitan Works Department for building and development control.

ii. The A.M.A. intend to examine the possibility of preparing schemes for housing construction during the plan period.

iii. Schemes will be prepared for the upgrading of certain areas of the city in line with the Mamobi Upgrading scheme recently carried out under the Accra District Rehabilitation Project.

iv. During the plan period a new structural plan for the city will be implemented, giving rise to slum clearance, redevelopment and the re-zoning of certain areas of the city. In addition major wholesale markets will be relocated on the fringes of the city to ease traffic congestion.

4.12 PARKS AND GARDENS

i. Two lawn mowers will be procured enabling labour to be redeployed elsewhere in the system. Street side weeding will be reorganised into a contracted out operation.

ii. Kwame Nkrumah Circle gardens and Kinbu Gardens will be further developed and improved.

iii. Major efforts will be chanelled into the planting of trees and shrubs along the streets of the city.

iv. Bye-laws will be introduced to minimise the incidence of established trees being removed or stunted.

v. The gravel pit at Ridge Hospital will be reclaimed for development as a park and recreation area.

1.13 TRANSPORT AND COMMUNICATIONS

i. All A.M.A. vehicles will be regularly and properly maintained and checks and controls introduced to ensure they are being efficiently run.

ii. New equipment will be installed to ensure effective communication between Head Office and all Area and satelite Offices.

1.14 KORLE LAGOON RECREATIONAL PROJECT

i. The Waste Management Department will ensure the necessary drain cleansing and waste collection to arrest further discharges of undesirable elements into the lagoon by way of the various entry drains.

ii. During the plan period work will commence on a scheme to rehabilitate the lagoon to enable it to function as a proper drainage catchment and to develop the surrounding area into a pleasing and healthy recreational and leisure area which will help to provide muuch needed tourist facilities.

iv. Existing bye-laws will be strictly enforced to prevent the traditional dumping of waste and refuse in the lagoon area.

v. As this is a major project it will need to be phased and it is therefore unlikely that it will be fully completed during the plan period.

vi. The A.M.A. recognises that a project of these dimensions cannot be wholly supported from its own funds and it will therefore look for private and institutional funding to bring the scheme to completion.

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

CHAPTER 5 - FINANCIAL AND ACCOUNTING POLICY

5.1 FINANCIAL POLICY

The purpose of this chapter is to set out the financial policies to be followed during the plan period. At present some of the objectives listed are not in place but will be introduced during the currency of the plan, other objectives will be refined and streamlined.

The authority to formulate financial and accounting policy for Accra Metropolitan Authority is derived from the Financial Memoranda and Financial Regulations now in force in the country.

The responsibility for the proper management and accounting of the funds of Accra Metropolitan Authority will be vested in the City Treasurer, who will be the Chief Financial Officer of the A.M.A.. He will be required to prepare correct budgets and estimates of A.M.A.'s income and expenditure in consultation with other Chief Officers and monitor performance of the spending departments against these approved budgets. He will prepare annual accounts showing the true picture of the A.M.A.'s income and expenditure for the year within two months after the year has ended, and monthly management accounts showing a running picture of spending departments against budget.

Accra Metropolitan Authority will have an internal audit unit comprising sufficient qualified audit staff to ensure that all the resources of the A.M.A. are properly and effectively used and that Financial Regulations are enforced. The Chief Internal Auditor will be independent of any department, reporting where necessary directly to the Metropolitan Assembly, but will be nominally attached to the City Treasurers Department for budgetary purposes.

5.2 FINANCIAL AND ACCOUNTING OBJECTIVES.

During the plan period Accra Metropolitan Authority will have the following objectives:-

i. To examine present revenue collection systems in order to optimise revenue accruing to the A.M.A.

ii. To assess current charging policy and ascertain whether new sources of funds can be made available.

iii To examine current charges and develop a cohesive charges scheme which is both fair to and understandable by the citizens of Accra.

iv To increase the revenue base to a level which will sustain A.M.A.'s services taking into account the world-wide inflationary spiral.

v. To introduce systems for the accurate management of income and cash flow.

vi To control departmental expenditure by monthly releases of grant based on prioritised related expenditure assessment by spending departments (see Appendix A).

vii To improve accounting and budgeting systems by maximising the use of computer equipment and training staff effectively.

viii To introduce an integrated computerised accounting system capable of sustaining both monthly management and final accounts.

ix To introduce accounting and procedures manuals for use by all staff.

x. To create an adequate depreciation fund for the replacement of the A.M.A.'s vehicles and machinery.

xi. To maintain the contingency fund at the appropriate level bearing in mind current rates of inflation.

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

CHAPTER 6 - TRAINING AND MANPOWER DEVELOPMENT

6.3 TRAINING POLICY.

Local Government is an institution and for this reason has it's own systems, practices and procedures which are unique.

The training needs of the personnel who are likely to be Local Government Officers must therefore be geared towards programmes which are so designed as to take account of the unique nature of Local Government. Arising out of these needs there must be an objective which can be best expressed as follows:-

i. To learn who is doing what in the Local Government service and how, and to gain a picture of existing needs and resources.

ii. To identify at the individual and stategic levels, training needs and priorities.

iii. To determine ways of using existing resources more efficiently and effectively, to respond to prioritised needs.

The resource areas include:-

Methodologies
Materials
Exchange/Collaboration/Network.

If attention is paid to the objectives, training needs can be defined over the following headings:-

i. General Management Skills.

ii. Financial Management Skills.

iii Specialised Technical and Management Skills.

iv. The Training of Trainers.

If we accept our need areas as outlined above, then who should provide the training and who should be the beneficiary? At present there is no existing methodology which effectively and comprehensively meets Local Government training needs. It is therefore necessary and urgent to develop the necessary facilities by upgrading the Local Government Training School to a higher institution that can offer Diploma Courses. In addition the Ghana Institute of Management and

Public Administration should be involved in providing a suitable training forum for the support of Local Government. These two institutions would be further supported by overseas training obtained under twinning and cooperation agreements.

[illegible] TRAINING IN GENERAL MANAGEMENT SKILLS.

The target group to be trained in general management skills is as follows:-

i. Chief Executives of Local Authorities.

ii. Departmental Heads of Local Authorities.

iii Chief Executives of related public sector agencies.

iv. Secretary for the Metropolitan Authority, District Secretaries and Presiding Members of Local Authorities.

v. High Level Ministry Officials.

The training content must be based on and include:-

i. Principles and functions of management.

ii. National Policy regarding urban development.

iii. Problem solving and analysis skills.

iv. Development and management of resources, Human, Financial, Materials and Time.

v. Project management and documentation.

vi. An appreciation of computers and data processing.

The approach and method of training should be by workshops and seminars of a residential nature away from the work place. these seminars and workshops should be of one to two weeks duration and will include:-

i. Discussions and exchanges of views.

ii. Use of case studies for the development of problem solving skills.

iii. Roll playing techniques.

iv. Group work and team building.

v. Field visits.

The constraints are likely to be lack of funds due to under budgeting on the training head. This must not be allowed to become a barrier to training. All pressure must be brought to bear and if necessary outside funds should be sought to train the top echelon in or involved with the Local Government service. It is no exaggeration to say that at the end of the day an efficient Local Government Service will depend on the skills developed and amplified by it's leaders. It will also bring great kudos to Government if it can demonstrate to the rest of the world how it has strengthened and improved its ruling skills and achievements down to the local level.

6.3 TRAINING IN FINANCIAL MANAGEMENT SKILLS.

The target group to be trained in financial management skills is as follows:-

- *i. Council Treasurers.*
- *ii. Financial Secretaries, Secretary of Metropolitan Authority District Secretaries, Presiding Members and Finance Committee Chairmen.*
- *iii. Deputies to Treasurers and Finance Secretaries, Stores Supervisors, Accounting Staff.*
- *iv. Accountants of other related public sector agencies.*
- *v. Internal Audit Staff.*

The content of the training must be based on:-

- *i. Financial planning and budgeting.*
- *ii. Revenue generation, collection systems and management of funds.*
- *iii. Expenditure management and control.*
- *iv. Basics of Management Accounting.*
- *v. Basics of Stores Management.*
- *vi. Financial Regulations.*
- *vii. Investment Analysis.*
- *ix. Project Appraisal.*
- *x. Auditing Techniques.*
- *xi. Appreciation of computers and data processing.*

The approach should and method of training should be by workshops seminars and lectures. There should be a mixture of short non residential courses coupled with more intensive residential training of one to two weeks duration. Case studies and field visits will play an important part and trainees will be encouraged to participate fully by exchanging experiences and ideas. Courses should be drawn from a cross section of the target group in order to ensure a breadth and depth of knowledge and experience. Courses should be of a modular nature and training notebooks should be kept by each trainee to ensure that the full range of modules is successfully completed.

As the target group is much larger than for general management skills there will in addition to financial constraints be time and availability constraints. These must not be allowed to prejudice the participation and completion of the complete course of training.

6.4 TRAINING IN SPECIALISED TECHNICAL AND MANAGEMENT SKILLS.

Training needs in specialised technical and management skills will be of a more ad-hoc nature and will be aimed at professional and peer groups. It is envisaged that the a cross section of the following target groups will be enrolled for each training course:-

i. *Engineers.*

ii. *Architects.*

iii. *Surveyors.*

iv. *Doctors of Medicine.*

v. *Administrators.*

vi. *Accountants.*

v. *Environmental Health Personnel.*

vi. *Lawyers.*

vii. *Teachers.*

The content of the training will be related to the roles played by the professional and peer groups in urban management and will be designed to encourage the appreciation of differing skills and expertise. These exercises should result in the broadening of the participants knowledge of other disciplines and encourage team building.

It is envisaged that the approach to this type of training will be by specialised workshops and seminars, exchange programmes and study visits both local and abroad.

Again financial and availability constraints will apply but as previously stated should not be allowed to prejudice the achievement of the training goal.

6.5 TRAINING OF TRAINERS.

The training of personnel to train others is a critical area which should receive the highest priority if continuity of output of suitably trained personnel is to be achieved in the Local Government Service. Since there are no institutions in the country which can offer higher education in Local Government Procedures Practices and Administration, a core group must be identified from which trained trainers can be produced. It is suggested that those Local Government Officers who are judged to be both academically and professionally suitable and who are gifted with the will and ability to impart their knowledge to others, be given external training in the required skills of training.

Training trainers is vital and it is forever being emphasised the world over that those responsible for training others must be adequately trained themselves in both technical and teaching skills. It is therefore suggested that the following training content be observed:-

i. Principles of training and evaluation of training techniques

ii. Skills for the production of training materials, tools and manuals.

iii. Assessment techniques.

iv. Communication skills.

v. Management techniques.

Time and facilities should also be made available to enable trainers to conduct research into both specialised and general subjects in order that course content remains dynamic. Trainers should also be seconded back to Local Authorities for short periods to carry out studies and gain practical insight into the workings of those Authority's.

The approach and method of training should be by workshops, seminars, external study visits, institutional exchange programmes, and short course scholarship awards. Trainers and practitioners a like should be regularly encouraged to meet at a forum which facilitates discussion and exchange of views of both training and training needs preferably away from the work place and of a duration of two to three days.

6.5 CONCLUSION.

In view of the importance the PNDC government attaches to the District Assemblies, finance should not be a restraint in finding *adequate solutions to our management needs in the Local Government Service. We must continue to explore the areas ofimproved management services in Local Government. When we are able to balance the task orientation of the Service in our relationships with and orientation to the people who are the recipients of our services then Local Government will begin to fulfill its designated role.*

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

APPENDIX A - ACCOUNTING AND ACCOUNTABILITY.

INTRODUCTION

The Council having introduced, in 1985, a system of budgeting based on objectives and key results areas must now consider further advancement in budgeting techniques. This is very important because of the Metropolitan status of the Council. The A.M.A. will be responsible for collecting the bulk of revenue income but will have to distribute funds to a number of Sub-Metropolitan spending units. They will include the District/Town Councils as well as the spending Departments of Accra Metropolitan Authority. To pave the way for these changes, it is suggested that the City adopts a more commercial method of budgetary control and disbursement of funds. It is further recommended that a pilot scheme be instituted in the Waste Management Department in order to assess the practicability of this approach.

MONTHLY BUDGET PROCEDURE.

The procedure will be based on a monthly commitment budget and a monthly revenue budget, as follows:-

1. By the 15th of each month spending officers in the Departments will prepare lists detailing expenditure for the succeeding month.

2. These lists will be split into three sections:-

a) High Priority - expenditure which must be incurred for the Department to function. This category will contain an estimate for emergency expenditure.

b) Medium Priority - expenditure which should be incurred to ensure maximum operational efficiency at current levels of service.

c) Low Priority - desirable expenditure which would improve levels of service or operational efficiency, but which would not prejudice the running of the Department if deferred.

3. A nominated officer will prepare an estimate of potential emergency expenditure e.g. repairs to key vehicles in order to keep them running. This estimate will be based on previous experience and should be split between imprest items and other purchases.

4. A nominated officer will prepare an estimate of income for the coming month itemised by sources of funds. The total income *figure will be reduced by the total of employees expenses which will be borne centrally. These expenses will not include overtime or bonus payments as these should be included in the expenditure proposals. The income figure should be further reduced by 5% to allow for contingencies.*

5. These lists will be verified and approved by the head of Department before being circulated, together with a summary of previous budget performance, to Executive Chairman, City Treasurer and City Manager.

6. The Finance Committee will meet on the last Thursday of each month to consider expenditure and income for the succeeding month. They will also examine past performance calling for explanations of:-

- *a) Inaccurate Estimates.*
- *b) Underspending particularly on High Priority items.*
- *c) Level of Emergency Expenditure where considered excessive.*

7. The Finance Committee will then agree on the amount of grant to be made available to the Department for expenditure on the approved listed items. Approval will be taken as authority to incur expenditure.

8. The Department will be expected to monitor levels of income and expenditure and ensure that at no time:-

- *a) Expenditure exceeds income to date.*
- *b) Non approved expenditure is incurred.*
- *c) Expenditure is incurred in excess of total grant.*

9. Internal Audit will include in its checks of L.P.O.'s a validation to a copy of approved expenditure lists. Only the current approved list will be valid as any previous months expenditure not incurred should be reapproved and included in the current month.

10. The Department will prepare a weekly summary in the same format as the monthly summary in order to demonstrate the current position.

CONCLUSION

The adoption of the monthly budget and grant vote procedure will remove many of the delays currently experienced and will also enable the A.M.A. to have greater control over the budget.

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

APPENDIX B - PROJECTION OF PROPERTY RATE YIELD

	1989 Cm	1990 Cm	1991 Cm	1992 Cm	1993 Cm
Adjusted Rate Impost B.fwd	699.6	724.6	742.7	761.3	780.3
R.V. Increase(full yr adj)	16.1	8.9	9.2	9.4	9.6
	715.7	733.5	751.9	770.7	789.9
R.V. growth yield @ 50%	8.9	9.2	9.4	9.6	9.9
	724.6	742.7	761.3	780.3	799.8
ADD Arrears B.fwd	12.4	144.9	133.1	89.4	65.2
	737.0	887.6	894.4	869.7	865.0
LESS Arrears C.fwd	144.9	133.1	89.4	65.2	43.2
Estimated Rate Yield	592.1	754.5	805.0	804.5	821.8
Potential Additional Rate Revenue:					
Government Property	39.4	39.6	39.8	40.0	40.2
Military Property	22.3	22.4	22.5	22.6	22.7
	653.8	816.5	867.3	867.1	884.7

N.B. A flat rate of C0.005 has been assumed with an appropriate adjustment for the effect of minimum and maximum charges as follows:-

	Minimum cedis	Maximum cedis
First Class Residential	12,000	48,000
Second Class Residential	6,000	24,000
Third Class Residential	3,000	12,000
Commercial / Industrial	24,000	none

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

APPENDIX C - POTENTIAL TOTAL INCOME YIELD

	1989 Cm	1990 Cm	1991 Cm	1992 Cm	1993 Cm
Property Rates	653.8	816.5	867.3	867.1	884.7
Basic Rate	43.2	44.9	46.1	47.2	48.4
Structures Charge	15.0	15.3	15.6	15.9	16.2
	712.0	876.7	929.0	930.2	949.3
Licences	163.7	167.0	170.3	173.7	177.2
Rent on Council Property	9.2	9.4	9.7	9.9	10.2
Fees and Charges:-					
Household Refuse	20.0	21.4	22.9	24.5	26.2
Conservancy Fees	22.0	19.8	17.8	16.0	14.4
Market Fees	40.0	42.8	45.8	49.0	52.4
Other Charges	63.7	66.2	68.9	71.7	74.5
	145.7	150.2	155.4	161.2	167.6
Investment and Savings	2.4	2.6	2.9	3.2	3.5
Education	1.3	1.6	2.0	3.0	4.6
Trading Services	51.3	56.4	62.1	68.3	75.1
Miscellaneous Income:-					
Unspecified Receipts	45.0	46.1	47.3	48.5	49.7
Registration of Traders	110.0	112.8	115.6	118.5	121.4
Other	12.4	12.7	13.0	13.4	13.7
	167.4	171.6	175.9	180.3	184.8
	1253.0	1433.0	1504.3	1526.6	1568.7
Salary Subvention (50%)	232.7				
Assigned Revenues		180.0	189.0	198.5	208.4
Increase in Charges Over Year 1 Levels		80.7	84.7	86.3	88.9
	1485.7	1693.7	1778.0	1811.3	1866.0

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

APPENDIX D - EXPENDITURE ANALISED BY DEPARTMENTS

	1989 Cm	1990 Cm	1991 Cm	1992 Cm	1993 Cm
OFFICE OF CHAIRMAN AND METROPOLITAN ADMINISTRATION	95.3	101.0	101.9	102.9	103.8
LEGAL SERVICES	2.7	2.9	2.9	2.9	3.0
TREASURY	662.6	714.4	756.3	804.0	858.5
EDUCATION SERVICE	148.4	157.3	158.8	160.3	161.7
MEDICAL OFFICER OF HEALTH	53.4	56.6	57.1	57.6	58.2
WASTE MANAGEMENT	208.2	220.7	222.8	224.8	226.9
METROPOLITAN WORKS	315.0	334.0	337.1	340.3	343.4
	1485.6	1586.9	1636.9	1692.8	1755.5

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

APPENDIX E - EXPENDITURE ANALISED OVER KEY RESULTS AREAS

	1989 Cm	1990 Cm	1991 Cm	1992 Cm	1993 Cm
Basic Health Services	192.7	204.2	206.2	208.1	210.0
Markets and Lorry Parks	161.9	162.0	163.6	165.3	166.6
Roads and Drainage	47.3	47.0	47.4	47.9	48.3
Staffing and Manpower Development	600.6	633.4	674.5	721.4	775.1
Administrative and Logistic Support	193.2	195.3	197.1	198.8	200.9
Public Relations	6.2	6.6	6.7	6.7	6.8
Public Safety and Comfort	16.0	17.0	17.1	17.3	17.4
Maintenance of Traditional Authority	3.6	3.8	3.8	3.9	3.9
Trade and Industry	23.6	25.0	25.3	25.5	25.8
Education and Social Welfare	169.6	204.7	206.6	208.5	210.5
Housing and Town Planning	6.0	6.4	6.4	6.5	6.6
Parks and Gardens	2.6	2.8	2.8	2.9	2.9
Transport and Communications	1.2	1.3	1.3	1.3	1.3
Korle Lagoon Project					
	1424.6	1509.4	1558.8	1614.0	1675.9
Pay and Price Contingency	61.0	77.5	78.1	78.8	79.6
	1485.6	1586.9	1636.9	1692.8	1755.5

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

APPENDIX F - SUMMARY OF PROPOSED CAPITAL EXPENDITURE

	1989 ¢m	1990 ¢m	1991 ¢m	1992 ¢m	1993 ¢m
Public Toilets & Urinals	8.0	6.4	5.9	5.9	6.0
Markets & Lorry Parks	75.0	75.5	90.0	44.3	44.4
Roads & Drainage Schemes	1.7	1.8	1.8	1.9	1.9
Offices & Workshops	15.2	11.9	12.0	11.9	12.3
Slaughter Houses	42.1	47.2	67.3	2.3	2.3
Cemetaries & Crematoria	71.5	102.0	2.1	1.6	1.6
Ga Mantse Palace			2.0		
Machinery & Fixed Plant			45.0	20.0	
Schools & JSS Workshops	44.7	44.4	44.3	34.3	34.2
Old Peoples Homes	3.4	3.6	3.6	3.6	3.7
Youth Club House	2.0	2.1	2.1	2.1	2.1
Housing	0.8	0.8	0.8	20.8	70.8
Parks & Gardens	1.0	6.1	1.1	1.1	3.1
Vehicles	126.5	108.8	109.9	111.0	112.2
	391.8	410.6	387.8	260.8	294.1

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

APPENDIX G - CITY OF ACCRA FACTS AND FIGURES.

Accra Metropolitan Assembly is a public sector agency properly constituted by legislation through which Central Government secures that rated local services are provided and properly managed in detail by the Authority.

The authority to administer the affairs of the metropolis is broadly derived under the PNDC Local Government Law 207 of 1988. Under this legislation it is clearly stated that the Assembly must make rate and fee fixing resolutions to be published, in order to levy charges to raise sufficient funds to enable it to deliver efficient services to the people.

The Assembly is responsible for the provision of services in the following areas of operation:-

i. Environmental and Basic Health.

ii. Education.

iii. Markets and Lorry Parks.

iv. Housing and Town Planning.

v. Highways and Drainage.

vi. Support of Traditional Authorities.

vii. Provision of facilities for the young, the old and the destitute.

viii. Cemetaries and Crematoria.

In addition the Assembly operates various trading services and a direct works department and is also responsible for the registration of traders and the licensing of premises in or upon which any trade, occupation, business or proffession is carried out.

The Assembly derives its revenue from the following sources:-

i. Property Rates.

ii. Basic Rates.

iii. *Licences.*

iv. *Rents.*

v. *Fees and Charges, e.g. Refuse collection and Market fees.*

vi. *Investment and Savings.*

vii. *Education Levy.*

viii. *Registration of Traders.*

ix. *Trading Services.*

x. *Miscellaneous receipts, e.g. Sale of surplus equipment.*

The City of Accra is inhabited by some 1.25 million people living and working in approximately 250,000 structures. The valuation of these structures on an ownership/replacement cost basis gives rise to 62,687 residential and 6,873 commercial/industrial rateable assessments yielding a chargeable value of 104.7 billion cedis and 28.1 billion cedis respectively. In addition Government and Military Properties are valued at 3.2 billion and 4.4 billion cedis respectively. The Authority is a major employer within the City having currently in excess of 4,000 employees on the payroll.

The City is served by 642 kilometres of paved roads and a further 385 kilometres of unpaved roads and has 166 licensed hotels and guest houses and is host to 55 diplomatic missions. Within the city limits there are 8 hospitals, 6 polyclinics and 11 other clinics operated by government, in addition to the numerous private clininics and hospitals.

The educational needs of the citizens of Accra are catered for by 250 private fee paying schools 216 public primary schools, 294 public middle schools and 216 Junior Secondary Schools (J.S.S). Additional education needs are served by government and private secretarial schools, Accra Polytechnic and Legon University.

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

APPENDIX H - REVENUE OUTTURN 1984 - 1988

	1984 Cm	1985 Cm	1986 Cm	1987 Cm	1988 Cm
Rates	13.0	26.4	78.2	78.1	91.4
Licences	6.3	11.4	19.3	23.0	26.0
Rents	0.2	0.1	0.6	1.4	6.2
Fees & Charges	15.7	33.2	51.0	62.4	93.3
Savings & Investments		0.5	0.7	1.4	0.7
Grants in Aid		2.0		1.1	3.0
Education		0.1	0.3	0.5	0.6
Trading Undertakings	0.4	2.5	4.5	27.2	40.8
Miscellaneous	5.3	2.6	65.7	115.3	86.1
Salary Subvention	7.7	8.9	66.4	226.6	224.8
	48.6	87.7	410.6	488.4	572.9

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

APPENDIX I - TRAFFIC MANAGEMENT AND IMPROVEMENT STUDY

As part of roads and drainage component of the Accra District Rehabilitation project, the Government of the PNDC commissioned Messrs de Leuw Cather International Ltd., Engineers and Planners to carry out traffic management and improvement studies with the primary objective of removing traffic bottlenecks in the City of Accra.

Consequently the consultants came out with an elaborate five-year plan which consists of a comprehensive package of physical land use, and policy related improvements recommended for implementation over the short term. Improvements over the five-year staged plan also include a one-way street system, intersection and geometrical improvements with related traffic control devices, road rehabilitation, realignments, widening and new links, pedestrian circulation improvements, on street controls and improvements, urban goods movement controls, railroad crossing improvements, relocation of wholesale markets, education and enforcement in support of the improvement plan. The consultants have also offered a proposed "master plan" for arterial streets, which they recommend is fully in place within ten years.

According to the proposals for the traffic management and improvement plan, the strategy for the phasing of individual improvements has been guided by critical needs analysis; an orientation towards a mix-in type of measures; financial considerations and the time required for project implementation; and institutional constraints to project implementation.

Meanwhile the strategy underlying the package of recommended priority actions are based on seven main principles, namely:-

1. *Low-cost measures geared to correct the most critical anomalies in the arterial roads system.*

2. *That the focus is on management rather than expansion; except where there are missing road links, the construction of which are vital to complete an inner loop roadway system, allowing travellers to move east-west without using the existing Ring Road or the CBD core road network.*

3. *Better performance of the traffic signal system, most of which has only two phases.*

4. *Improvement of existing intersections and addition of new signals.*

5. *Establishment of criteria for start up of a programme/campaign of road markings and erection of traffic signs:-*
   - At all intersections with traffic signals, and
   - Along all roads on the arterial system.

6. *Reduction of the accident potential at key locations on the Ring Road by eliminating some U-turns.*

7. *Enforcement of traffic laws, driver education and pedestrian safety.*

The importance of proper traffic control devices, such as road signs, signals and pavement markings that guide direct and control traffic could not be over emphasised. The need for driver education, information and assistance is also considered to be so vital and a campaign of bill board advertisements, use of car stickers, radio and T.V. programmes etc. as a means for driver education and information are suggested. Then the critical need for additional off-street auto parking has been considered and it was suggested that provision of same should be made a pre-condition for new development, particularly for major traffic generating land uses such as departmental stores, offices and large markets.

On Transit and Paratransit Systems, the consultants recommended the need for lay-byes, route modifications and expansions, potential relocation of transit stops and stations, express transit service taxi rule changes and augmented employee based bus pool programmes.

With regard to Demand Modification the recognised the substitution of communication facilities such as telephones for transportation and its potential savings for urban travel. Other areas recommended for improvement include development of road and drainage maintenance systems which should be based upon roadway illumination, correction of safety hazards, removal of encroachments on roadways and police enforcement programmes.

Specific areas recommended for implementation within the five year period could be summarised as follows:-

1. *Pedestrian Circulation Improvements:-*

Management of pedestrian traffic has been identified as vital. All too few pedestrian walkways and protected Zebra crossings are currently in place. Where walkways do exist, they have often served the activities of hawkers, retail stands and kiosks displacing pedestrians to the travelled way. This contribution to vehicular/pedestrian conflict as roads become pedestrian ways by necessity. The proper segregation, according to the study, of *pedestrian from vehicular traffic can only be achieved in many locations with the removal of on-street traders and marketing activities. At many other locations construction of dedicated walkways is needed.*

2. A One Way Street System in the CDB:-

The advantages and disadvantages of this system came into focus, and among others it is stipulated that one way treatments are particularly useful when two-way streets cannot easily be widened to accommodate traffic demands. For instance, extension of one-way system to Kwame Nkrumah Avenue/Kojo Thompson Road and other arterials including road markings and slight modifications to existing signals have been identified for implementation.

3. Intersection and Roundabout Improvements:-

It has been identified the inadequacy of traffic signs and road markings at intersections and roundabouts contribute to traffic accidents. No stopping/no waiting within fifty metres of approaches to intersections and roundabouts have been recommended; some of the priority areas include improvement and signalisation of the intersection of Agbogbleshie Road/Kwame Nkrumah Avenue, Kinbu, Ring Road West and Feo Oyeo Road, Ring Road Central and Nima Road, Official Street and Graphic Road and so on. Improvement of six major circles and provision of road markings and signs at each circle including Kwame Nkrumah Circle are all inclusive.

4. Ring Road Improvement:-

According to the report the 1986 accident statistics indicated that most accidents on the Ring Road were recorded near or at U-turn median openings. It was therefore proposed that U-turn median openings along the Ring Road at Nima Junction and Feo Oyeo Junction be eliminated, with the creation of signalised T-intersections. There should also be some widenings and pavement markings along the Ring Road.

5. Widening of Radial Routes to Ring Road:-

All major radial roads that lead to the Ring Road need to be widened. These include Nsawam Road, Liberation Road and Weija Road; also Ring Road may need to be widened from Awudoma Junction to Nsawam.

6. System of Inner Loop Roadways:-

It was explained that the radial/ring nature of the Accra Road system calls for at least two other complete ring roads. The roads selected for further study as inner loops include Castle Road, Liberation Road and or Kinbu Road. The central part of this ring route represents the critical problem because one alternative involve re-use of the abandoned railway corridor on the west, along

Korle Lagoon. In addition, a relocation of the Central Railway Station about 800 metres to the north would be required.

7. Creation of New Roadlinks:-

The existing road network presents several discontinuities due to missing roadlinks. Suggested links to close these gaps include:-

- *Linkage of Tudu Road to Liberia Road through the present Kimbu Trotro/Taxi rank near Novotel Hotel.*
- *Linkeage of Jones Road both to the Northward to Akasanoman Road and Southward to Kimbu Road.*
- *Linkeage of Adama Avenue to Castle Road.*
- *Linkeage of Mango Tree Avenue with Nima Road.*
- *Linkeage of Samora Machel Road with Royal Castle Road.*
- *Linkeage of Josit Broa Tito Avenue with Holden Roberto Road or Abdul Nasser Avenue.*
- *Continuation and realignment of Graphic/Agbogbloshie Road with Kinbu Road.*
- *Realignment of Brewery Road with South Liberia Road.*

8. On Parking and Improvement Programme:-

It was observed that erratic stopping contributes to traffic congestion, delay and the high accident rate. To curtail this problem the following proposals are to be critically examined:-

i. Specific locations along CBD roadways should be identified where one-side parking may be allowed. Conversely, areas for parking prohibition will have to be considered.

ii. Except where lay-byes are provided, no stopping, no waiting, no standing rules need to be effected for the following roads:-

- *Kwame Nkrumah Avenue*
- *Kojo Thompson Road*
- *Liberia Road*
- *Castle Road*
- *Kimbu Road*
- *Independence Avenue*
- *Barnes Road*

- *High Street / 28th February Road*
- *And Others.*

The need for Police Enforcement Practices was stressed. Granting of full power to MTU/City Traffic Wardens to deal with traffic offences and offenders were said to be vital vis-a-vis:-

- *parking violators*
- *violators of on-street hawking prohibitions*
- *unauthorised stopping*
- *pedestrian violators (non use of pedestrian crossings)*
- *turning left from right lanes and vice versa*
- *motorists who disregard pedestrian crossing facilities or signals etc.*

INSTITUTIONAL ARRANGEMENT FOR CONTINUING TRAFFIC MANAGEMENT PROGRAMME

It was recommended that the organisation structure should include seven vital sections encompassing:-

- *a maintenance section*
- *a traffic monitoring section*
- *a parking section*
- *a traffic signal section*
- *a design section*
- *a planning section*
- *a research section*

RECOMMENDATION FOR A CONTINUING TRAFFIC MANAGEMENT UNIT

The government of Ghana is in the process of forming a Department of Urban Roads within the Ministry of Roads and Highways. The DUR (now emerging) is to be at the same organisational level as the two line agencies now in existence, namely Ghana Highway Authority (GHA) and the Department of Feeder Roads (DFR). The Director of DUR will report to the PNDC Secretary/Under Secretary for Roads and Highways for the purpose of local programme administration, the DUR will be sub-divided into four "city roads units" initially one each for Accra, Tema, Kumasi and Sekondi-Takoradi. Each city road unit will be headed by a Chief Engineer. Each will take certain policy guidance (local priorities) from the appropriate City Council.

ACCRA METROPOLITAN AUTHORITY

CORPORATE PLAN 1989 - 1993

APPENDIX J - REPORT BY DAVID S. WILLIAMS
(COMMISSIONER PUBLIC WORKS, CHICAGO)

SUMMARY OF FINDINGS AND RECOMMENDATIONS FOLLOWING A STUDY OF CITY ENGINEERS DEPARTMENT

1. The facility in Jamestown has to be abandoned. It is inefficient, dilapidated and not centrally located. The proposed facility in Fadama seems to be appropriate. The land is there; it has good access; it can be easily designed and constructed.

2. Training in the City Engineers Department does not exist because of financial resources. Technology is changing everyday and ACC should expect its technicians to be updated. Funds must be in all divisions and the senior staff for training.

3. Equipment availability is a major problem. Work cannot take place without materials supplies and equipment. One of the reasons it seems as if various functions of the City Engineers Office are inefficient is because of the lack of materials supplies and equipment to do the work.

4. Transportation has to be provided in the City Engineers Department. Without transportation, inspectors cannot get to work sites, labourers cannot get to work and employees end up doing nothing.

5. The City Engineers Department should be reorganised so that its major functions can receive the necessary managerial support based on its mission. It is important to build a sound engineering section that can study and design drainage systems, roads, sewers and provide various support services such as soil boring, structural reviews, drafting, etc. The Building Inspectorate must also receive training on the new code of Building Regulations. The Works Section will absorb many of the labour intensive functions of the department thus allowing more efficient use of manpower.

6. Record keeping has to be improved in the City Engineers Department. There are no systems in place for easy retrieval. The facilities where records are stored are fire traps. A new facility has to be planned with the storage and retrieval of records in mind.

7. There is a need to computerise many functions. The department does not have a computer. It is recommended that the Building Inspectorate and Administration Office should be the first to be computerised. There should be an organised plan to computerise the *whole department. Communication should be constant with the Central Data Processing Unit before any purchases are made.*

8. The City Engineers Department should play a critical role in developing a Capital Improvement Programme (CIP) as well as the Capital Budget. Development of Accra will be based on the City's capital investment.

9. There should be established an Infrastructure Management Council (IMC) that would be composed of all departments and agencies that have an impact on development. It should include regional and central government activities: water, electricity and telephones. This council should meet at least once each month to discuss development and management plans.

10. There are no telephones in the City Engineers Office. They are virtually cut off from the rest of the government. This matter should be corrected immediately.

<u>Session 44</u>:	Wednesday 06 September
Topic:	<u>Strategic Planning: The Myth And The Reality</u>
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	This session will conclude the group reports and look at the strategic planning process as it is practiced in private corporations and public institutions, like local authorities.
Training Approach:	Small group reports; short presentation and large group discussion
Readings:	From <u>The Reader</u>: <u>Strategic Planning and Local Governments</u>

STRATEGIC PLANNING:

Concepts and Strategies

For

Planned Change

Written for

The Course On Urban Finance and Management
Nairobi, Kenya
August-September, 1989

Co-sponsored by UNCHS, EDI-The World Bank, and RHUDO-USAID

By

Fred Fisher, IDIOM
July, 1989

Perspective

Donor agencies have "discovered" strategic planning, or corporate planning, as it is sometimes called. Organizations vying for external development funds can expect to see strategic planning as an increasingly frequent requirement in their project applications. Given this trend, it is important to more fully understand what strategic planning is - and what it is not.

First, and foremost, it is not development planning, as reflected in those multi-year political statements that have become ubiquitous in the development process. As one author wrote nearly 25 years ago, "The national plan appears to have joined the national anthem and the national flag as a symbol of sovereignty and modernity."[1]

Development planning deals with the long term allocation of scarce resources. Development plans are typically stylized, formalistic, even ritualistic, global statements of intent that have little to do with day-to-day operations, or reality. They are based on predictions and forecasts, and spell out goals for which there is little hope of accomplishment.

Strategic planning is, or should be, a management tool. Strategic planning is a process to guide and foster institutional development and change in anticipation of, and response to, organizational and community needs as they relate to more immediate operation and implementation concerns. It is future decision making in the context of current reality. While strategic planning also involves the allocation or manipulation of scarce resources, the exercise is carried out within the realm of what is managerially realistic, not what is politically ideal.

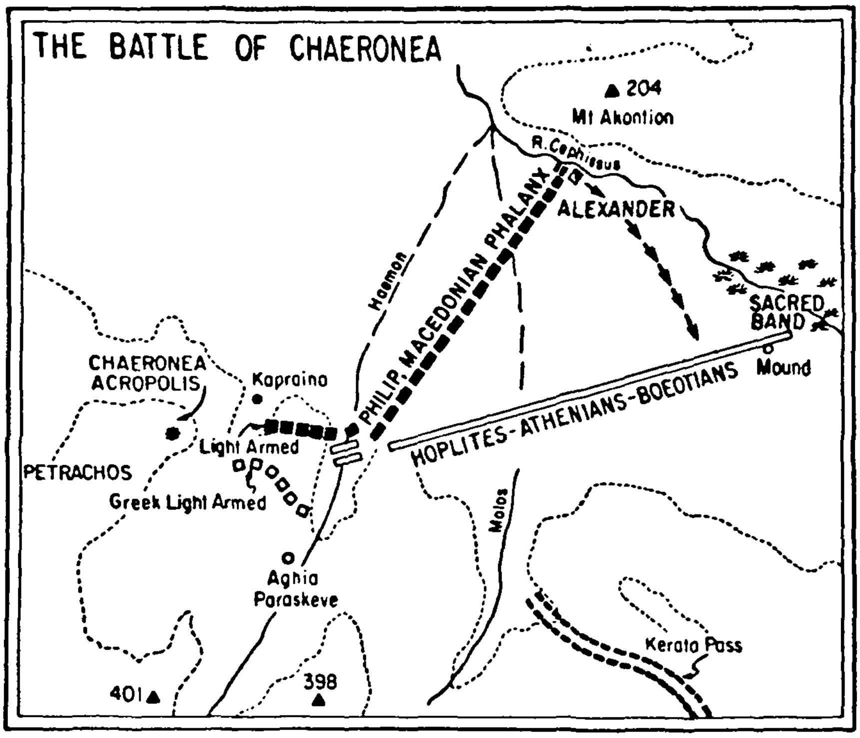
Strategic planning, as a management strategy, is not new, nor has its use been bound by culture or geopolitical boundaries. Over the centuries, great leaders have engaged in strategic planning (I would rather call it strategic thinking) and there is much to learn from their endeavors. Mao Tse-Tung, Napoleon, and Alexander the Great are remembered for their phenomenal accomplishments. They not only planned strategically but *carried out* their strategic plans. By contrast, how many contemporary leaders will be remembered for their five year development plans?

When Philip of Macedonia and his son Alexander (who went on to be known as Alexander the Great) planned a strategy to rid their homeland of influence by the Greek city-state in the third

[1] Albert Waterston, Development Planning, (Baltimore, John Hopkins Press, 1965) p. 28

century B.C., they engaged in the kind of thinking and tactics that are very much a part of the rhetoric we hear today from academics and others when they talk about strategic planning. Philip and Alexander set goals, built coalitions, assessed the relative strengths and weaknesses of different alternatives, used training as a tool to develop the human resources they needed to expand their empire, and put together contingency plans. The strategic thinking and planning Philip and Alexander engaged in over 2000 years ago is not only fascinating but relevant to this discussion. James Brian Quinn, in his book Strategies For Change (and incidentally, one of the best books written about the subject), includes an excerpt from another book about Alexander the Great and I've done the same.[2] It puts strategic planning into a historical perspective and highlights the timelessness of certain concepts and principles that provide the foundation stones for effective leadership.

Let me suggest that you take a few moments now to read and ponder this classical approach to strategic planning and management.



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[2] The excerpt entitled, "A Classical Strategy" is from P. Green, Alexander The Great, (Praeger Publishers, New York, 1970) and modified with the author's permission by James Brian Quinn, who includes it in his book, Strategies for Change: Logical Incrementalism, (Richard D. Irwin, Inc., Homewood, Ill., 1980) pp. 156-58.

A CLASSICAL STRATEGY

A grand strategy

Philip and his young son, Alexander, had very *clear goals.* They sought to rid Macedonia of influence by the Greek city-states and to *establish dominance* over what was then essentially northern Greece. They also wanted Athens to *join a coalition* with them against Persia on their eastern flank. *Assessing their resources,* they *decided to avoid* the overwhelming superiority of the Athenian fleet and *chose to forego* attack on the powerful walled cities of Athens and Thebes where their superbly trained phalanxes and cavalry would not *have distinct advantages.*

Philip and Alexander *used an indirect approach* when an invitation by the Amphictyonic Council brought their army south to punish Amphissa. In a *planned sequence of actions* and *deceptive maneuvers,* they cut away from a direct line of march to Amphissa, *bypassed the enemy,* and *fortified a key base,* Elatea. They then took steps to *weaken their opponents politically and morally* by pressing restoration of the Phocian communities earlier dispersed by the Thebans and by having Philip declared a champion of the Delphic gods. Then *using misleading messages* to make the enemy believe they had moved north to Thrace and also *using developed intelligence sources,* the Macedonians in a *surprise attack* annihilated the Greeks' positions near Amphissa. This *lured their opponents away from their defensive positions* in the nearby mountain passes to *consolidate their forces* near the town of Chaeronea.

There, *assessing the relative strengths* of their opponents, the Macedonians first *attempted to negotiate* to achieve their goals. When this was unsuccessful they had a *well-developed contingency plan* on how to *attack and overwhelm* the Greeks. Prior to this time, of course, the Macedonians had *organized* their troops into the famed phalanxes, and had *developed the full logistics* needed for their field support including a longer spear, which helped the Macedonian phalanxes penetrate the solid shield wall of the heavily massed Greek formations. *Using the natural advantages* of their grassy terrain, the Macedonians had developed cavalry support for their phalanxes' movements far beyond the Greek capability. Finally, using a *relative advantage*—the *command structure* their hierarchical *social system* allowed—against the more democratic Greeks, the Macedonian nobles had *trained their personnel* into one of the most *disciplined and highly motivated forces* in the world.

The battle strategy

Supporting this was the battle strategy at Chaeronea, which emerged as follows. Philip and Alexander first *analyzed their specific strengths and weaknesses and their opponents' current alignments and probable moves.*

The Macedonian strength lay in their new spear technology, the *mobility* of their superbly disciplined phalanxes, and the powerful cavalry units led by Alexander. Their weaknesses were that they were badly outnumbered and faced–in the Athenians and the Theban Band–some of the finest foot troops in the world. However, their opponents had two weak points. One was the Greek left flank with lightly armed local troops placed near the Chaeronean Acropolis and next to some more heavily armed–but hastily assembled–hoplites bridging to the strong center held by the Athenians. The famed Theban Band anchored the Greek right wing near a swamp on the Cephissus River. (See map.)

Philip and Alexander *organized their leadership* to *command key positions;* Philip took over the right wing and Alexander the cavalry. They *aligned their forces* into *a unique posture* which *used their strengths* and *offset their weaknesses.* They decided on those spots at which they would *concentrate their forces,* what *positions to concede,* and what *key points* they *must take and hold.* Starting with their units angled back from the Greek lines (see map), they developed a *focused major thrust* against the Greek left wing and *attacked their opponents' weakness*–the troops near Chaeronea–with the most disciplined of the Macedonian units, the guards' brigade. After building up pressure and stretching the Greek line to its left, the guards' brigade abruptly began a *planned withdrawal.* This *feint* caused the Greek left to break ranks and rush forward, believing the Macedonians to be in full retreat. This *stretched the opponents' resources* as the Greek center moved left to *maintain contact* with its flank and to attack the "fleeing" Macedonians.

Then *with predetermined timing,* Alexander's cavalry *attacked the exposure* of the stretched line at the same moment Philip's phalanxes *re-formed as planned* on the high ground at the edge of the Heamon River. Alexander *broke through* and *formed a bridgehead* behind the Greeks. He *refocused his forces against a segment* of the opponents' line; his cavalry *surrounded and destroyed* the Theban Band as the *overwhelming power* of the phalanxes poured through the gap he had created. From its *secured position,* the Macedonian left flank then turned and *attacked the flank* of the Athenians. With the help of Philip's *planned counterattack,* the Macedonians *expanded their dominance* and *overwhelmed the critical target,* i.e., the Greek center.

Implementation

Then came final implementation. Realizing their defeat, the Greeks surrendered. Keeping their *goals in mind* and with a *sense of time horizon* rare in those days, Philip and Alexander called off their rampaging troops and used the victory to *achieve their broader aims.* In a magnanimous settlement (for those times), they allowed the Athenian prisoners to return home and agreed to return the ashes of the Athenian dead. In return Athens was to abandon all territorial claims in Macedonia, dissolve the Athenian Maritime League, and become Macedonia's ally. As noted, this great victory was the touchstone and model for Macedonia's later conquest of the known world. Although its authors doubtless did not conceive and prescribe its actions and relationships with such immaculate precision prior to the battle, its precepts were enduring and have constantly reappeared both in other successful "grand" and "battle" strategies and in the mainstreams of strategic thought over the next 2,300 years.

A Road Map And A Few Biases

Before going any further, it will be useful to say how I plan to cover the subject of strategic planning and alert you to my own biases about the process. First, I will include, from other sources, statements and reflections about strategic planning as a management tool. As I do, I will try to highlight their importance in relation to their use in developing country settings. Second, I will relate several case examples of strategic planning, some specifically related to local governments. Finally, I will provide a blueprint for using strategic planning as an action strategy for development.

Now, for those biases. I am skeptical about long range strategic planning. For one thing, there is a tendency for it to be put into the hands of professional planners. Tony Killick, reflecting on his experience in planning in India, says planners are frequently politically naive if not presumptuous: "Temperamentally they are more at home quantifying problems than negotiating about them. Their training leads them to make unrealistic assumptions about political behavior, which in turn increase the gap between planning in theory and actual performance."[3]

Planners have a valuable contribution to make to the planning process but when it is relegate to them, almost exclusively, it undercuts the chance for successful implementation. Plans have a great capacity to gather dust.

Another personal bias has to do with quantitative data and the use of models for manipulating data. Planners love data and models. Since these statements will, no doubt, attract the ire of those engaged in such behavior, let me call in some reinforcements. Peter Drucker says strategic planning is "not a box of tricks, a bundle of techniques. It is analytical thinking and commitment of resources to action". He goes on to say that "model building or simulation may be useful, but they are not strategic planning".

Furthermore, "strategic planning is not forecasting. It is not masterminding the future. Any attempt to do so is foolish; the future is unpredictable. We can only discredit what we are doing by attempting it".[4]

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[3] Coralie Bryant and Louise G. White, Managing Development in the Third World, (Westview Press, Boulder, Colorado, 1982) p. 233.

[4] Peter F. Drucker, Management: Tasks, Responsibilities, Practices (New York, Harper and Row, 1973) p. 123.

Russell Ackoff, a highly regarded management specialist who has written extensively about strategic/corporate planning, also weighs in with some critical thoughts about the use, or misuse, of data. Ackoff, who started his academic career in operations research and the quantitative sciences, gradually moved away from these more precise roots to become a skeptic of management information systems and an advocate of such concepts as "mess management". Ackoff describes mess management as that process which deals with "systems" of problems. When we try to unravel the messes, or to disaggregate them, which often happens in attempts to quantify them, they lose their essential properties. For strategic planning to work, says Ackoff, it must deal with the mess as a whole and with the interaction that created the mess. According to Ackoff, the most critical need of managers is not more relevant information but less irrelevant information.[5] He gives an example from his own consulting experience which is relevant to this discussion and demonstrates, as he says, why the use of mathematical models and heavy reliance of quantitative data has been on the decline in recent years.

> *"About a decade ago an operations research group, highly placed in an important government agency in a third-world country, asked me to review one of its major projects. Most of the members of this group had received advanced degrees in OR from major universities in the United States. The project involved the distribution of grains from government-operated collection points to processing centers and from these centers to food producers and wholesale establishments throughout the country. The researchers were very proud of the number of variables and constraints included in the linear programming model they had developed, but they complained about the inability to obtain the quality or quantity of data their model required. To make up for this deficiency they had engaged in what is called "data enrichment", a euphemism for "data fabrication".*
>
> *In evaluating their model the researchers had compared the costs to the solutions it yielded with the costs of the solutions obtained by managers without it. They had used their model to calculate the costs of the solutions being compared. Because their solutions minimized the sum of the costs included in their model, they had to come out better than those of the managers.*
>
> *The minimization of the sum of costs included in a model is not the same as minimizing the sum of costs in*

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5 Russell L. Ackoff, Management in Small Doses (New York, John Wiley & Sons, 1986) pp 20-30.

> the real world <u>unless the model is a perfect representation of reality</u>. It never is. All models are simplifications of reality. If this were not the case, they would be much more difficult - perhaps too difficult - to use. Therefore, it is critical to determine how well models represent reality before using them. In this project the researchers had failed to make this determination.
>
> I also learned that the managers to whom the research team's solutions were submitted invariably modified them to take into account variables that were not included in the model. However, the team had neither identified these variables nor made any effort to incorporate them in their model. When I asked why they told me that the variables added by managers were qualitative and therefore could not be used.
>
> Finally, I learned that after a few months the managers had stopped using the solutions provided by the model because their political environment had changed. The changes, the researchers told me, could not be included in their model because they were neither measurable nor predictable.
>
> Clearly, if the researchers had solved a problem, it was not the one the managers had.
>
> Unfortunately, most managers are not equipped to evaluate the mathematical models that technicians apply to their problems or the solutions these models yield. Too many managers accept these models and solutions because of their blind faith in "quantitative methods". Managers should never use "solutions" that are extracted from models they do not understand. Nor should they stand in awe of mathematics. Rather they should be aware of how awful its products can be.[6]

James Quinn is another academic scholar who shared, earlier in his career, the view that more formal and rational planning structures could improve decision making in large organizations. While there were obvious benefits to be derived from the process, he also noticed some disturbing tendencies. From his in-depth survey of nine large multi-national corporations and their planning process in the late 1970s, he began to gain a different perspective about the use and misuses of strategic planning.

First, the formal planning activities carried out by these organizations often tended to become bureaucratized, rigid and

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[6] Ibid, pp. 88-90

the expectations through organized, systematic feedback".[9]

Strategic planning is, intrinsically, a political process. It requires continuous learning, intense interaction between those who control the resources and those who need them, and the on-going examination of underlying values and basic assumptions that lead to administrative and political behavior (ergo: strategic plans and their implementation).

The Ackoff Perspective

I want to return to something Russell Ackoff said about the planning process in a book he wrote about corporate planning nearly two decades ago.[10] His thoughts put into perspective some of the oft unspoken assumptions that either drive strategic planning, or should. At that time, Ackoff was saying that most planning is dominated by one of three points of view: satisficing, optimizing, and adaptivizing. Having said this, he quickly admitted the terms were not very good because their connotations were vague and ambiguous. "Satisficing", a term coined by Herbert Simon, means to "do well enough but not necessarily as well as possible". The level of attainment that defines "satisfaction" is one the decision maker is willing to settle for.

"Optimizing" is an effort to either: (a) minimize the resources required to obtain a specific level of performance; (b) maximize the performance that can be obtained from resources that are, or expected to be, available; (c) to obtain the best balance of costs and benefits.

"Adaptivizing", when Ackoff was writing about it nearly two decades ago, was, by his own admission, "not prevalent...because we have neither developed a clear and comprehensive concept of it nor a systematized methodology for carrying it out". (1970, p. 15). While adaptive planning was not generally practiced at that time, according to Ackoff, he nevertheless defined its main characteristics:

> (a) It is based on the belief that the principal value of planning does not lie in the plans that it produces but in the process of producing them. From this follows the notion that effective planning cannot be done to or for an organization or its managers, it must be done by them.

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[9] Drucker, p. 25

[10] Russell L. Ackoff, A Concept of Corporate Planning (New York, John Wiley & Sons, 1970) pp. 6-22

costly paper shuffling exercises. In many of the companies he surveyed, the primary impacts of planning were: to expand the scope of capital and generating budget procedures; to introduce formal measures to new areas of development; and, to achieve greater central control over operations.

Second, Quinn found that most major strategy decisions seemed to be made outside the formal planning structure, even in those organizations with well accepted and established planning processes. When large expenditures were made to plan the future direction of the corporations, the products of the formal planning process were ignored.

While much of the management literature and techniques associated with strategic planning have, over the years, concentrated on developing more sophisticated models of analysis and forecasting, Quinn concluded that they simply do not work the way the model builders thought they should. "Their purported 'normative' solutions began to appear highly questionable, if not actively destructive, in many instances".[7]

In place of the formal planning process, which relied heavily on planners and sophisticated economic and social technology, Quinn saw something quite different happening in the name of strategic, or corporate planning. In those organizations he studied, the full strategy was rarely written down and the processes used to arrive at a corporate, or strategic plan, were typically fragmented, evolutionary and largely intuitive. "The real strategy", according to Quinn, "tends to evolve as internal decisions and external events flow together to create an new, widely shared consensus for action among key members of the top management team".[8]

My own skepticism about strategic planning comes from many years of helping create plans for others. In most cases, these plans did not go anywhere or they went in the wrong direction.

These biases are part of a philosophy about strategic planning that increasingly recognizes planning as a management prerogative and responsibility. This doesn't deny the importance of planners, economic models, and quantitative data in the planning process but it does suggest we put them into proper perspective. Strategic planning, as Drucker reminds us, is "the continuous process of making present entrepreneurial (risk taking) decisions systematically and with the greatest knowledge of their futurity; organizing systematically the efforts needed to carry out these decisions; and measuring the results against

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[7] Quinn, p. 2

[8] Ibid, p. 15

(b) Since planning needs often arise out of the lack of effective management (e.g. Ackoff contends that most of the messes that planning tries to eliminate or avoid are man made), the principal objectives of adaptive planning would be to design management systems and processes that minimize the future need for "retrospective" planning. Planning in this context becomes directed toward creating a desired future - not fixing a current mess created by past endeavors.

(c) Adaptive planning recognizes that our knowledge of the future falls into three categories: (i) certainty; (ii) uncertainty; and (iii) ignorance. Each of these requires a different kind of planning. When certain aspects of the future are virtually certain (e.g. increased levels of pollution) we should carry out <u>commitment</u> planning. When there are aspects of the future we are relatively certain are uncertain (e.g. shifting patterns of drought) then we should engage in <u>contingency</u> planning - the "what if" kind of getting ready to exploit the future when it makes up its mind.

Finally, there are things about the future that we cannot anticipate (e.g. political catastrophes or technological breakthroughs). While we can not prepare for them directly, we can do so indirectly through <u>responsiveness</u> planning. This kind of planning directs its attention to designing organizations and management systems that can more quickly detect deviations from the expected and respond to them more effectively. Responsiveness planning builds into the system a greater ability to detect the subtle nuances of change and prepares the organization to be more responsible and flexible in its operating behavior.

<u>Adaptive Planning - Satisficing and Optimizing</u>

It seems that a realistic approach to strategic planning in most developing countries is one that adheres to the tenets of adaptive planning in its variations as defined by Ackoff, with a strong orientation to both satisficing (decisions and actions we can live with) and optimizing (getting as much out of our resources as possible to achieve a satisficing level of performance).

Adaptive strategic planning is based on some fundamental values and assumptions about the management process and how things get done in complex organizations. By "getting things done", I don't mean the creation of comprehensive, multi-year planning documents that make their first and final stop on the shelf behind the chief executive's desk.

Tom Peters, who co-authored <u>A Passion For Excellence</u> and followed it with a "handbook for a management revolution", Thriving on Chaos, says that a good strategic planning process: "(1) gets everyone involved; (2) is not constrained by overall corporate 'assumptions'; (3) is perpetually fresh, forcing the asking of new questions; (4) is not left to planners; and (5) requires a lot of nodding time and vigorous debate". As for the planning document, per se, Peters says it "is succinct, emphasizes the development of strategic skills, and, is burned the day before it is to go to the printer - that is, it is a living document, not an icon".[11]

This sounds a bit heretical, I suppose, but Peters has been taking the pulse of a wide range of organizations in the Western world for some time now and is convinced that flexibility is the *necessary watchword for strong and vibrant organizations.*

Flexibility, Not Predictability

Flexibility, rather than predictability, is important to the strategic planning process. Here are a few reasons to remain flexible:

(1) There are multiple goal structures within every large organization. If there aren't, there should be. Otherwise, the system becomes top heavy, stodgy and ultimately moribund.

(2) Strategic decision making is a politicized process that involves competing for scarce resources by a myriad of individuals, work units and organizations.

(3) As the stakes increase, so does the managerial bargaining and negotiating for position, power and access.

(4) Satisficing becomes a norm in decision making. Realism sets in. Managers recognize the importance of getting something rather than nothing and, therefore, strive for a position of relative satisfaction.

(5) Coalitions become increasingly important in the act of making large scale decisions. The world is increasingly messy as more and more institutions, organizations, groups and individuals lay claim to the development process and the shrinking resource base. If things are going to happen in development, it means cutting a deal or, maybe, cutting many. This doesn't mean corruptive deal cutting but rather a realignment

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[11] Tom Peters, Thriving On Chaos (New York, Alfred A. Knopf, 1987) p. 510

of territorial and resource boundaries based upon the shifting nature of the development process. (Unfortunately, "cutting a deal" has negative connotations in much of the world today because it has been, and continues to be, a corrupt and corrupting process.) Building coalitions and engaging in interactive, intertwining strategies is critical once the resources reach the point where they attract attention beyond the boundaries of the manager's office.

(6) Finally, "muddling through" has, in large measure, become the norm in large scale public decision making. This process, among other things, assumes an incremental building on to that which exists. (Rarely do we have the luxury of starting anew. Nor does it try to separate the ends from the analysis of the options because "one doesn't know what he wants until he knows what he can get)".[12]

If we accept these assumptions about how organizations and managers operate, then we begin to appreciate the breakdown of logical, formalized planning processes constructed largely through the analytical manipulation of information and data in the hands of staff planners rather than operating managers. It also provides a springboard for constructing a model of strategic planning that is more dynamic and responsive to the needs of operating organizations.

To help understand how the strategic planning process is being used in other places and contexts, I have included the following examples. The first "case study" is a review of strategic planning as it is advocated for local governments in the United States (by a national organization responsible for providing local governments with technical assistance) and practiced by many of those governments.

A Strategic Guide for U.S. Cities and Counties

The process of strategic planning has become more important in recent years in the management of cities and counties in the United States. Public Technology Incorporated (PTI), a non-profit organization created to serve local governments' needs for access to new technology, has published a strategic planning guide for use by its members. The following is a summary of the main points covered in Strategies For Cities And Counties.

According to PTI, *"Strategic planning is a systematic way to*

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[12] Charles Lindblom, "The Science of Muddling Through" in Public Administration Review (Spring, 1959) p. 87

manage change and to create the best possible future. It is a creative process for identifying and accomplishing the most important actions in view of strengths and weaknesses, threats and opportunities...implementation is the key to strategic planning, as opposed to long range planning and goal setting".

PTI clarifies their definition of strategic planning by spelling out the following characteristics:

> *(1) It is a focused process that concentrates on selected issues.*
>
> *(2) It explicitly considers resource availability.*
>
> *(3) It assesses strengths and weaknesses.*
>
> *(4) It considers major events and changes occurring outside the organization and community.*
>
> *(5) It is action oriented, with a strong emphasis on practical results.*

Another way to express these criteria is to say that strategic planning, as they advocate it for use in U.S. cities and counties, is practical, realistic and focused. By contrast, the "comprehensive planning" movement which was funded by federal government grants and embraced by U.S. local authorities in the 1960s was: all encompassing; often times idealistic; didn't always take into consideration the environment in which it would be implemented; and was characterized as a planning document, not a management tool for achieving practical results.

PTI sees the strategic planning process as a useful technique to broaden understanding of available resources and to stimulate fresh thinking about options and resources, not only within the control of the local government - but the broader community, including the private sector. It also defines resources broadly to include tangible ones, like funds and equipment, and intangible resources (e.g. authority, political influence, historic characteristics of the community, and civic spirit). The process, as defined by PTI, is designed to integrate activities and resources - not to supplant the obligatory financial budgeting process.

The PTI approach to strategic planning, as defined for American local authorities, includes seven steps:

> (1) *Scan the environment*: The process begins by identifying key factors and trends important to the future of the organization and community. It looks at the potential impact of external forces on local events.

(2) *Select key issues*: On the basis of the environmental scan, those involved in the process select a few key issues whose successful resolution is critical.

(3) *Set mission statements or broad goals*: General goals are set to establish the direction for the strategy development process.

(4) *External and internal analysis*: This step looks at outside forces affecting achievement of the goals and identifies strengths and weaknesses of the organization and community along with the availability of resources.

(5) *Develop goals, objectives and strategies*: Based on the external and internal analyses, decisions are made regarding what can be achieved with respect to each issue and how it will be achieved.

(6) *Develop implementation plan*: Specific timetables, resources and responsibilities for carrying out strategic actions are determined.

(7) *Monitor, update and scan*: The final step ensures that strategies are carried out, adjusting them as necessary in response to changing circumstances. Finally, PTI advises their clients to be prepared to update the plan when major changes occur in the environment.[13]

The Benefits of Strategic Planning

PTI outlines the following benefits to be derived from strategic planning.

(1) *Strategic planning helps accomplish the important things*. By putting the spotlight on longer term, high priority concerns, it puts day-to-day operational problems into perspective. In San Francisco, for example, there was widespread agreement that deferring infrastructure maintenance and replacement was unwise. And yet, it was not seen as a pressing problem. During development of a strategic plan for the City, the business community documented the growing backlog of infrastructure requirements and the Mayor, with private sector support, was able to make a case for spending $45 million more on infrastructure the following year.

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[13] These notes and others are taken form Strategies for Cities and Counties: A Strategic Planning Guide, Public Technology Inc., Washington, D.C.

(2) *Strategic planning enhances community education and consensus building.* Philadelphia, a city with racial, economic and ethnic diversity and attendant problems, made community education and consensus building an integral part of a strategic planning process that was tied to its 300th anniversary as a city. By creating twelve task forces (each formed to examine key issues such as economic development and housing) with 20 active members at the "core" and another 60 to 100 people in an outer "ring" of less active participants, they were able to involve over 1000 citizens directly in the strategic planning process. Each task force included representatives from business, government, civic institutions, universities, labor, neighborhoods and other community organizations. The major strength of the effort was its ability to bring a diversity of citizens together to sit at a single table to compare information and perspectives. As they met, a degree of consensus began to emerge about actions the city needed to take to move forward.

(3) *Strategic planning helps to develop a shared vision that extends beyond "the next election".* In this respect two issues are important. One, the need for a shared vision about what the city should be; and two, a process that minimizes the inertia that often accompanies elections and a change of local government. One secondary city in the United States had lost its primary economic base (rubber manufacturing) and used the strategic planning process to determine how they could rebuild a more stable and diverse economic base. It was essential to "paint a picture (vision)" of what the future might look like without the economic base they had taken for granted over the years - one which disappeared rapidly as a result of world wide shifts in manufacturing systems.

(4) *Strategic planning helps position cities to seize opportunities.* Peter Drucker says, "The first thing to do to attain tomorrow is always to be sloughing off yesterday". While this is not as easy to do in public organizations, it is still good advice. Strategic planning must be proactive if it is going to serve the organization in the future, even the near future. San Antonio, Texas, used strategic planning as a way to position themselves more favorably to attract high-technology business. Their economic plan was both strategic (e.g. developing research parks and attracting foreign investment) and tactical (e.g. publicizing the city through speeches by the Mayor and other officials as they traveled around the country).

(5) *Strategic planning can shed new light on important issues through rigorous analysis.* Strategic planning is a process that is supported through good data collection and analysis (as opposed to a process driven by data). Often the unearthing of data can help cities gain a new perspective on thorny issues. Mombasa Municipal Council (Kenya) through an action research project which featured a large number of interviews and a survey questionnaire, learned that nearly all sectors of their community, including the formal business sector, believed the informal economy is important and should be supported. Actual confirmation of this consensus should help their political leaders take further action to provide such support.

(6) *Strategic planning helps to identify the more effective use of resources, including public funds.* By focusing on projects and programs that have been identified as "most important" and have widespread support, the local government can optimize the effective use of all resources. Strategic planning should provide answers on the relative costs and benefits (not just monetary) of alternative approaches to define problems and opportunities.

(7) *Strategic planning can provide a mechanism for public-private cooperation.* Involving key decision makers and opinion leaders from major sectors of the community in the formulation of the strategic plan will: (a) increase their understanding of the issues and opportunities; (b) heighten their commitment to addressing them; and (c) surface new alternatives for decision making and problem solving, including more active involvement by the private sector. More and more cities in developing countries are recognizing the potential and benefits of involving the private sector more directly in the delivery of public services. The strategic planning process is a way of exploring these alternatives and their consequences before decisions are made.

The Strategic Workshop

The use of seminars or workshops has become an important means of carrying out strategic planning efforts for key leaders and executives. The Institute of Cultural Affairs (ICA) uses its Leadership Effectiveness and New Strategies (LENS) planning seminar to help organizations world wide formulate strategic plans. Their clientele have involved a diversity of organizations, including: Quantas Airways; The National Small Industries Corporation, India; Barclay's Bank, Zambia; Mayor's Office of Employment and Training, Chicago; and National

Plantations, Indonesia. The seminar combines team building and decision making based on the assumption that practical solutions to issues and constraints within an organization are to be found within the organization itself. They focus on a much shorter time frame than most strategic planning efforts, with action for implementing key plans to be carried out within a 90 day period following the seminar. LENS consists of five, 4 hour sessions. Session topics are:

(I) Practical vision: Based on a focus statement (the specific purpose for which the seminar is being held), the participants in small and total group work sessions describe a 3 to 5 year picture of where the organization or community wants or needs to go.

(II) Underlying contradictions: Through small group and total group exercises, seminar participants identify the major blocks to effective action in achieving the visions outlined in Session I. From individual insights about constraints that will hinder action, the group aggregates and categorizes them and prepares a holding chart of the organized data. Major blocks to effective action might include such issues as inadequate manpower development policies or unclear consensus on role or purpose of the organization.

(III) Strategic proposals: The third step is to brainstorm individual suggestions for effectively and strategically responding to the contradictions from the previous sessions and organizing these into future actions.

(IV) Scheduled tactics: From strategic proposals the group moves to practical activities by: (a) giving priorities to the proposals from Session III; (b) defining specific actions required to implement the proposal (with emphasis on practicality and catalytic effects rather than sequential steps); and (c) organizing the tactics into "tracks", actions that are similar either in nature or intent.

(V) Focused actions: The final step in the process is to organize teams to take one track from Session IV and write focused action paragraphs. These are the initiating programmes that describe in detail the activities to be pursued in the first three months following the seminar. These paragraph statements include: (a) the name of the programme or project; (b) the intent to be addressed; (c) anticipated benefits; (d) detailed components of implementation (who, what, when, where and how); and (e) what is at stake if the programme or project is not done.

A Personal Experience

I have had many opportunities to help organizations and communities carry out strategic planning efforts. One of my more interesting experiences involved a Regional Planning Commission in a medium sized, midwest city in the United States. The Commission asked me to help them organize and conduct a strategic planning conference on economic development for the metropolitan area. The overall mission of the conference was "to provide a forum within which public and private leaders in the Miami Valley could reach consensus on (a) the major economic development challenges and opportunities to be addressed within the next five years; and (b) a strategy for further consideration and action".

The conference was two days in length and involved just over 200 leaders, representing public organizations, private corporations, neighborhood groups, elected officials, non-profit agencies, the media, professional and business organizations, and agricultural associations.

The conference was initiated by a formal presentation and open discussion about the economic conditions of the metropolitan area. The past decade was reviewed in terms of: shifts in employment (they had lost several thousand jobs in primary manufacturing over a 7-8 year period); retail and service trends; and the role of support institutions (e.g. government, education, social service) during that period. The presentation, which was based on a research document, also framed the regional economy within the context of national and international economic trends and made certain projections about the near future.

Within this background, each individual participant was asked to identify the five most important economic development challenges or opportunities facing their region at that time.

The terms *__challenge__* *and* *__opportunity__* *were defined in the following manner.*

A *__challenge__* *is an economic circumstance which is currently detrimental to the short term and/or long term viability of the region and needs to be eliminated or diminished (an economic liability).*

An *__opportunity__* *is an economic circumstance which is currently advantageous to the short term and/or long term viability of the region and needs to be exploited (an economic asset).*

Twenty small work groups of about ten members each were formed with the task of discussing their individual lists for clarification and understanding and reaching a group concensus on the five most important economic development challenges and opportunities for the region. Each subgroup presented their list to a plenary session, which involved all 200 participants.

As you can see, there was a potential of 100 different issues. As it turned out, there were many duplications and the final list involved 31 different statements. These were organized by the workshop staff into a survey questionnaire (during the late afternoon tea break!) and each participant was asked (following the tea break and prior to adjourning for the day) to once again vote for what he or she considered the five most important from the combined list of 31 and to rank order them from one to five: one being most important; two, next important, etc. The staff tabulated the results that evening by cumulative weight (e.g. a number one vote was given a weight of five) and by the number of individuals voting for any single statement of challenge or opportunity. From the voting results, eight issues were clearly top priority, taking into account both methods of calculation.

On the following day, the results of the voting and tabulation were announced to the group and eight work groups were formed to address each of the top priority issues identified in the previous day's sessions. Each participant was given an opportunity to self-elect the topic he or she wanted to help address based on their interest, experience and potential contribution to its resolution. As it turned out, we had one very large group, several medium sized groups and one with only "a handful" of participants. While this concerned me (I tend to think groups of more than 10 participants are a bit unwieldy and unproductive), each group performed to our expectations and satisfaction, and carryied out the following tasks:

(1) identified the desired outcome of the challenge or opportunity their group was considering (the goal or objective to be achieved)

(2) identified alternative courses of action that could be taken to achieve the desired outcome

(3) developed an action plan for achieving their desired outcome or goal.

Each work group reported its recommendations to the total membership of the conference toward the end of the second and final day. At that time, there were discussions about each of the recommendations and proposed action plans. Decisions were made to assign responsibilities to specific officers and organizations to begin implementing the recommendations.
The final proceedings of the conference were published and made

available to the participants and a wide range of citizens and organizations in the region. The strategic economic development plan, forged in those two hectic days of discussion, became both policy and a work plan for the Regional Planning Commission. In a return visit to the region nearly a year later, I learned that many of the recommendations had already been implemented while others were still in progress.

Reflections About This Experience

Conferences, of this kind, do not happen serendipitously. They take careful planning, and rigorous managing once they are underway. This conference was particularly difficult because it involved so many people with varied backgrounds, experience and expectations. Some of the things that were done in preparation for the conference (which are applicable to most planning conferences) were:

(1) To be clear about roles and responsibilities (who will do what when)

(2) To enlist help and to train them in what I wanted them to do. (In this case, it meant identifying and training 20 small work group facilitators who would be responsible for helping each group accomplish the tasks assigned them.) The training only took two or three hours on the afternoon before the conference opened because most of the facilitators already had experience in leading small task group discussions.

(3) To be clear about the group tasks and to be certain they would be conveyed to each group in a consistent, clear and unambiguous fashion. If the group tasks are unclear or ambiguous, the products of group efforts will probably be unclear and ambiguous. If the group facilitators each describe the task differently, the products become impossible to assemble into a coherent plan.

(4) To adhere to the overall time table. Because the schedule was tight, the tasks difficult and the expectations of a successful conference high, it meant we had to manage not only the task groups but also the time allotted to each task and conference event.

(5) To be willing to make changes, as needed, as the conference progressed. While it is important to plan in a rigorous manner, it is just as important, at times, to change those plans as they are being carried out. There is nothing like the implementation of a well laid plan to expose its frailties. Planning workshops and conferences of the kind just described, have a way of creating a life

of their own. The effective facilitator must not only be aware of what is happening but to take advantage of it. For example, we had assumed that work groups for the final day should be fairly uniform in size to work effectively. As it turned out, the participants wanted no part of being assigned to a group arbitrarily. They preferred to self select around their individual interests. To have insisted on uniform groups would have demotivated many individuals who had a valuable contribution to make to the discussion and final recommendations. Given this, we made changes in our own thinking about what was important and how the conference should be managed.

Conferences and workshops are excellent vehicles for helping organizations and communities carry out a strategic planning process. They can become the center piece of the planning process, as was the case with the Miami Valley Regional Planning Commission efforts, or they can be one of a number of events organized to facilitate the overall strategic planning process.

At the end of this paper are three exhibits from the Miami Valley economic development strategic planning conference. They are:

(1) a conference schedule to indicate how it was organized by task and time;

(2) a newspaper story about the conference, by Michael McManus, a national syndicated columnist; and,

(3) a list of the 31 challenge and opportunity statements voted on at the end of the first day of the conference which, in turn, provided the work agenda for Day II. The issues finally selected for discussion were those which ranked highest in both cumulative scores and frequency of selection by individual participants.

<u>Why Plan?</u>

We have looked at many different interpretations of strategic planning, and even some ways of doing it. Nevertheless, you may be still asking the question, "Why plan?". The question is not naive given the history of planning in developing countries - or else where, for that matter.

One study of national planning and budgeting efforts in a dozen poor countries concluded that the efforts at comprehensive planning had done more damage than good[14], and communist countries,

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[14] Naomi Caiden and Aaron Wildavsky, <u>Planning and Budgeting In Poor Countries</u>, (New York, John Wiley & Sons, 1974)

noted for their ability to carry out comprehensive, centralized, multi-year planning efforts, have also been notorious for their ability to create high levels of economic and social stagnation. So, why plan? If we're talking about centralized, planner dominated, rational-analytical projections of current needs and public assets into an uncertain future, as a means of influencing the allocation of scarce resources, then perhaps there is little reason to do so, based on past experience. If, by contrast, we see strategic planning as a management process, one which determines allocation priorities and designs realistic implementation strategies, then planning makes sense and the time invested in doing it will be well spent.

The key to effective strategic planning is in the <u>process</u> not the <u>product</u> - or the <u>plan</u>. For the <u>process</u> to be effective, it needs to be:

(1) participative (being done *by* decision makers and problem solvers, not *for* or *to* them);

(2) interactive (involving a confrontation of *what is and what can be*);

(3) integrative (fusing bottom up with top down thinking about what should be done, how it should be done and who should do it); and,

(4) continuous (recognizing that purposeful systems and their environments are continuously changing and no plan retains its value over time).

As John Friedmann reminds us, "planning is not merely concerned with the efficient instrumentation of objectives, it is also a <u>process</u> by which a society may discover its future". [15] I might also add, a process for organizations and communities to discover their future.

<u>Who Should Plan?</u>

Who should be involved in the strategic planning process depends on what is to be accomplished. If the plan is to address only the implementation of projects or programs already approved by the policy body, then it may be appropriate to involve only the management team. Of course, "the management team" concept is elastic, depending on how far down in the hierarchy the chief executive decides to reach in the decision making process. There is increasing belief that first line supervisors, and even workers, have valuable contributions to make in decisions affecting the day-

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[15] John Friedmann, <u>Retracking America, A Theory Of Transactive Planning</u> (New York, Doubleday, 1973) p.4

to-day operations and there is concrete evidence to support their involvement. The manager who does not tap the experience and ideas of the work force in the planning process is denying the existence of a valuable resource. The question is not whether to include them, but how. Obviously, it makes little sense to take the entire organization to a remote site for a three day strategic planning workshop. On the other hand, the manager needs a strategy for communicating with line personnel on a routine basis.

When the strategic planning process involves the longer term definition of community goals and the allocation of scarce resources among various programs and services, it is advisable to go beyond both the management team and the elected leadership. As we have seen from the examples stated earlier (from those detailed in the PTI manual on strategic planning and the Miami Valley Economic Development Conference), the net can, and should, be cast broadly to involve all sectors of the community. It is a recognition that good ideas about community development and strategic planning are not limited to a few chief officers and elected leaders. It also recognizes the importance of involving others who have a stake in the successful implementation of programs and services. Active participation by those outside the formal organization not only brings good ideas and experience to the planning process, it assures greater understanding of the plan once it is adopted. This understanding, in most cases, gets translated into commitment to the plan.

Local customs and traditions about who makes decisions on behalf of the organization and community will dictate, in large measure, who gets involved in any strategic planning process. Nevertheless, it is important to recognize that cultures, norms and customs are not only reinforced but also invented by those who practice them. If past decisions have been held tightly by a few key individuals, it may be time to "invent" a new way of decision making in your organization or community, particularly, when it comes to planning the future.

What Should Strategic Planning Involve?

Strategic planning, in its most basic form, is the articulation of future goals and objectives and the allocation of resources to meet them. But, to arrive at these decisions should involve much more. Here are a few of the elements that go into effective strategic planning.

(1) The organization and/or community needs to analyze its own internal situation - its strengths, weaknesses, capabilities and problems.

(2) It also needs to look at the external environment and what it means in terms of challenges and opportunities. No organization or community operates in a vacuum. They

are constantly being challenged, supported, threatened, and affected by outside influences and forces. To plan in isolation of these influences and forces, is initially naive and ultimately disasterous.

(3) Strategic planning requires vision - not just analyzing **what is** but dreaming about **what can be**. It requires, as Drucker says, "sloughing off yesterday" and inventing the future. Strategic planning requires innovative thinking, new ideas, risk taking into the unknown. As I sit here writing about strategic planning, my thoughts are drawn to contemporary events. The Communist world is in ferment and it presents two radically different pictures of the planning process. Russia, under the dynamic leadership of Gorbachev, is currently plunging into the unknown, fueled by a vision of what that country can be, given new ideas and direction. Gorbachev is practicing pro-active planning in its most dynamic form. Far to the east of Moscow, in the Peoples Republic of China, we see a very different brand of planning - what Ackoff brands "reactivisim". "Reactivists prefer a previous state to the one they are in and they believe things are going from bad to worse. Hence they not only resist change but they try to unmake previous changes and return to where they once were...Reactivists are moved more by their hates than their loves...they do not ride with the tide; they try to swim against it back to a familiar shore".[16]

(4) Strategic planning identifies the gaps between where we are and where we want to be - as organizations and communities.

(5) It communicates. It gathers ideas, data and insights from up, down and across the organization and community and communicates them back as assumptions, goals, strategies, and policies that make up the plan.

(6) Strategic planning generates proposals from those who are destined to carry them out and formulates them into viable alternatives for action.

(7) Strategic planning puts a high premium on institution or capacity building to assure that those who have the responsibility for implementing the plans also have the necessary resources. The greatest and most consistent fault of strategic plans is the inability of organizations and communities to carry them out. Strategic planning must involve **planning for**

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[16] Ackoff, Redesigning The Future, pp. 24-25

implementation (including the on-going operation and maintenance of programs, facilities and services) not just the pleasant experience of announcing to the world what great things we plan to do. Long range plans often spell out the need for future funds to meet specific, and sometimes not so specific, goals and objectives but ignore such details as the numbers and quality of personnel required to carry out the goals and objectives and the equipment and materials required, to maintain and operate facilities and infrastructure projects once they are built.

(8) This means multi-year budgets as an integral part of long term plans. Capital and operating budgets are required to assure that projects can be built, according to plans, and can be maintained and operated for the life of the project.

(9) Strategic planning, as a process, focuses on implementation strategies and the formulation of action plans. It outlines tactical steps for near future events and broader strategic plans for projects and programs, defined over a more distant time frame.

(10) Finally, strategic planning addresses the monitoring and evaluation of performance within acceptable time and resource parameters. Monitoring is an ongoing effort to determine if you are doing what you said you were going to do and evaluation, also an ongoing event, is the act of judging performance against predetermined standards and criteria. Both are important management tools for maintaining initiative and progress.

How Should Strategic Planning Be Carried Out?

Several steps are involved in the strategic planning process. While they are described below as a sequence of events, the process is, or should be, dynamic and therefore not always predictable. This could mean moving back and forth among the steps outlined below as the strategic plan evolves from ideas and data into decisions and actions.

Phase I: Organizing: This is the pre-planning stage - a time when you plan to plan. It requires decisions about:

(a) Who should be involved in the strategic planning process? As mentioned earlier, it depends on what you want to achieve.

(b) What kind of information and data will be required to develop an effective strategic plan? While an analysis of past performance is important, so is the ability to

project one's experience into the future, the unknown.

(c) What is the most effective way of assembling the information, data and ideas required to assure a successful planning venture?

(d) How long should the strategic planning process take - and when will it be completed? While strategic planning is an ongoing process, it also requires a concentrated, time bounded effort to make those major decisions that will guide future actions. Planning to plan includes determining how many person days of involvement will be required by whom and establishing a realistic deadline for accomplishing the planning task.

(e) What kind of "plan" is required - or most desirable? Strategic plans range from comprehensive statements of future intent about the organization or community to more specific strategies, such as economic development - to implementation plans for operating agencies.

(f) What kind of resources will be required to carry out the planning process? Will you require an outside consultant-facilitator? Do you plan to hold meetings in a facility that will need to be rented? Will those individuals involved in the planning process require overnight accommodations? What about clerical assistance? Printing costs? Others?

(g) What will be required to staff the planning effort? Who will chair work sessions? Who will be responsible for writing the final document?

These and other questions need to be answered before you begin the actual planning effort.

Step II: Assessing: Strategic planning requires an assessment of past efforts and future opportunities. These two assessment perspectives require two different organizational and leadership skills - awareness and vision. Awareness often requires hindsight - the ability to analyze past efforts and to assess their role in future plans. Vision operates with foresight - the ability to see a future which is not yet invented.

Awareness often requires convergent thinking - focusing in on data, or information which exposes patterns and trends requiring future attention. Vision, on the other hand, is best achieved when our thoughts diverge from the beaten path.

Strategic planning, to be effective, must have one eye on the past, using its experience as a bench mark for what is. The other eye must be future oriented, not necessarily based on past experience.

The past is often problem centered while the future is seen as targets of opportunity.

Most strategic plans, realistically, are a blend of problem solving and opportunity tapping. One is reactive - the organization or community has a problem and we react to solve it. Opportunities require a pro-active style of thinking and behavior.

- Problems are often oriented toward maintenance (fix it, solve it, get on with it). By contrast, opportunities are focused on development.

- Opportunities are problematic. They always involve some risk and uncertainty. Is it feasible? Will it work? If it works, will there be any benefits? If there are benefits, will they outweigh the costs? Problems, on the other hand, only become risky and uncertain when they are not solved.

- Opportunities live in the future and the risks must be calculated against a future not always predictable. Problems live in the past, resulting from actions or inactions that have or have not already happened. The results of solving the problem or not solving the problem is often more predictable.

- Opportunities require foresight - a vision about what can be. Problems, more often than not, require hindsight - determining what went wrong.

- When tapping opportunities, the critical question is: What if? The important question, when solving problems, is: Why?

- When dealing with problems, you seek solutions; with opportunities, the search is for benefits.

- Finally, opportunities can be ignored. Problems cannot be ignored.

The assessing phase of strategic planning requires both a look a the past, based on concrete data and experience, and a projection into the future, based on wisdom and vision.

Phase III: Deciding The Big Picture: After assessing the past and the potential future (using quantitative and qualitative data, information and ideas) it is time to make decisions about what is important, and what is not, regarding the future direction of the

organization or community. This means transforming problem and opportunities into goals and objectives, statements about future outcomes. Goals and objectives, to be effective, must be specific, realistic, measurable, results oriented and time bound. Once future goals are defined, using these criteria, the next step is to consider the various options or alternatives available for achieving your stated goals. Focusing in on goals, and alternatives to meet your goals, are the critical decision making stages of strategic planning. They set the course of action to be taken and determine the ultimate allocation of scarce resources. This is also the time to think about the consequences of your goals and alternative actions.

Phase IV: Deciding The Details: Strategic planning also involves specifying who needs to do what with whom, at what resource cost, within what time period to achieve goals (end results) as stated in the strategic plan. While some strategic plans do not spell out these details, the danger of not doing so results in plans never being implemented. Non implementation is the scourge of the strategic planning process.

Phase V: Implementation, Monitoring and Evaluation: While implementing plans is theoretically not planning, it is, nevertheless, the most important step in strategic planning. Plans which remain plans are not worth making.

Conclusion

Strategic planning is a potentially powerful policy and management tool. The potential is only realized in concrete actions which result from the planning process. It is a process which requires active involvement of many individuals and groups, including key officials and officers, as well as those who may be outside the formal boundaries of the organization or community.

Finally, it requires active communication - the communication of ideas and information as inputs to the plan and the communication of goals and action strategies resulting from the planning process. Without effective communication, there is no way to assure wide spread understanding of, and commitment to, your statements of future intent. Without understanding and commitment, plans often remain just plans. And, plans are not development.

APPENDICES

The following documents are to supplement the case study about the Miami Valley Regional Commission Economic Development Conference. They include:

(a) The Conference mission and goal statements and an outline of the Conference design and schedule of events

(b) A syndicated newspaper column about the Conference that appeared in newspapers nationwide

(c) A list of the issues (problems and opportunities) identified by small work groups and the scores they were given when all participants voted on the five most important. The final page lists the eight most important issues, based on cumulative and frequency scores, which formed the agenda for the final strategic planning sessions of the Conference.

Also included is an article about a Strategic Fiscal Planning Process carried out by the City of Milwaukee, Wisconsin, U.S.A.

THE MIAMI VALLEY ECONOMY IN
THE 1980'S: CHALLENGES AND OPPORTUNITIES*

CONFERENCE MISSION:

The overall mission of the conference is to provide a forum within which the public and private leaders of the Miami Valley can reach consensus on: (a) the major regional economic development challenges and opportunities to be addressed within the next five years; and (b) a strategy for further consideration and action.

CONFERENCE GOALS:

The goals, to be achieved by the conference, are:

1. To increase understanding of (a) the impact of the 1970's on the Miami Valley economy, and (b) how the region's economy functions within the contexts of the national and international economies.
2. To identify major economic development challenges and opportunities within the Miami Valley region for the 1980's.
3. To reach consensus on those economic development challenges and opportunities that can and should be addressed by the Miami Valley community within the next five years.
4. To identify alternative courses of action available within the region to address these challenges and opportunities.
5. To develop an action plan for strengthening the economy of the Miami Valley in the 1980's.
6. To determine what needs to be done, individually and collectively, by the participants and staff of the conference to assure that those decisions made at the conference are acted upon within an agreed upon period of time.

THE MIAMI VALLEY ECONOMY IN
THE 1980'S: CHALLENGES AND OPPORTUNITIES

University of Dayton

November 18-19, 1980

Tuesday, November 18, 1980

8:30 - 9:00 A.M.

Registration/small group assignments
Coffee, tea

9:00 - 9:30 A.M. (Plenary session)

Welcome/Introductions - Ms. Nora Lake, Chairperson, Miami Valley Regional Planning Commission

Invocation -

Conference Mission and Goals - John Torley, Conference Co-Chairperson

9:30 - 10:30 A.M. (Plenary session)

Keynote Address - William C. Norris, Chairman of the Board, Control Data Corporation

10:30 - 11:00 A.M.

Coffee and tea break

11:00 - 11:30 A.M. (Small groups in plenary room)

Getting acquainted with your work group
Conference expectations and discussion

11:30 A.M. - 12:30 P.M. (Plenary session)

Miami Valley and the Economics of the 70's - Dr. John Weiler, Economist, University of Dayton
Questions and discussion

12:30 - 1:30 P.M.

Lunch

1:30 - 1:45 P.M. (Plenary session)

Task assignments and goals for the afternoon sessions
Dr. Sarah Harris, Conference Co-Chairperson

1:45 - 3:00 P.M. (Small task group sessions)

Tasks: to identify major economic development challenges and opportunities of the Miami Valley
To agree upon top five issues

3:00 - 3:15 P.M.

Refreshments

3:15 - 4:00 P.M. (Sub-conference group sessions)

Tasks: to share and discuss issues identified in the small groups
To agree upon top five issues from the combined lists

4:00 - 4:30 P.M. (Plenary session)

Group reports and discussion

4:30 - 4:45 P.M. (Plenary session)

Individual Task: To vote on five most important challenges and opportunities facing the region in the next five years.

4:45 - 7:00 P.M.

Debriefing (wine, cheese and conversation)

<u>Wednesday, November 19, 1980</u>

8:30 - 9:00 A.M.

Continental breakfast

9:00 - 9:30 A.M. (Plenary session)

Report on voting results
Instructions for the day
Oportunity to sign up for topic work group

Dr. Sinclair Ponitz, Conference Co-Chairperson

9:30 - 11:00 A.M. (Small task group sessions)

Tasks: To identify desired outcomes of challenges and opportunities being considered
To identify alternative courses of action to reach desired outcomes
To develop an action plan that will achieve the desired outcomes

11:00 - 11:15 A.M.

Break

11:15 A.M. - 12:30 P.M. (Sub-conference group session)

Task: To consolidate the work of those small groups that have considered aspects of the same challenges and opportunities in the earlier work sessions.

12:30 - 1:30 P.M.

Lunch

1:30 - 2:45 P.M. ((Plenary session)

Group reports and discussion

2:45 - 3:30 P.M. (Plenary session)

Conference response and reflections by Michael McManus, nationally syndicated urban affairs writer

3:30 - 4:00 P.M. (Plenary session)

Conference wrap-up and follow through: Conference Co-Chairpersons

4:00 P.M. Adjourn

A Christmas Present for Dayton

By MICHAEL J. McMANUS

DAYTON, Ohio—This is a story appropriate for Christmas of the rebirth of a community with a set of unlikely heroes — a Jewish editor who called for, and got a Vatican-like conclave of community leaders, a metropolitan planning agency that actually sparked real metropolitan planning, a chamber of commerce which realized that healthy commerce depends on forging a coalition with traditional enemies in labor and government, and a university professor who knew how to get 200 diverse, suspicious, but hopeful leaders to forge a new vision for their community.

Of course, there is no need for rebirth, unless there has been death.

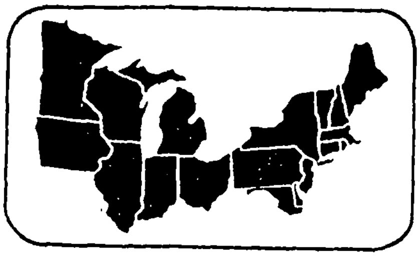
And that's the story of many manufacturing jobs in Dayton. The birthplace of the cash register saw National Cash Register close plants with 15,000 employees as production shifted abroad. Chrysler laid off 5,000; GM, 15,000, and the last tire rolled out of Dayton Tire, one of five old plants that Firestone closed this year, ending another 1,800 jobs.

The result? A net loss of nearly 100,000 people in the 1970s, and the metro area's first population drop ever. More important, there have been months of poisonous controversy between city and suburbs, whites and blacks, business and government over many issues — particularly over whether a highway should be built in the suburbs between two Interstate highways.

Dayton's black mayor, James H. McGee, convinced the Carter Administration to stop funding of the highway because it would suck development out of Dayton.

So on March 23, Arnold Rosenfeld, editor of the Dayton Daily News, wrote: "Too many people around here are scarcely talking to each other...We have been victimized very surely by events over which we have no control. To our discredit, we have managed to add dimensions of disorganization and distrust all our own. Those who aren't bickering, stagger across the lunar landscape wondering 'What's a body to do?'

"It's time, in other words, to get our community act together. The Catholic Church once selected a pope by walling up a bunch of quarreling cardinals until they picked somebody. Maybe we



Northern Perspective

ought to do the same for critical segments of our community leadership — business, labor, city, suburb, political."

"Let's pull together a community conference to design an area-wide strategy for economic development...let's keep the pack of them there" until they emerge with "a few long range solutions."

That made sense to John Vining Jr., the new director of the Miami Valley Regional Planning Commission, and to a group of business and government leaders meeting with him. All had read an earlier series of articles published by the Daily News which showed that other communities with similar problems were finding answers.

An import from Atlanta, Mr. Vining knew that much of that community's success stemmed from forging a "close cooperative relationship between private business and government." So he asked the Dayton Area Chamber of Commerce to co-sponsor a two-day economic summit with political leaders from Dayton and 50 other communities in a five county area. They also invited many union, civic, university and media leaders.

But how could such cats and dogs agree on anything? Vining asked Fred Fisher, a professor from Penn State, and a former training director of the City Managers Association, to design the session. I must say I was skeptical it would work. After a stirring keynote address by Control Data Chairman William Norris on how rebuilding communities could be "a new growth industry," people were divided into many small groups with blank sheets of paper and a "facilitator" to write down "challenges and opportunities."

After an hour, the walls of each room were predictably covered with "challenges."

Then the miracle began. Each group had to narrow the lists to five clear needs. That sparked lively debate. When a businessman said firms were closing due to excessive labor demands, someone said the Dayton Tire union offered to take pay cauts. So a recommendation emerged to improve labor-management relations before a crisis stage was reached — a more sweeping and penetrating conclusion.

When small groups were merged, people were delighted to see how often other groups had similar proposals. For example, all seemed to agree on the need and the means for ending excessive competition between 50 squabbling communities. How? Create a "tax-base sharing" plan pioneered by Minneapolis-St. Paul that enables all towns in the metro area to get part of the tax base when, for example, NCR builds a new $50 million microcomputer facility in one suburban town.

The next day, people forged action plans to achieve the goals. One group working on "marketing the region's assets" decided the area needed to develop an asset to market — an "Aviation Trail," like Boston's "Freedom Trail," that would lead visitors from the Air Force Museum to the Wright brothers home, to an Aviation Hall of Fame, to spots where the first seaplane took off and guided missiles were first made.

There were many thoughtful proposals on how to develop high technology industry to replace lost auto jobs, how to start small businesses in inner cities, how to make the Miami Valley the "most energy-conserving area of America and a center of educational institutions promoting "life-long learning."

More important than the specifics, however, was the enthusiasm generated on the part of the participants to work for those goals. The conference was so successful that participants keep calling up the chamber and planning commission asking when additional conferences might be held to pursue various key goals.

Dayton has discovered what other northern communities need to learn — that it is possible for people to communicate across historic barriers, to generate a new vision of community and the drive to get it. As Dr. Sarah Harris, the Urban League Director told the conferees: "I want to thank you for restoring my faith and my belief that there are people who care and are willing to share."

RESULTS OF ISSUE BALLOTING

Description of Issue	Cumulative	Frequency
1. To create a climate which will support existing & new business ventures.	78	19
2. To develop "one community center" through cooperation & consensus.	25	6
3. To build on the area's resources (natural, human, institutional).	30	9
4. To attract & develop qualified leaders for leadership roles in both public & private sectors.	50	16
5. To restore the image of the Miami Valley Region.	24	7
6. Develop & implement strategy to increase regional cooperation & collaboration of business & government's regarding economic development & job creation.	144	39
7. Share revenues from increased tax base among various governments.	60	21
8. Expand existing business, redevelop & diversify possible spin-offs from university and air force research.	30	11
9. Strengthen effective labor-management relations on a regional basis. (Reduce adversary relationships by capitalizing on recent efforts).	78	28
10. Explore & develop new and innovative financing techniques for public and private development to create new business.	81	34
11. Set up local incubator system for new business/technology start-up.	107	35
12. Establish regional economic priorities with regional perspective & plan; what & where.	33	11
13. Need movement from low/medium to high technology as an acceptable common target.	31	8
14. Develop cooperative approach to economic development among local tax sharing, public services and resources.	61	19

Description of Issue	Cumulative	Frequency
15. Need to dramatically invest in educational institutions including: K-12; Youth training; Retraining unemployment; Citizen awareness of community problems.	91	27
16. Establishment of a development process which provides for controlled change, avoids wasteful disinvestment, and allows sharing of project benefits.	36	12
17. Continued employment restructuring and training to respond to changing demands of society to include skilled and unskilled.	52	19
18. Regional Cooperation: Council of Governments; Regional economic council; Business recruiting; Public relations; Long-term economic forecasting annually.	54	18
19. Program to attack energy waste and become a national example of self-sufficiency.	68	22
20. Continued collaboration between public and private financial resources to capture capital for re-investment in the area, including non-traditional ventures.	64	24
21. Diversify local economy by using regional economic initiatives & joint efforts of Chambers of Commerce, labor, business, etc.	30	10
22. Market the region's assets: aviation, water, high technology base, skilled labor force, underutilized labor force, cultural amenities, low cost of living, energy, housing. (Region has poor image)	102	38
23. Regional investment in infrastructure including water, energy, sewer, rail, surface thoroughfares, including transportation routes to western Montgomery County.	70	26
24. Improve coordination/cooperation; elimination of duplication among local political jurisdictions.	61	21
25. Stimulation of local business leadership (private) to invest in risk taking, financial ventures & job training.	50	16

Description of Issue	Cumulative	Frequency
26. Establish a unified strategy for economic development and identification of resources of the region which can be aggressively and effectively marketed.	95	30
27. Emphasis on technical engineering and scientific education and WPAFB to establish Dayton as a center for high technology industry.	59	20
28. Establish an equitable system of mutual tax and benefit sharing within the region.	86	28
29. Support and stabilize existing businesses by the combined efforts of the public & private sectors.	32	13
30. Improve labor-management relations and realistically associate wages to productivity.	45	18
31. Integrate minorities into economic base: job training, education and placement.	69	24

Cumulative = the sum total based upon weighted score
first priority = 5
second priority = 4
third priority = 3
fourth priority = 2
fifth priority = 1

Frequency = the number of people who voted for the issue.

LISTING OF TOP 8 ISSUES

	Listing of Scores Cumulative (weighted vote)	Frequency (# persons)
1. Develop & implement strategy to increase regional cooperation & collaboration of business & government's regarding economic development & job creation.	144	39
2. Set up local incubator system for new business/technology start-up.	107	35
3. Market the region's assets: aviation, water, high technology base, skilled labor force, underutilized labor force, cultural amenities, low cost of living, energy, housing. (Region has poor image)	102	38
4. Establish a unified strategy for economic development and identification of resources of the region which can be aggressively and effectively marketed.	95	30
5. Need to dramatically invest in educational institutations including: K-12; Youth training; Retraining unemployment; Citizen awareness of community problems.	91	27
6. Establish an equitable system of mutual tax and benefit sharing within the Region.	86	28
7. Explore & develop new and innovative financing techniques for public & private development to create new business.	81	34
8. Strengthen effective labor-management relations on a regional basis. (Reduce adversary relationships by capitalizing on recent efforts)	78	28

Session 45: Wednesday 06 September

Topic: Personal And Organizational Readiness

Discussion Leader: Fred Fisher/Wanjala Wa Muricho

Overview: This session involves the use of a self assessment exercise to help each participant look at their own readiness and the readiness of their organization to make decisions, solve problems and bring about desirable changes.

Training Approach: Use of self assessment questionnaire; small and large group discussions

Readings: The Guide: "Personal and Organizational Effectiveness": pp 27-29

The Reader: "Creating Opportunities For Change: Approaches To Managing Development Programs"

Session 46: Wednesday 06 September

Topic: Action Research And Planning: A Managerial Tool Kit for Decision Making And Problem Solving

Discussion Leader: Fred Fisher/Wanjala Wa Muricho

Overview: This session will take a look at action research as a planning and implementation strategy, review the steps involved in the strategy and relate them to the Personal and Organizational Readiness Questionnaire completed in Session 45. It will also review the lists of managerial and organization effectiveness indicators from the previous day's discussion.

Training Approach: Short presentation and large group discussion

Readings: From The Guide: "Action Research and Planning" pp 32-42

From The Reader: "Organizational Change As A Development Strategy"

Session 47: Thursday 07 September

Topic: Performance Discrepancy Indicators

Discussion Leader: Fred Fisher/Wanjala Wa Muricho

Overview: Gaps in performance (between expected and actual individual and organizational behavior) are important indicators of individual and organizational effectiveness. This session will involve completing a short check list of performance indicators; calculating a group profile; and, forming small work groups based on common performance problems participants experience in their individual organizations.

Readings: Manual For Training Needs Assessment In Human Settlement Organizations

Session 48:	Thursday 07 September
Topic:	Building A Problem Solving Relationship
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	Collaborating to solve problems and tap opportunities is crucial to effective management. This session will look at ways to build more effective collaborative working relationships, both within the organization and beyond.
Training Approach:	Short presentation; role play; group discussion
Readings:	From The Guide: "Building A Problem Solving Relationship" pp 44-51

<u>Session 49</u>:	Thursday 07 September
Topic:	The Training Needs Assessment Dilemma: Another Term For Managerial Problem Finding
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	Identifying training needs is both a management and training challenge. This session will look at Training Needs Assessment (TNA) from both perspectives. It will also make a connection between TNA and the art of problem identification as an integral part of the action research and planning process.
Training Approach:	Case study of a public corporation performance problem; presentation; discussion
Readings:	From <u>The Reader</u>:
	"Management Development In The '80s - A Field In Transition"
	"Management Education - Some Troubles and Realities and Possible Solutions"

Session 50-58: Thursday 07 September - Sunday 10 September

Topic: Field Trip To Mombasa

Host: Government Training Institute, Mombasa

Overview: The field trip will include: a tour of municipal projects and discussions with key local and district officials; a tour of the Mombasa Port Authority facilities and harbour; and either free time for shopping or an organized tour of local cultural and historical sites of interest.

Session 59-60:	Monday 11 September
Topic:	Problem Identification And Opportunity Finding
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	Identifying managerial and organizational problems is among the most difficult and unrecognized challenges in the art of managing. This session will help strip away the mystery and help participants recognize the basic difference between problems, symptoms and solutions.
Training Approach:	Individual task assignment; listing of problem statements; lecturette on problem identification; form common problem task groups; small group task exercise
Readings:	From The Guide: "Problem Identification" pp 54-60

Session 61-62: Monday 11 September

Topic: Goal Oriented Behavior: A Common Framework For Action

Discussion Leader: Fred Fisher/Wanjala Wa Muricho

Overview: Setting goals and objectives, whether you operate as a manager, finance officer, or a trainer, is a fundamental task and responsibility. And yet, many of us either ignore the task responsibility or aren't very good at it. This session will address the importance and skill of goal setting.

Training Approach: Large group exercise to establish criteria; short presentation on writing behavioral goal statements; individual and small group exercise

Readings: From The Guide: "Analyzing The Problem" (Part I) pp 62-65

Session 63-64: Tuesday 12 September

Topic: Opportunity Analysis: Simple Tools For Complex Tasks

Discussion Leader: Fred Fisher/Wanjala Wa Muricho

Overview: This session will continue the dialogue concerned with problem analysis. It will cover the Force Field Analysis technique and look at various criteria for optimizing the option process.

Training Approach: Presentation; demonstration of techniques; individual and small group exercises; plenary discussion

Readings: From The Guide: "Analyzing The Problem" (part II) pp. 65-70

Session 65-66:	Tuesday 12 September
Topic:	Planning A Course Of Action
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	The secret to implementation is effective action planning. This session will address the process of deciding who needs to do what with whom and when to exercise your best options.
Training Approach:	Presentation; demonstration; individual and small group exercises
Readings:	From The Guide: "Planning A Course Of Action" pp 74-86

Session 67-68:	Wednesday 13 September
Topic:	Implementation: The Leadership Dimension
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	These sessions will address four aspects of leadership: direction, coaching, supporting and delegation. A self assessment instrument will be used to help each participant determine his or her own style of management.
Training Approach:	Self assessment exercise; small group exercise; short presentation and large group discussion
Reading:	From The Guide: "Managing Change: The Leadership Dimension"

Session 69-70: Wednesday 13 September

Topic:	Experimentation And Redesign, Implementation And Evaluation: Closing The Circle
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	These sessions will complete the discussion of the Action Research and Planning process by addressing those steps that follow decision making.
Training Approach:	Presentation; guided discussion; individual and small group exercise on evaluation
Readings:	From The Guide: "Experimentation and Redesign, Implementation, Evaluation" pp 88-93
	From The Reader: "Nine Ways To Make Training Pay Off On The Job"

Session 71:	Thursday 14 September
Topic:	Human Resource Development And The Role Of Training In Urban Management
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	This session will provide an overview of the Human Resource Development (personnel management) responsibility and the role of training as a strategy to support HRD and institution building.
Training Approach:	Guided discussion
Readings:	From The Reader:
	"The HRD Effectiveness Model" "The HRD Effectiveness Improvement System" "Putting The Whole Picture Together"

Session 72:	Thursday 14 September
Topic:	Personal Empowerment: Making A Difference Back On The Job
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	Management training, if it is to be effective back on the job, must be translated into greater personal effectiveness when participants return to work. This session looks at the various power bases individuals have to make a difference in organizations and communities.
Training Approach:	Presentation, individual exercise and diad discussions
Readings:	From The Guide: "Power, Influence And Personal Empowerment: Making A Difference Back On The Job", pp 130-140

Session 73-74:	Thursday 14 September
Topic:	Culture, Management And The Organization
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	This session is designed to look at the issues of culture and how they impact on organizations and their management.
Training Approach:	Large group discussion and individual and small group tasks
Readings:	From The Guide pp 96-109

Session 75	Friday 15 September
Topic:	Planning Re-entry
Discussion Leader:	Fred Fisher/Wanjala Wa Muricho
Overview:	This session is designed to help participants make more effective re-entries into their work settings after the course.
Training Approach:	Large group task and discussion; individual exercise
Readings:	From The Guide: "Planning Re-entry" pp 142-143

Session 76:	Friday 15 September
Topic:	Course Evaluation
Discussion Leader:	Tomasz Sudra
Overview:	This session will include both a written exercise and open discussion to evaluate the effectiveness of the course.
Training Approach:	Written exercise; large group discussion

ADDITIONAL READINGS
ON
GENERAL MANAGEMENT AND
TRAINING AND DEVELOPMENT

FOR THE

COURSE ON URBAN FINANCE AND MANAGEMENT:
EAST AND SOUTHERN AFRICA
NAIROBI, KENYA
23 AUGUST - 15 SEPTEMBER, 1989

The following articles are intended to supplement the Guide for Managing Change for Urban Managers and Trainers. They include excerpts from recent books and professional journals on the topics of general management, organization behavior and the human resource development process, which encompasses training. The rationale for including them in the reading materials for this course is twofold. First, they provide different perspectives on these topics from various authors and practitioners. Second, it is often difficult, in Africa, to gain access to recent publications and this is a way of sharing some of the wealth of new ideas that continues to flow out of the collective management and management development experience in other parts of the world.

As always, a cautionary note needs to be sounded about the use of these ideas in cultural settings that are different from those where these ideas emanate. The ideas put forth by Tom Peters in Thriving on Chaos are particularly vulnerable to cultural misinterpretation. And yet, they are provocative and deserve to be read if for no other reason than to spark ideas and debate about the state of your own management practices and behavior.

While the many ideas put forth in these readings may not be discussed directly in the course, you are urged to consider them as you participate in the course discussions.

ON GENERAL MANAGEMENT

AND

ORGANIZATIONAL CHANGE

The following readings are concerned with improving managerial and organizational performance.

The first reading, excerpts from _Thriving on Chaos_, is intended to share some of the ideas and strategies that are keeping American management in a state of constant ferment at the present time. Challenged by a nagging trade imbalance and the importation of Japanese style management practices and success, many American corporations and managers are rethinking their own behavior and adapting new strategies for change. Tom Peters has been the major proponent and documenter of these change strategies. These excerpts reflect the latest thinking along these lines.

The Professional Decision Thinker is a very recent book by a man who represents a more global view of management even though he is by birth and early education an American. The message he brings to management is compatible with the ideas put forth in the _Guide for Managing Change_. The central theme is one of emphasizing the importance of thinking as a manager - not in following a prescribed set of concepts or formulas designed by others from a different time and place.

Creating Opportunities for Change is from a series on development management which deals specifically with management practices and ideas from developing country settings. It reviews management concepts and ideas from the perspective of Third World organizations.

The final reading is from the same series and deals with _Organizational Change as a Development Strategy_. As the title indicates, it defines models and tactics for improving Third World organizations based, in large measure, on experiences with these models in development country situations.

THRIVING ON CHAOS

Handbook for
a Management Revolution

TOM PETERS

ALFRED A. KNOPF NEW YORK 1987

SECTION SUMMARY

The dictionary defines "axiom" as "a statement universally accepted as true." Management, as it has been professionalized and systematized, has developed many axioms over the past century. But in the past twenty years, the stable conditions (large-scale mass production) that led to the slow emergence of these universals have blown apart. So now the chief job of the leader, at all levels, is to oversee the dismantling of dysfunctional old truths and to prepare people and organizations to deal with—*to love, to develop affection for*—change per se, as innovations are proposed, tested, rejected, modified and adopted.

This set of prescriptions (see Figure 17) begins with the Guiding Premise, L-1, that leaders must above all confront—and master—a series of paradoxes—that is, willingly embrace (test, learn about) across-the-board challenges to conventional wisdom.

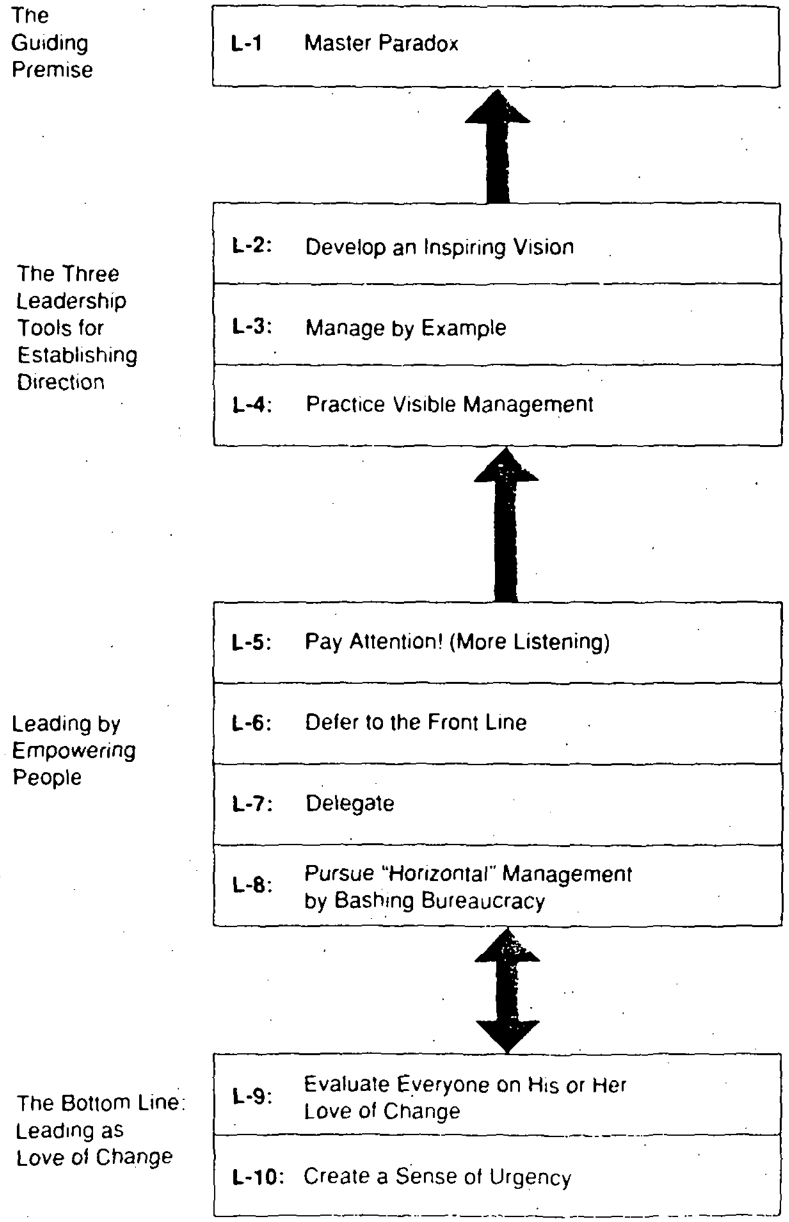
Mastering the paradoxes and what they stand for (L-1) requires the Three Leadership Tools for Establishing Direction: L-2, developing and preaching a vision which clearly sets your direction, yet at the same time encourages initiatives from everyone to perfect and elaborate the challenge that vision lays out; L-3, channeling interest by living the vision via your calendar (what you do—and do not—spend time on), which is the single most effective tool for establishing faith in the vision amidst otherwise debilitating uncertainty; and L-4, practicing visible management, for the purpose of preaching the message and enhancing the leader's understanding of the context where it counts—on the front line, where true implementation takes place.

The principal challenge is to empower people (everyone) to take new initiatives—that is, risks (as they see it)—on a day-to-day basis, aimed at improving and eventually transforming every routine in the firm. Of course, prescriptions P-1 through P-10 addressed this. But there are four enabling leadership prescriptions (Leading by Empowering People) as well: L-5, on becoming a compulsive listener, since listening (especially to those at the front) remains the truest signal that "I take you seriously"; L-6, on cherishing the people at the front—demonstrated in a host of ways, from pay scales to invitations to staff meetings; L-7, on delegating "authority" in a way that truly empowers; and L-8, vigorous and visible pursuit of bureaucracy bashing.

The last two leadership prescriptions urge you to get directly on with the new "it": L-9 proposes that everyone be evaluated on the simple but revolutionary question: "What have you changed lately?" L-10 suggests that leaders must epitomize change in every action in order to create an overwhelming sense of urgency throughout the organization.

As in the prior sections, the leadership prescriptions, though separable, should be considered as a whole. While you can't do "everything at once," no one prescription makes much sense in a vacuum.

Figure 17: Learning to Love Change: A New View of Leadership at All Levels



L-1

SUMMARY

To adapt to tomorrow's fast-unfolding world, leaders at all levels must:

- Come to grips with a series of paradoxes that have set almost all conventional management wisdom on its ear.

The management principles we have held dear are undergoing relentless attack—and succumbing. Most of the cause-and-effect relationships we have cherished have been found wanting.

Each day, each manager must practically challenge conventional wisdom, especially cause and effect relations that have been considered axiomatic. Since new truths are not yet clear, the manager must become "master empiricist," asking each day: What new experiments have been mounted today to test new principles (in the market, in the accounting department, etc.)?

L-1

Master Paradox

Perhaps we would be well advised at this juncture, since formal knowledge can no longer help us to understand a world in which the pace of change and development is so great, *to think of the jester's role in relation to the* king. Since the jester did not speak on behalf of any respectable body, he was able with impunity to draw attention to abuses which the king should suppress, to raise uncertain matters in an admonishing tone, to be receptive to things which the established authorities were either unwilling or unable to see. The contrast is thus between the perception of the jester and the knowledge of the authorities. Is there a similar contrast between perception and scientific thought? . . . Science makes progress by distinguishing between what it regards as meaningful and what it considers to be merely static, i.e., a disruptive factor which can be ignored. Perceptiveness on the other hand deals with problems which as yet have no significance but which acquire significance in the future.

Isabelle Stengers*
"Order Through Chaos"
May 1987

Paradox: A statement that seems contradictory, unbelievable or absurd but that may actually be true in fact.

Webster's New World Dictionary

Today's successful business leaders will be those who are most flexible of mind. An ability to embrace new ideas, routinely challenge old ones, and live with paradox will be the effective leader's premier trait. Further, the challenge is for a lifetime. New truths will not emerge easily. Leaders will have to guide the ship while simultaneously putting everything up for grabs (see L-2), which is itself a fundamental paradox.

Here are eighteen paradoxes, large and small, which are indicative of the chaotic business environment now unfolding:

*Isabelle Stengers is co-author, along with Nobel Laureate (Chemistry) Ilya Prigogine, of *Order Out of Chaos*. The quotation here is from an essay in the 1987 Annual Report of Buro voor Systeemontwikkeling bv, the Netherlands' largest systems software house.

1. More stability of purpose/employment is necessary to deal with less stability in the environment. More flexibility and responsiveness are the survivors' watchwords. However, more flexibility will only be engendered when there is a clearer vision (see L-2), more trust, and fewer adversarial dealings. That is, you can't ask a fearful person to break all the conventional rules and regularly take what feel like (and are, by past standards) risky initiatives.

2. More competition requires more cooperation. More competitors and competitors' products require more flexibility/responsiveness and higher quality, for instance. This in turn means supporting partnerships between: (a) companies and their (often sole source) suppliers, (b) companies and other companies that can bring in critical new skills needed in a market area (especially overseas), (c) the performers of various functions, to speed action-taking where it counts, at the front line, (d) management and the work force (and the union, if applicable), and (e) the company and its distributors/franchisees/reps. If we are to compete effectively, we must learn to cooperate with all these sets of partners.

3. More productivity will come through more people—not fewer. Winners will learn to add value through the work force (its attention to quality, service, and responsiveness). Losers will continue to willy-nilly replace people with machines, in the vain hope of competing with Brazil or Indonesia on cost. More sales and service people and expediters in the factory will be needed to add more value—i.e., to enhance revenue. Better-trained people in the factory will provide massive productivity improvements over time. While I acknowledge corporate bloat (see P-8, for instance), sensible job creation in pursuit of revenue enhancement must nonetheless replace today's most frequent management boast: the number of people cut in the last eighteen months.

4. Success will stem from more love of the product—and less attachment to it. To get everyone enthusiastic about constantly improving the product requires commitment to it as well as to them (see C-2). On the other hand, products will be made obsolete more frequently by competitors' offerings or by our own, competing efforts (see I-1). Thus, a commitment to ceaseless improvement of the product must reside side by side with a willingness to scrap it when we develop a replacement (or someone else does).

5. We must be wary of the economics of scale—but create more complex alliances. Efficiencies of scale in the traditional sense are going—or already gone—for a host of reasons (see Part I). On the other hand, more joint ventures and partnership arrangements are required to thrive, especially overseas.

6. More de-integration goes hand-in-hand with more re-integration (on new dimensions). Vertical integration is fast being reduced; subcontracting of anything and everything is becoming routine. Yet closer linkages, via electronic/telecommunication channels, for instance (see C-4), are a must. Thus while one (traditional) form of "big scale" (vertical integration) is being undone, another form (electronic linkages and new partnerships) is emerging.

7. "Big yields low cost" can and must rapidly give way to "small yields low cost." New, miniaturized technology and the adoption of techniques such as cellular manufacturing and just-in-time inventory management are leading to lower costs from smaller units that feature short production runs and great flexibility. Smaller units also may have much less overhead, and they are more likely to subcontract services such as accounting—yielding still more cost reduction.

8. More productivity ensues from having fewer suppliers. Conventional wisdom pits suppliers against one another to obtain low-bid contracts. Success now will stem from high quality (lifetime cost of product, not initial contract cost—see C-2) and supplier responsiveness to constantly shifting customer/market demands; this, in turn, will come only from partnership relations, based on trust, with a few suppliers.

9. The more a market seems "commodity-like," the more adding small increments of value pays off. Adding numerous small increments in service, quality, and responsiveness actually makes a bigger difference—is more valuable—in mature markets than in growth markets. Surprisingly, the low-price strategy is the weapon of last resort in all markets; adding value is the first choice—regardless of market circumstance.

10. More products (with shorter production runs) does not mean lower quality. The necessary reorganization of the plant into manufacturing cells, for instance, and much greater involvement of the work force—plus appropriate automation to support (not supplant) people—allow more complex production scheduling (short runs, fast responses) to coincide with higher quality. There need not be (and cannot be, given the competitive situation) any tradeoff between quality and flexibility.

11. High quality yields lower costs. Quality and cost, within a wide performance range, are not part of a "tradeoff" equation. Increasing quality, which generally results from simplification of design and manufacture, radically reduces costs.

12. Higher quality comes with fewer inspectors. Once again, people are the key. Virtually all inspection should be self-inspection—and this can be accomplished if the work force is involved, committed, trained, supported with appropriate tools, relieved of bureaucratic Mickey Mouse, and paid for performance.

13. Accelerating the success rate comes only from accelerating the failure rate. Revolutionary improvement in quality, service, and responsiveness will only occur when all are participating in the day-to-day enhancement of the product/service; that is, when all are taking risks to try new methods. Numerous failures always (according to the laws of science) precede any success. Therefore, speeding up the success rate requires speeding up the failure rate.

14. Tighter control can be achieved through more decentralization. The new, decentralized organization features (1) well trained and highly involved people (everyone) and (2) units "transparent to" (permeated by) the customer. Truly decentralized, externally (customer-) obsessed units, with a clear vision and high involvement, are more under control in today's volatile environment than traditional, centrally controlled units—which are inflexible and more out of touch by definition. The latter focus on slow, power-driven, "vertical" decision-making; the former emphasize market-driven decision-making and fast adaptation.

15. Tighter adherence to policy is accomplished when less time is spent in the office. Proactive adaptation to a volatile environment comes when people are both inspired by a useful vision and empowered to act. These two traits follow from visible management—not hierarchical, committee-driven, out-of-touch management. The old form of organization via rulebook and policy manual is not able to keep up today. Teaching flexibility (and modeling it) is an out-of-the-office task (see L-3, L-4); flexibility in turn engenders control—empowered people pursuing (and elaborating) a clearly transmitted vision.

16. Strategic planning exercises led by staffs are being supplanted by strategic capability building led by the line. The long-range strategic plan, of voluminous length, is less useful than before. But a strategic "mind-set," which focuses on skill/capability-building (e.g., adding value to the work force via training to prepare it to respond more flexibly and be more quality-conscious), is more important than ever.

17. More appropriate measurement is achieved with fewer measures. Anything can be measured. The winners' measures will emphasize the vital performance parameters—e.g., quality, service, flexibility, responsiveness, and employee skills/capabilities (see S-1). True control stems from a very few, simple measures of high integrity, understood by all (also covered in S-1). More flip charts measuring the important variables and fewer 800-page printouts dealing with arcane cost information are the success prescription.

18. Success will come to those who love chaos—constant change—not those who attempt to eliminate it. The fleet-of-foot, value-adding, niche-market creator (see C-1) thrives on the very uncertainty that drives others to distraction. Stability and predictability are gone for good—and therefore must not be the implicit or explicit goals of organizational design, the layout of factory or operations center, pay schemes, strategic planning, objective-setting exercises, accounting systems, or job evaluations. Victory will go to those who master instability by constantly working on responsiveness-enhancing capabilities.

THE LEADER AS EMPIRICIST

These eighteen paradoxes are but a small sample—yet they violate all the core organizing assumptions of the last hundred or more years. Consequently, the leader at any level will not convince his or her boss (traditional middle manager or outsider members of the board) of these still heretical ideas through argument. His or her role must therefore become that of "empiricist in chief" (see also I-3, on "piloting"). That is, the firm must become a hotbed of tests of the unconventional. It must become an experimenting (and learning), adaptive, change-seeking organization. It must ceaselessly send its people, at all levels and in all functions, out to visit other interesting firms, universities, customers, suppliers, distributors, competitors (see C-7, I-4). The unit manager willingly lends people to project teams full-time and other functions for lengthy assignments, so that they can learn more faster, and be part of useful tests aimed at dealing proactively with change. The organization learns from the best, swipes from the best, adapts, tests, risks, fails, and adjusts—over and over.

Recall that Chaparral Steel president Gordon Forward calls his mill a laboratory. That is the right image. Every person becomes an empiricist and every department becomes a laboratory. The experiments deal with procedures and rules and forms of supervision and communication patterns, as well as with new products and services.

Nothing can be "institutionalized." All products not being rapidly improved are, ipso facto, falling rapidly behind. This morning's new widget is being made obsolete by two early-afternoon start-ups. A fast failure—followed by a fast adjustment—becomes the organization's most cherished event, demanded from everyone, daily.

THE CORE PARADOX

The core paradox, then, that all leaders at all levels must contend with is fostering (creating) internal stability in order to encourage the pursuit of constant change. The vision must be clear enough (consistent, etc.—see L-2) to encourage continual risk-taking and failing, or else the continual testing and stretching and enhancing—changing—of everything will not occur, or not occur fast enough.

This dichotomous task has not been imposed upon leaders before. They must preach the vision with verve—over and over. And at the same time, they must insist upon and then revel in the constant tests that re-form (expand, contract, destroy) the very same vision. The ship will seem somewhat out of control by the old standards. That is, the madness of thousands of simultaneous experiments—including some by the newly hired reservations clerk—is the only plausible path to survival. What once amounted to being "in control" (i.e., being guided by a plodding hierarchy of bureaucrats, conservators of the past) is a design for disaster today. "In control" by the old standards is "out of control" (fast slipping behind) by the new standards.

TIPS FOR THE PARADOX-LOVING MANAGER

Here are a few tips to deal with the task of simultaneously nurturing stability and instability:

1. Be out and about (see L-4). Only by being "at the front" will you be able to "feel" the pace and progress—and the problems—where it counts, on the line.

2. Demand empiricism. Demand hard tests and fast tests and partial tests of everything, by everyone (see I-3).

3. Listen and provide listening forums. Everyone must be listening, sharing, recognizing small successes, laughing at small failures (see P-3, for instance), and urging even faster tries.

4. Learn to love and laud failures. As previously mentioned, one seminar participant proposed that *How to Learn to Love Failure* be this book's subtitle. It's a good idea: "test fast, fail fast, adjust fast" must become the organization's battlecry (see I-8).

5. Proclaim the virtues of speedy "horizontal" action-taking. Be vociferous in support of tests and fast failures that have resulted from eschewing excessive "vertical" decision-making and instead foster fast "horizontal" action-taking, i.e., involving multiple functions at the front line (see P-9, L-8).

6. Define and chat up the common denominators. I suspect that superb quality, flexibility, and everyone's wholesale participation will top most firms' menus. Define these constants through "preaching"—and especially through example (see L-3). Tie this idea to #2 above (empiricism); that is, preach principally by using examples of nifty, somewhat risky experiments that seem to be forwarding the new cause—especially experiments conducted on the front line, by front-line people and multi-function teams.

7. Let customers—and soaring goals—do the "teaching." The most effective control in the midst of madness is control which is externally inspired. Constant customer listening, coupled with a vision that proclaims the goal of being the very best in the customer's terms will act as an almost moral context for (and control over) the firm's ongoing revolution—that is, the firm that is engaged in continual experiments with everything, by everyone. If customers populate every cranny of the organization, literally (and symbolically), the sense of urgency and the basis for self-control will increase immeasurably, and fast—and never slip (see C-10 also).

8. Make it fun. Only fun—in the sense of taking pleasure in accomplishment and interesting foul-up alike—will allow you to thrive amidst the ravages of change in a world turned upside down. It's the basis for yet one more paradox: The economic stakes have never been higher; therefore, it's never been more important not to take yourself too seriously. "We are in the midst of a great and crazy adventure, creating our brave new rulebook by error and trial as we go along"—that must be the tone (see L-10).

9. Promote those who deal best with paradox. Perhaps this goes without saying: If the ability to deal with these paradoxes is the key to success, then we should promote, at all levels, those who show the greatest facility in doing so. A new breed of managers is required. Full-speed execution will not occur until the new breed is in place. It is imperative to dig into the ranks, or do whatever else is necessary, to get them in place as rapidly as possible.

FIRST STEPS

Openly address and discuss, in every forum, the practical implications of the paradoxes described above. Make sure that you find at least one excuse per day to raise issues surrounding at least one of these paradoxes. And then mount a quick test. And then talk about that test, whether successful or not.

L-2

SUMMARY

In a time of turbulence and uncertainty, we must be able to take instant action on the front line. But to support such action-taking at the front, everyone must have a clear understanding about what the organization is trying to achieve. We must:

- Develop and live an enabling and empowering vision. Effective leadership—at all levels—is marked by a core philosophy (values) and a vision of how the enterprise (or department) wishes to make its mark. Look inward, work with colleagues, work with customers, work with everyone to develop and instill such a philosophy and vision.
- Ensure that the vision is at once (1) specific enough to act as a "tie breaker" (e.g., quality is more important than volume) and (2) general enough to leave room for the taking of bold initiatives in today's ever-changing environment.
- Become the vision's foremost itinerant preacher: Do not let a single day pass without taking at least two or three opportunities to deliver your three-minute "stump speech" on the vision and to "showcase" events and people (small events and front-line people rather than big events and senior executives) that are illustrative of initiatives which support the vision. When it comes to vision and philosophy: (1) consistency is not the hobgoblin of small minds, and (2) God is in the details.

Quite simply, the vision must supplant the rule book and the policy manual. "Hustle" in service to the customer was the message of C-1 through C-10. "People's involvement is everything" was the rallying cry of P-1 through P-10. How does the leader direct this front-line energy and quick initiative-taking? A soaring purpose—a vision and corporate values responsive to today's and tomorrow's needs—is the answer. Day-to-day flexibility and innovation by everyone can only occur if the outline/charter/vision is unmistakable—and exciting.

Via soul-searching listening, assessment of the external situation, and solicitation of all points of view, develop a succinct vision that is clear and exciting, and at the same time leaves wide latitude for the pursuit of new opportunities.

L-2

Develop an Inspiring Vision

> The very essence of leadership is [that] you have to have a vision. It's got to be a vision you articulate clearly and forcefully on every occasion. You can't blow an uncertain trumpet.
>
> Father Theodore Hesburgh
> former president, Notre Dame University
> *Time,* May 1987

The corporation has shared information widely (S-3); you understand you are in a competitive pickle. You're part of a profit-distribution plan (P-6), you've been well trained (P-5), and the unnecessary structure has been removed (P-8); there are no supervisors around. But it's 2:35 A.M. The truck is almost loaded. The last order comes out on the dock, and the deliverer scoots off into the shadows. Something is amiss, you feel (but you're not sure), as you go over the packing label. What do you do?

The driver is chomping at the bit, and costing a fortune. The guy who passed the order on to you is senior to you by two years, supposed to know what he's doing. Odds are high you're all wet. Do you give in to your suspicion, and push the red button—or do you let it go?

To survive in today's quality-conscious environment, the answer had better be "push the panic button." But it will be only if the firm's vision and values are unmistakable; if they make what's of overarching importance clear, and at the same time leave vast latitude for initiative-taking—by everyone.

Some understand the role of vision in the brave, new, turbulent world:

- In *Leaders,* Warren Bennis and Burt Nanus conclude: "Leaders articulate and define what has previously remained implicit or unsaid; then they invent images, metaphors, and models that provide a focus for new attention. By so doing, they consolidate or challenge prevailing wisdom. In short, an *essential* factor in leadership is the capacity to influence and *organize meaning* for the members of the organization. . . . Managers are people who do things right and leaders are people who do the right thing. The difference may be summarized as activities of vision and judgment—*effectiveness* versus activities of mastering routine—*efficiency.* . . . [The subjects in our study] viewed themselves as leaders, not managers. This is to say that they concerned themselves with their organizations' basic purposes and general direction. Their perspective was 'vision-oriented.' . . . There were no 'incrementalists.' These were people creating new ideas, new policies, new methodologies. They changed the basic metabolism of their organizations. These leaders were, in Camus' phrase, 'creating dangerously,' not simply mastering basic routines. . . . Their visions or intentions were compelling, and pulled people toward them. Intensity coupled with commitment is magnetic. And these intense personalities do not have to coerce people to pay attention; they are so intent on what they are doing that, like a child completely absorbed with creating a sand castle in a sandbox, they draw others in."

- In *The Leadership Challenge*, Jim Kouzes and Barry Posner discuss Phil Turner, facilities manager for Raychem Corporation (he has since been promoted to plant manager for the company's Wire and Cable Division): "We had the chance to sit in with him one day when he was talking with his supervisors. Phil was describing the daily life of the people who work in facilities. A typical day-in-the-life might begin with this phone call: 'Phil, the toilet is overflowing in the men's room. Would you send somebody over to fix it?' Or, 'Phil, the air-conditioner is broken in our building. It feels like it's 110 degrees in this place. Would you send someone over to fix it?' . . .

  "Phil related to his managers how one could get the impression that the people who work for Raychem were ungrateful. . . . 'But . . . I don't think that's what they are trying to tell us at all. I think what they are trying to tell us is that they care about their space. I have a vision for this department. I got the idea from [an executive vice-president]. The other day, [he] came by my office. The door was open and he walked in. He put his hand on my shoulder and said, "Phil, I want to thank you for planting those flowers outside my office window. They make me feel good." So I think our job is to make people feel good,' declared Phil."

Developing a vision and, more important, living it vigorously are essential elements of leadership. And they are not, as the case of Phil Turner shows, the exclusive province of mayors, governors, and chief executives. Vision occupies an equally important place of honor in the supervisor's or middle manager's world.

"CREATE DANGEROUSLY"—OR GO BELLY UP

The leaders Bennis and Nanus describe were "creating dangerously," "chang[ing] the basic metabolism of their organization." This radical definition of leadership must become the norm today. A supervisor or the chief executive of a big firm not bent upon "creating dangerously" is apt to lose his or her job and go out of business. It's as simple and as grim as that.

Following and administering rules might have been dandy in the placid environments of yesteryear. Not today. Managers must create new worlds. And

then destroy them; and then create anew. Such brave acts of creation must begin with a vision that not only inspires, ennobles, empowers, and challenges, but at the same time provokes confidence enough, in the midst of a perpetual competitive hurricane, to encourage people to take the day-to-day risks involved in testing and adapting and extending the vision.

Don't Let It Become a Fad

Failure, today, is failure to change. The leader's vision is at once the license to dare to be better and the beacon and "control system" which keeps the process of mastering new worlds from deteriorating into directionless anarchy.

Sadly, "visioning" has become a fad in business circles. The idea of an effective enterprise being energized and guided by a succinct and uplifting philosophy that dares everyone to take risks to realize its challenge is a compelling one—especially as an alternative to guidance via necessarily static, 300-page strategic plans and 1,700-page policy manuals written for yesterday's placid conditions. And, indeed, this alternative form of control/motivation is essential in a setting where, for survival's sake, flexibility and constant change must replace rigidity. For this very reason, the idea of developing a vision is too important to be trivialized by the explosion of handbooks on "how to get vision" in twenty-seven easy steps. Thus, the line I tread here is a thin one. No leadership topic is more important. There are some things that can be said based on others' experience. But no precise path to "finding one" can—or should—be described. The process of discovery is personal, and the essence of the art of managing/leading in chaotic times.

Visions: A Broad Definition

Visions are aesthetic and moral—as well as strategically sound. Visions come from within—as well as from outside. They are personal—and group-centered. Developing a vision and values is a messy, artistic process. Living it convincingly is a passionate one, beyond any doubt. Posters and wallet-sized cards declaring the vision and corporate values may be helpful, but they may not be. In fact, they can hinder and make a mockery of the process if the vision and values are merely proclaimed, but not lived convincingly.

The "What" of Visions

1. Effective visions are inspiring. Steve Jobs, at Apple, wanted no less than to start a revolution in the way the average person processes information, thinks, and deals with his or her world. Fred Smith, founder of Federal Express, had a vision of truly reliable mail service. The Nordstrom family seeks to create "an experience" with their stores. And Raychem's Phil Turner, cited above, wants to create revolution, too, through an uplifting idea about what the maintenance of facilities can accomplish for all his fellow workers.

These leaders were not simply engaging in "market creation," as important as that is (see C-1). They were engaged in a crusade, and asked employees with nerve and verve, and customers and suppliers, to join them. To experience Apple or Fed Ex or Nordstrom, even as a customer, is to have your world changed permanently.

By contrast, inspiring visions rarely (I'm tempted to say never) include numbers. Earnings-per-share targets, however inspiring to the chief's pocketbook and the stockholders, are seldom uplifting to 10 or 10,000 people. While the numbers are important—especially in a world where corporate raiders await in every alleyway—they are a by-product of spirited performance, not its cause. Rather than numbers, the most effective visions ask for the best in one way or another—the highest-quality widgets, the best service ever in retailing history, the best customer relations in banking, the widest selection of clothing ever, a life-transforming experience for customers (of Apple or Outward Bound or Mrs. Field's Cookies); furthermore, they make it clear that "the best" will only be attained by the willing risk-taking of everyone on the payroll, starting with the just-hired teller or bellhop.

2. Effective visions are clear and challenging—and about excellence. One of Bennis and Nanus's leaders was Sergiu Comissionà, renowned conductor of the Houston Symphony: "When asked what he was like, his musicians answered, 'Terrific.' But when asked why, they wavered. Finally they said, 'Because he doesn't waste our time.' That simple declarative sentence at first seemed insignificant. But when we finally watched him conduct and teach his master classes we began to understand the full meaning of that phrase. . . . *It became clear that Comissionà transmits an unbridled clarity about what he wants from the players. He knows precisely and emphatically what he wants to hear at any given time. This fixation with and undeviating attention to outcome—some would call it an obsession—is only possible if one knows what he wants* [my emphasis]. And that can come only from vision, or as one member of Comissionà's orchestra referred to it, from 'the maestro's tapestry of intentions.' There is a high, intense filament, we noticed in our leaders—similar to Comissionà's passion about the 'right' tone—and in any person impassioned with an idea. . . . The visions these various leaders conveyed seemed to bring about a confidence on the part of the employees, a confidence that instilled in them a belief that they were capable of performing the necessary acts. *These leaders were challengers, not coddlers* [my emphasis]. Edwin H. Land, founder of Polaroid, said: 'The first thing you naturally do is teach the person to feel that the undertaking is manifestly important and nearly impossible. That draws out the kind of drives that make people strong.' "

3. Effective visions make sense in the marketplace, and, by stressing flexibility and execution, stand the test of time in a turbulent world. Prescription C-6 emphasized "uniqueness." How does the firm position itself—make itself distinctly different from all its competitors? Further, C-6 said that some forms of uniqueness were better than others, emphasizing a limited number of effective,

generic strategies: Quality, service, responsiveness, and constant creation of new niche markets, even for seemingly mundane products, are the essence of a market-oriented strategy that has high odds of success over time. The vision that will be effective in the marketplace emphasizes the creation of enduring capabilities that will allow the organization to execute the strategy. The vision is thus paradoxical: It is relatively *stable*—focusing on superior quality and service, for instance. But it is *dynamic* in that it underscores the constant improvement (individual skill-building, for instance) and constant try-fail-adjust cycles that keep the skills/capabilities up to date. (See also L-1 and S-3, on strategic planning.)

4. Effective visions must be stable but constantly challenged—and changed at the margin. Johnson & Johnson's simple credo has served it well. Yet J&J has a periodic, highly articulated Credo Challenge. Key ideas seldom if ever change, but minor alterations add up to substantial adaptation over time. Kodak's smooth-running machine served it well for decades—while no effective competition was on the horizon. In the late 1970s, battered by newer film and camera makers, it had to renew its commitment to old tenets grown flabby, and make adjustments for tomorrow as well.

The vision must act as a compass in a wild and stormy sea and, like a compass, it loses its value if it's not adjusted to take account of its surroundings. People Express, for example, confused its early success as a "phenomenon" with the requirements of long-term customer satisfaction. When the firm was no longer a "phenomenon"—as others matched People's prices and then their costs—the bases for sustained attractiveness to customers, such as an adequate reservation system, were found to be sadly lacking. The very arrogance which led to the firm's bold start blinded it to a changed world.

5. Effective visions are beacons and controls when all else is up for grabs. Only fast-moving, structurally trim, action-oriented firms will survive. They will be populated by self-managing teams and marked by the total absence of first-line supervisors and fewer middle managers. So who's in charge? As a Tandem Computer executive puts it: "The controls are not a lot of reviews or meetings or reports, but rather the control is understanding the basic concept and philosophy of the company." The immense effort involved to achieve "buy-in" by everyone and the discipline required to live the vision with unswerving consistency are what transform this single sentence from Tandem into practical reality.

To turn the vision into a beacon, leaders at all levels must model behavior consistent with the vision at all times (see L-3 and L-4 especially). Bennis and Nanus are once again instructive: "Trust is the lubrication that makes it possible for organizations to work. Trust implies accountability, predictability, reliability. . . . The truth is that we trust people who are predictable, whose positions are known and who keep at it."

Jim Kouzes and Barry Posner heard a slightly different, somewhat broader statement of this same idea from Stanford University president Donald Kennedy, who says:

The leader's job is to energetically mirror back to the institution how it best thinks of itself. I just try to keep reminding students of certain things . . . about their opportunities, their obligations about public service and the like. And I try to pick what [the dean of students] calls "teachable moments." Like the recent honor code violations. This strikes me as a moment to use to try to get people to understand what we are doing. People say, "You've got a massive cheating incident, the honor code doesn't work." I say, "Wait a minute, what do you think the honor code is for?" "Well, the honor code is to prevent cheating." "Gee, are you sure about that? If the honor code is to prevent cheating, there are surely better ways. Give me a lot of police and I'll end it around here. And you think everyone will cheer about that?" "Well, no." And so you start talking about what the honor code is for. And about responsibility.

6. Effective visions are aimed at empowering our own people first, customers second. As mentioned, visions must be consistent with market realities—and to be sure, the vision of a Federal Express, for example, attracts customers. But the first task of the vision is to call forth the best from the company's own people.

7. Effective visions prepare for the future, but honor the past. A contemporary German philosopher has stated: "Whoever supplies memory, shapes concepts, and interprets the past will win the future." Oddly, visions are about the past as much as about the future. Ronald Reagan, whatever his faults, called upon us to create new opportunities for the future by recalling our entrepreneurial, high-spirited past. The most effective visions draw upon enduring themes to make us feel more confident about stepping out in new directions to deal with a brave new world. Thus, a call for renewed emphasis on quality may be rooted in the tradition of craftsmanship of the firm's honored founder. A call to shed slovenly ways and innovate rapidly can be tied to the organization's early and glorious entrepreneurial days, when it succeeded by catching then established firms napping. A call for greater work-force involvement and less bureaucracy may be related to the company's and the nation's pioneer days when self-reliance reigned.

The continuity is stressed for the very purpose of paving the way for change: "As you seek to change every procedure and job description to aid responsiveness, remember the bygone days when *we* whipped big competitors by being faster and fleeter of foot." That is: "You are safe in that you honor our most cherished traditions as you seek to break out of today's constraining bonds."

8. Effective visions are lived in details, not broad strokes. A vision is concise, encompassing, a picture of sustaining excellence in a major market. But, as in the example of Stanford president Donald Kennedy using honor code violations as a "teachable moment," or Phil Turner's planting a few flowers at Raychem, the vision lives mainly in the details of its execution. This is the theme of L-3 and L-4. Calendars, notes on memos, and who gets invited to meetings are the "stuff" of visions on a moment-to-moment basis. They form the basis for reliability and trust as nothing else can.

Getting a Vision

To describe the eight key traits of an effective vision is not to describe how to get one. You've just been promoted to your first supervisory job or to chairman of the board, or founded a small company, or become head of New York's Eastern Regional Boy Scout Commission—and you realize the unique opportunity such a moment presents to shape your part of the organization. You want to present a compelling vision. So what do you do? Do you go to the mountaintop? Can you hire a consultant to give you one? (If so, how much does it cost?) Do you form a team to hammer one out? Do you solicit "vision input" from the front line? From customers?

All of these and none is the confusing answer. Here are a few ideas about how you might proceed:

1. Look to your prior experiences. You don't come to the table cold. You've been part of the organization (or some organization) for years, starting with Sunday school or a Brownie troop. What have you learned? What really bugs you the most about such groups? What's been nifty? What's been memorable? What seems to have been going on at work when people were really soaring? When they were at each other's throats?

A vision and a set of values come first from these past experiences. Here's your chance—first-line supervisor or chairman. Fix what's been wrong in every place you've been before: Not enough communication? Set up daily, informal rap sessions. Too much politics? Stamp out incipient politics by pouncing on those who attempt to butter you up—begin this on hour one of day one in the new job. Too much bureaucracy gumming up the works? Cut out five reports right now, and stop all memo writing. Lousy attitudes toward customers? Insist that any customer call be put through to you instantly, even if you are in a closed-door meeting with your boss or your boss's boss.

2. Fiddle around, but make haste. Make lists. Doodle. Write ideas on index cards. Talk with others—from all walks of life—and seek their advice. Reflect on all such numerous inputs—but move fast. The organization is most malleable on day one; it becomes less so with each passing hour. The metaphor, from national politics, of a president's "honeymoon" is apt; term after term it's proved accurate. That is, you've got about a hundred days to get on with it.

Set down your ideas, loosely or precisely. Take some immediate steps of the sort described above. Begin in a fairly dramatic fashion, albeit using small events as your fodder.

3. Try some participation. After noodling a bit, you might schedule fifteen meetings in the next thirty days with disparate groups—first-line people from each function, first-line supervisors from each function, first-line supervisors from a mixture of all functions, suppliers, customers, wholesalers, community leaders. Chat about your ideas. Seek their list of top-ten irritants, their ten best experiences in the company or function; and keep on scratching away.

4. Clarify over time. Perhaps a two- or three-day session with those who report directly to you is in order. Again, swap stories, dreams, precise internal and market assessments, wallow in the data (mainly anecdotes). Ask them to come to the party with lots of data, gathered by doing their own smaller-scale version of what you've been up to. Maybe the result will be a formal declaration of values, maybe not. Maybe it will be two flip charts' worth of handwritten ideas that everybody sticks up in his or her own office. Perhaps it will eventually be turned over to a printer and circulated to everyone on wallet-sized cards and posters alike. But then again, maybe it never will.

5. **Remember, listening is basic.** Paradoxically, visions are seldom original. Bennis and Nanus observe: "The leader may have been the one who chose the image from those available at the moment, articulated it, gave it form and legitimacy, and focused attention on it, but the leader only rarely was the one who conceived of the vision in the first place. Therefore, the leader must be a superb listener, particularly to those advocating new or different images of the emerging reality. . . . Successful leaders, we have found, are *great askers,* and they do pay attention."

Living the Vision First

The printing of the cards and slogans is the least important part of all this. By then, if the process is to work, it's a done deal, bought into, already being lived. The most important part is wallowing in the ideas and then, as they become increasingly clear, living them.

1. **"Live, then post."** In fact, if you began with a formal declaration, you are probably doomed. You don't know *what it really means, let alone* anyone else. You are likely to be continually trapped by a thousand tiny inconsistencies as you wobble toward clarity. That is, some small personnel decision or some small customer decision requires you to do the thinking you should have done before turning on the printing press. Such inconsistencies, after a formal declaration, convict you of hypocrisy and set the process back, perhaps derailing it forever. Remember, honeymoons are not very long; you seldom get a second chance. So, in the end, act fast when it comes to living the emerging eternal values; go slow when it comes to sloganeering.

2. **Preaching it: The Stump Speech.** *Part of living the vision* is in the details that will mark prescriptions L-3 and L-4—paying attention via time spent and getting out to the front line, where true implementation occurs. But there is a "preaching" element too, which I call developing a "stump speech," a term whose origins are, of course, political. The boss with a vision—supervisor or chairman—is political, in the very best and purest sense of that word. He or she, running an accounting department or a police department, is constantly out "campaigning"—campaigning for the support, energy, and whole-hearted participation of everyone in the organization.

I suggest a *three- to five-minute* "stump speech," with many variations. Use it at least a couple of times a day, almost regardless of setting. No opportunity is, in fact, inappropriate for reiterating the vision, using a pertinent detail that happens to be at hand. If possible, end the speech with a couple of

examples of people in the ranks living the vision in their daily affairs—not in a dramatic fashion, but in a small way that illustrates the way the vision affects daily operating routines; try harder still to have that example encompass a small risk (not small to him or her) that someone took to enact the vision.

3. **Another part of living the vision is pure emotion.** One crew member said of Dennis Conner, the winning skipper in the 1986 America's Cup race, "He gives confidence to the whole crew." Los Angeles Ram running back Eric Dickerson said of his coach, John Robinson, "He makes you think you're *invincible.*" Football commentator John Madden reports a comment by a Chicago Bears lineman on the team's quarterback, Jim McMahon, "In the huddle, your eyes just glue into him. I'd jump out in front of a bus and block it for him."

This brings us back full circle to the paragraph from Bennis and Nanus's *Leaders* that prefaced this prescription. The vision lives in the intensity of the leader, an intensity that in itself draws in others. This is the final ingredient.

Caveat: Beware of Stasis

The very purpose of the vision is to provide the bedrock upon which constant evolutionary, opportunistic change can take place. However, it is all too easy for even the most compelling vision (initially) to become static, impeding the very change it is meant to induce.

IBM's main premise, to provide the best service of any firm in the world, has gotten a bit tattered in recent years. It often came to mean, as a by-product of IBM's success, the best service to the managers of central information systems. When information processing began to be radically decentralized, IBM's tough account managers often joined with the client MIS director in rearguard actions to fight change. The vision had come to be interpreted in a limited—and limiting—way.

The vision must provide stability—it inspires the confidence necessary to induce constant risk-taking in pursuit of its execution/perfection/expansion. But it must not become constrained by yesterday's success pattern, or by a narrow interpretation of market need. The vision must be infused with no-holds-barred customer/competitor listening (see C-7, I-4); it must be coupled with stringent innovation goals (see I-1, I-9); and it must be abetted by flat, non-bureaucratic, close-to-the-market organization (see P-8)—all of which in themselves encourage initiative-taking which will over time change the operational definition of the vision at the margin or, eventually, dramatically. It is true, nonetheless, that despite all these spurs, the vision still stands a good chance of getting rusty, and even enlightened exercises such as Johnson & Johnson's Credo Challenge are not likely to stave off some narrowing over time.

"Beware" is hardly practical advice, but it is a first step. The absence of bold new initiatives, in pursuit of objectives that may seem somewhat contrary to the vision, should be cause for alarm. Don't let the vision be shot through with holes, but be damned sure some of your best and brightest are shooting at it—with bazookas as well as snipers' rifles. Recall the advice of Richard Foster, from *Innovation: The Attacker's Advantage*—winners, he says, are those who have constantly attempted to make obsolete their most cherished skills and products. While always true to some degree (Foster reviews centuries of history), the implications of his analysis are stunning as we look to the breathtakingly more turbulent future.

FIRST STEPS

The process of developing a vision, though it represents the "highest level of abstraction," is quintessentially a trial-and-error process. Reread this prescription; take any angle on the process you can think of—but start today.

L-3

SUMMARY

In these uncertain times, when the need to accelerate the pace of change is paramount, we must:

- Lead, as never before, by personal example—in particular, calling attention to the new by means of our primary leadership tool: our calendars; that is, the way we spend our time.
- Reinforce attention to the new direction by the second most powerful day-to-day leadership tool—promotion decisions.
- Understand the power of our smallest actions: Amidst uncertainty, when people are grasping at straws in an effort to understand the topsy-turvy world about them, their symbolic significance is monumental.

People in organizations are all boss-watchers, especially when external conditions are ambiguous. For better or worse, what you spend your *time* on (not what you sermonize about) will become the organization's preoccupation. Likewise, the proactive use of symbols, such as the sorts of stories you tell and the people you invite to meetings, sends powerful signals to the organization about what's important. The final confirmation of "what really counts around here," when things are changing, is who gets promoted—risk-takers and harbingers of the new, or "the same old crowd."

Modify your calendar by 15 percent in the next six weeks to call attention *quantitatively* to your top priority. Eventually, spend no less than 50 percent of your time, visibly and directly, on your top priority. Dip down in the organization and intrude in *every* promotion decision; keep a *quantitative* scorecard on the degree to which promotions reflect the top strategic priority. Pause briefly and consider the symbolic significance of *every* act, given that others are especially thirsty today for clues about your organization's priorities.

L-3

Manage by Example

Example is leadership.

Albert Schweitzer

My moment of truth came toward the end of my first ten months. It was one of those nights in the office. The clock was moving toward four in the morning, and I was still not through with the incredible mass of paper stacked before me. I was bone weary and soul weary, and I found myself muttering, "Either I can't manage this place, or it's unmanageable." I reached for my calendar and ran my eyes down each hour, half-hour, quarter-hour to see where my time had gone that day, the day before, the month before. . . . My discovery was this: I had become the victim of a vast, amorphous, unwitting, unconscious conspiracy to prevent me from doing anything whatever to change the university's status quo.

Warren Bennis
while president of the
University of Cincinnati,
as reported in *The Leadership Challenge*

I did the thirty-day [calendar] review and a general review of the last six months. I became shocked and then saddened as the truth [about how I was spending my time] slowly sank in.

Hospitality industry executive
Skunk Camp participant, 1985

I started by delivering on my number one promise—I have cleared my calendar so that about 60 percent of my time is available for listening, walking around, etc. I have even set aside all airplane travel time for "innovative dreaming," in fact that's where I am now. I previously used this time for "in-basket clearing."

Senior civilian executive
U.S. Army Corps of Engineers
Skunk Camp participant, 1986

ATTENTION GETTER #1: A CHANGE IN YOUR CALENDAR

I have studied leadership and strategy implementation for over twenty years, reviewing hundreds of books, thousands of studies, and observing a host of effective and ineffective leaders. Literature on management style is best measured by the ton, as is true for topics such as conflict resolution, consensus-building, "forging a team at the top," choosing an optimal structure, and goal-setting techniques. More recently "how to create the 'right' culture" seems almost to have become a boardroom obsession.

To be sure, many sound ideas have surfaced concerning each of these important topics. Yet I am willing to stick my neck out and state unequivocally that all of them, taken together, pale by comparison to the power of this one: changing your calendar.

Changing your calendar is not sufficient to bring about desired organizational change. But it is necessary. It is quite simply impossible to conceive of a change in any direction, minor or major, that is not preceded by—and then sustained by—major changes, noticeable to all, in the way you spend your time.

At one level, this prescription seems almost tautological. As managers, we don't do the business of the enterprise anymore—drive the municipal bus, patrol the beat, sell the shoes or computer. Therefore, *we are our calendar,* the signals we send about what's important and what isn't. That seems to be what Warren Bennis found out in the course of trying to institute changes at the University of Cincinnati.

At another level, the power of the calendar exists because virtually everyone is a boss-watcher. In ways both direct and convoluted, the agenda of others soon come to mirror that of the boss. And this is true—to the point of being a truism—on the shop floor, in the elementary school, on the garbage route, and in the executive suite.

Why, then, since the powers of example (e.g., the calendar) are both ageless and indisputable, do we stress them here? Quite simply because their creative use is more essential today than ever before.

All organizations must now be jerked rapidly in new directions. Moreover, the requisite change in direction is taking place against a backdrop of ever more confusing messages from the environment—cut costs but achieve better quality; decentralize and recentralize. Even if conventional planning tools were once effective as direction setters (a questionable assertion), they are much too slow—and not blunt enough—for today's needs.

Telecommunications engineers have a precise term for all this: "signal-to-noise ratio." When you are transmitting through the air, or via a transatlantic cable, there is lots of interference or "noise," such as random electromagnetic signals. Your transmitted signal must be strong enough (i.e., of great enough amplitude, distinct from all others) to override the noise—in other words, the

signal-to-noise ratio must be high enough—so that the signal arrives clear and unequivocal at the receiving location.

Turbulence in the environment is now causing unprecedented noise. If the organization is to be led clearly to implement its vision (see L-2), our "signal amplitude" had better be great indeed. Only when the front line receives crystal-clear signals that leaders, at all levels, are foursquare behind them will they be comfortable enough to take the risks necessary to make the far-reaching changes required. And the only for-certain confirmation of the commitment of leaders is the way they spend their time. In summary, to signal the need for dramatic change, the calendar must be altered dramatically—unmistakably enough and visibly enough to overwhelm the growing noise level.

So it boils down to this: Want to call attention to your new quality program, or your new people participation program, or your new innovation program? There's only one way that counts with the organization's members: Spend time on it—lots of it.

A Possible Scenario: Making Your Calendar Send Your Message

Is quality your necessary and consuming passion?

- Start *every* meeting—even if the topic is a new computer for the Düsseldorf office—with a quality review.
- Schedule a full-dress quality review once a month with those who report directly to you and an informal report on quality at the start of each week's routine staff meeting.
- Go outside the firm to a number of seminars on the topic—even if you're chairman of a $20 billion company—and let everybody know you went, and took notes.
- Meet once or twice a week with longtime customers or suppliers, on their turf, to discuss quality; then circulate detailed notes on the meeting.
- Make sure your desk is stacked high with books on quality—for all to see.
- Regularly call people at all levels of the organization to ask questions about quality.
- Circulate dozens of articles on the topic—to hundreds of people, with a simple note appended, such as "Can we make use of this? Let me know."
- Have a three-day "off-site session" with front-line quality managers from each facility.
- Start routinely poking around—in person—in the bowels of the organization, even in functions outside your own; chat up everyone who's willing to discuss the topic with you; mainly ask questions at first.
- Get anyone and everyone to send you reports on some aspect of quality in their operation.

And then, and here's the rub, add up all this activity to determine, exactly and quantitatively, just how much gross calendar time you are spending on the matter. You simply must have at least one daily activity that is clearly—i.e., visibly (stands out against the background "noise")—devoted to it. You should set a bold, quantitative weekly and monthly target as well, and then track your progress, and publicize your schedule (and schedule changes) for everyone to see.

The Message Is in the *Amount* of Time Spent

Though the issue might well be quality, you need not spend so-called "quality time" on it. That is, you don't need to get everything right at first; you simply need to get quality demonstrably on your agenda. No doubt you will be at sea in the beginning; implementing a new strategic thrust is not easy: "Just what the hell *is* quality anyway?" You won't know whom to meet with, whom to call, what to ask or talk about, whom to believe. The odd thing is that it really doesn't matter. What matters is that everyone who works for and with you observes you embracing the topic with both arms—and your calendar. What they need to observe is your obvious, visible and dramatic, determination to batter down all barriers to understanding, and then implementation.

Your energy and intensity—as shown chiefly by your time spent—will signal everyone who comes in contact with you, directly and indirectly, that you are in dead earnest, which is really the point. In surprisingly short order, even if the organization is a big one, their calendars will mysteriously start to match yours. The firm will slowly begin to come to life around the issue. Many efforts will be misdirected or useless. A few may even be harmful. No matter. Slowly the lumbering beast called the unit or organization (whether with 17 or 17,000 occupants, whether public sector or private) will shift its sights. And if you sustain your effort—as proved by that damnable calendar—attention to, and experimentation with, the new strategic thrust will be sustained as well. Over time, you and the obviously sensible people on your payroll will inexorably begin to do more things "right."

Creative Uses of the Calendar: (1) Turning Any Occasion into a Soapbox Opportunity and (2) Self-Cooptation

Is it as easy as just changing your calendar? Yes. And no. It is that easy—after the fact. But it's no easier than losing weight and then keeping it off. After all, your calendar, as it is now, is not the calendar of an idiot. It was "chosen" by you. Perhaps you feel it was foisted on you by superiors, or just grew topsy-turvy, like Bennis's, out of maliciousness or mindlessness. And it is true, you are in part a victim—but never, I contend, decisively so. You may well be forced to go to meeting X and declaim on topic Y. But even in that extreme case, you can always—yes, always—turn the presentation into a soapbox opportunity to preach the quality (or service, or participation, or innovation) gospel. "Let me begin my discussion of European computer selection with a review of its impact on quality as perceived by our customers." It would be darned tough to stop you from doing that!

Another example: Former Secretary of Health, Education, and Welfare John Gardner had a number of pet projects, but the "system" stymied him. He broke somewhat free when he started to schedule seemingly insignificant speeches, a year in advance, on one of those pet topics. Suppose he had a keen interest in cancer research. In February of one year, he might schedule a speech to an obscure cancer research consortium for March of the following year. Once on the master calendar, the event becomes "real" to the bureaucracy. About six to eight weeks before the speech, the system starts to cough up papers and speech drafts on the subject, and meetings automatically get scheduled to discuss the forthcoming event; in other words, Gardner would grab hold of the "mindless system," and use this subtle lever to make it attend to his desires.

In less august surroundings, we all have similar opportunities. Each year, for instance, I deliberately schedule about ten or fifteen speeches to groups that will force me to think about new topics I'm interested in. As the day approaches, I'm often mad as the dickens at myself for having scheduled such a "disruption." But I know I've got to show up, so I start working on the new topic; the result is that a small number of what I call "self-cooptation" events often set the tone for the rest of my work.

Measure (Quantify) Your Progress

Specifically, I propose that you begin by shifting at least 15 percent of your time toward your top priority in the next six weeks, and follow up with another 15 percent (for a total of 30 percent) in the six weeks after that. Indeed, it is certain that the first figure can be 25 percent, or even higher. I have seen any number of superb leaders almost totally clear the decks to get on with a new agenda. Remember the busy executive from the U.S. Army Corps of Engineers who quickly shifted 60 percent of his normal working time, and then his airplane time too.

In the face of most organizations' need for revolutionary change, this shift in the use of your time must soon add up to even more than I've suggested so far—to fully 50 percent of your time devoted to the new, revolutionary strategic priority. Nothing less will shake most organizations from their lethargy fast enough to restore competitiveness.

Bob Townsend, author of *Up the Organization* and *Further Up the Organization,* offers even more dramatic counsel, based upon the turnaround he engineered at Avis. He urges you to devote 100 percent of your time to the critical issue. For instance, at one point Townsend determined that Avis's financial reporting was a mess. He was unable to measure anything accurately, or even know how he stood at the end of the day. He relieved the controller, and then, over the furious objections of the board of directors, formally appointed himself full-time controller. He moved out of the president's office and into the controller's office for several months, until the problem was in hand and a replacement had been selected. As he says, the extreme demonstration of concern sent "a darned clear message." Talk about a high "signal-to-noise ratio"!

There Can Be No Surrogates

There is in fact no alternative to you acting as standard bearer for a dramatic strategic shift. You may, if you are chief executive, appoint a "representative"—a "quality czar," for example. But beware. He or she can be no more than your point person, and never a true surrogate. There can be no substitutes when it comes to the way the members of the organization assess your priorities and the seriousness of your intent. You are either "on" the topic—or you are not.

ATTENTION GETTER #2: PROMOTING CONVERTS TO THE NEW PROGRAM

For us boss watchers (all of us, that is) the way our bosses spend their time, *not what they say*, is the top attention director. Ultimate confirmation of the seriousness of the intent signaled by a change in the calendar is who gets promoted—attention getter #2.

For example. The firm must shift from an inward-looking to an outward-looking focus. The process started a year ago. The calendar of the unit chief, or the top executives, says, "This is for real." Now a general management job pops open in the second most important unit in the company. Who gets it?

The three most obvious candidates are all longtime toilers in the trenches, several times promoted, talented beyond doubt. But all three have been lukewarm about the new thrust. Their backgrounds are all oriented heavily toward finance (rather than sales or marketing).

Does one of the three get the job, or does the person at the top dip down and anoint a somewhat younger line marketer who has been out front, at no small personal risk, on the new strategy? Everyone in the firm, from junior distribution supervisor to the crusty old director of MIS and the corporate sales VP, is focused on this bellwether appointment. It is the acid test.

The picture need not be so stark. It need not be "marketers" versus "finance persons." Suppose one of the three finance people, by chance the most junior, had taken to the new program like a duck takes to water, long before even the chief had demonstrated he would stay the course. Or suppose it's an old tiger, the oldest of the three, with only eighteen months to go to retirement—but he got out in front while the relative youngsters lay back, testing the chief's mettle.

The latter two examples are taken from personal observation. A big firm undertook a shift to a quality-before-cost-and-volume orientation. The "old boys" were certain that when push came to shove the chairman would return to penny-pinching, "cost is what really counts around here" ways. Then, two years into the program, the chairman confounded the reluctant dragons by appointing someone fifteen years their junior as chief operating officer—and heir apparent. He came from a relatively small division—but he had been the most energetic by far in implementing the quality thrust. In the second case, a

63-year-old was named vice-chairman of a big firm for precisely the same reason. He, at age 61, had far surpassed those fifteen years his junior in his zeal for a new, customer-oriented strategy in an operation that had been primarily numbers-oriented—and he had previously been a card-carrying member of the inward-looking finance fraternity.

In both instances, those on the scene, from top to bottom, describe the surprising promotion as decisive proof that the new strategy was no flash in the pan.

I am not suggesting that you mindlessly scour the woods for some bootlicking youngster who has taken to the new approach for the purpose of self-aggrandizement. But zeal for the new will always vary among candidates for a key job. Make sure that you pick a convert; at least don't pick someone, regardless of past loyalty, whom everyone judges to have been dragging his or her heels.

Go one step further. Though I am an avowed fan of decentralized organizations and delegating authority, I strongly urge that any boss get personally involved in every promotion in his organization, even those three or four layers down. There aren't all that many promotions per year in firms of ordinary size, particularly in a division or in an operations center. Each one is a precious item, a signal of matchless amplitude. Autonomy be damned—you can't let those gems slip through your fingers. Scream about "quality over volume" as a division general manager, but then permit three of the next six first-line supervisor promotions to go to "ship the product" fanatics, and you can effectively kiss your strategically crucial program goodbye. Down on the line, where it counts, you are a dead duck—and a hypocrite.

And, as usual, quantify. Keep a running scorecard on promotions. What's your overall batting average? E.g.: "Six first-line promotions—four filled with converts or zealots; none filled with heel draggers."

MANAGING (LEADING) AS SYMBOLIC ACTION

Len Bias was not just another drug-overdose victim. Rock Hudson was not just another AIDS victim. The arrival of the planet's five-billionth human citizen is not just another birth.

On the other hand, we don't even know who that five-billionth person was, or, in fact, whether he or she was born in 1986 or 1987. And the deaths of Bias and Hudson rate only routine entries in the dusty record books of Maryland's Prince Georges County and Los Angeles County. Nonetheless, each of these occasions has a significance far beyond the simple statistical one, affecting the broader and graver issues of drug abuse, AIDS, and overpopulation.

Storytelling

People, including managers, do not live by pie charts alone—or by bar graphs or three-inch statistical appendices to 300-page reports. People live, reason, and are moved by symbols and stories.

We read ceaselessly about President Reagan's talent as a storyteller. Even his most stalwart fans regularly blush at the gap between statistical reality and his chosen story. But no one, friend or foe, snickers at the skill and power with which he has created compelling images that have moved the nation and defined controversial policies.

Researchers, somewhat ruefully to be sure, attest to the power of stories. One study involving MBAs—those persons more likely than almost any others to profess devotion to pie charts—is illuminating. Stanford researcher Joanne Martin attempted to convince a number of Stanford MBA students of the sincerity of a firm's policy of avoiding layoffs. Dividing them into separate groups, she presented one group with an illustrative story; another group received a wealth of statistical evidence indicating the firm had far less involuntary turnover than normal for the industry; a third group got both story and stats; a fourth group was given an executive's statement about the firm's policy. The most convinced group? The "story only" one—even more than the group that got both the story and the statistics.

Managing at any time, but more than ever today, is a symbolic activity. It involves energizing people, often large numbers of people, to do new things they previously had not thought important. Building a compelling case—to really deliver a quality product, to double investment in research and development, to step out and take risks each day (e.g., make suggestions about cost-cutting when you are already afraid of losing your job)—is an emotional process at least as much as it is a rational one.

It requires us, as managers, to persuade people quickly to share our sense of urgency about new priorities (see L-10); to develop a personal, soul-deep animus toward things as they are; to get up the nerve [illegible] to take on the forces of inertia that work against any significant program for change. The best leaders, especially in chaotic conditions (effective generals, leaders of revolutions), almost without exception and at every level, are master users of stories and symbols.

Furthermore, they are not ashamed of it. Martin Luther King talked openly about creating "a sense of drama" at crucial moments. Douglas MacArthur's first actions upon arriving in Japan at the end of World War II (such as landing unarmed) were masterpieces of the use of symbols. So was the carefully orchestrated arrival in France following the Allied landings on D-Day of the officially powerless Brigadier General Charles de Gaulle: within days he established dominance amidst total chaos through the skillful use of symbols representing the glory of France. And to jolt a quality program into gear, numerous managers I know have saved up defective products for a week, and piled them on the

factory floor in plain view of all involved; or even carried them by the bucketful into a board-of-directors meeting.

I am not suggesting that you quit collecting statistics. Numbers are important. Moreover, you should make sure that your "story of the week" bears a strong relation to overall developments, that it is a valid outcropping of an emerging trend.

Fortunately, or unfortunately, the average day or week serves up a set of good-news and bad-news stories that are plausible and that conform to systematically collected data. Resolve to collect three good-news and two bad-news stories concerning your top strategic priority within the next week. Talk about them, write about them. Ask others to collect—and use—good-news/bad-news stories in a similar fashion.

Everything Is Symbolic: Some Questions to Ask Yourself

A hundred forms of symbolic action add up to the clearest of pictures of the firm's (and leader's) true, rather than espoused, concerns:

1. What questions are asked first? You talk quality, but you always have the volume/cost report come first. Priorities are clear to one and all.

2. Where do you visit? You say partnerships with suppliers are the key to quality. Yet your calendar shows that of your sixty-five formal visits outside the firm this year (to attend outside board meetings, for example), only one has been to a supplier; moreover, three visits to suppliers were canceled at the last moment because of "pressing priorities."

3. Is there a pattern to the notes you pen on memos? Many reply to memos by penning notes in the margins. Are yours always merely topical, or do they have an overall theme? For instance, no matter what the topic, do you use your notes as reminders about innovation opportunities (if that's your theme)?

4. What does the "look" of the business reveal? You talk austerity and openness, yet hide behind your secretary and continue to allow officers to fly first-class "because of their burdensome schedules." What's on the menu in the executive dining room or corporate cafeteria? What's on the menu in the plant cafeteria?

The Manager as Pattern, Like It or Not

In the end, the manager's minute-to-minute actions provide a living model of his or her strategic vision. "Modeling," the behavioral scientists tell us with rare accord, is the chief way people learn. This is true in general, but now more than ever, when the search for themes by people beset with uncertainty and fear is at an unprecedented level.

Studies show that each day, like it or not, is marked by thousands of symbolic acts. Your personal note on a memo will be copied by hundreds and deciphered by thousands before nightfall. Your seemingly minor personnel decision will be debated in every outpost of the company, within minutes of your "secretly" making it. Your candid conversation with a salesperson during a customer call you made together flashes through the grapevine. Your inadvertent decision to park in a different slot this morning is causing reverberations of 5.9 on the Richter scale: "What's it mean?" You are spewing forth signals by the thousand, to thousands, each day. This is a plain fact. Whether or not you approach this inevitable set of signals opportunistically is up to you. But never doubt that you will send them—or that others will make a pattern from them, no matter what you do. What this pattern will suggest to those others, however, can be influenced dramatically. Grab hold of these opportunities. You *are* a rich, daily pattern to others. You *must* manage it in today's environment, when the conventional systems (such as policy proclamations and strategic planning) are overwhelmed by the pace of change and proving to be wholly inadequate. Only proactive management of the torrent of signaling activities can create the pace of implementation necessary for business survival.

There are those who object that a manager such as I describe is paying too much attention to style, not enough to substance. This is nonsense. Because the fact is, there is no perceived substance without symbols. Trust and credibility come through everyone's observation of the manager's symbolic integrity, not his or her "policy documents."

FIRST STEPS

1. Change that calendar—this afternoon. Change just one hour this week (surely you can do that). Change six days in the next six weeks to unmistakably reflect your top strategic priority.
2. Watch your symbols! Perhaps with the help of a friend, assess the degree to which your minute-to-minute behaviors closely reflect (or contradict) your strategic themes. Make this assessment daily, or at least weekly—starting right now.
3. Can you, without hesitation, point to one symbolic activity *each day* which not only showed you foursquare in support of your top priority, but also showed you making a tough choice that demonstrably placed yesteryear's top priority in second place?
4. Stop, right now, a mindless decision about a promotion, about to go to someone everyone assumes is the "best person for the job." Make sure the next promotion decision sends an unequivocal message throughout the unit or firm as a whole about your commitment to your top priority.

L-4

SUMMARY

To deal with a world turned upside down for everyone, a world in which clear guidance is hard to come by, and where rules and paper no longer reign supreme, we must:

- Practice visible management.
- Act to reduce information distortion.
- Get rid of our offices, or take several steps in that direction.

Visible management is a requisite today. All are confronted with change. Change is the only source of opportunity—and yet change has been anathema, especially to American organizations designed for stability and mass production of goods and services. To enable all organization members to get comfortable with change and constant risk-taking, management must be ever present, training, coaching, cajoling—and caring and comforting. A prime side-benefit of such a direct presence is a radical reduction in information distortion, which is now more dangerous than ever (delusion has a higher-than-ever price tag).

You are out of tune with the times if you are in the *office* more than one-third of the time.

L-4

Practice Visible Management

The most effective leaders, from Mohandas Gandhi to Sam Walton of Wal-Mart, have always led from the front line, where the action is. Today, any leader, at any level, who hopes for even limited success must likewise lead from the trenches. The changes are first discovered out where the customer is, where the small new competitor is, and where the disgruntled dealer is, not in the stillness of the meeting room on an overhead transparency.

When a trend, in today's world, is well enough known to put on paper, it's too late; the market is lost.

Furthermore, today's requisite flexibility will, as the people prescriptions argued, only come when every person is, and feels, empowered to take action at the front line. We, as leaders, will only know if they are so empowered (or still encumbered by silly, action-stifling rules) by being there.

So you be the judge:

Case One:

Dear Mr. Peters,

I have just completed perhaps the most educational month of my business career (including four years of business school).

I am responsible for the parts department of a large Caterpillar dealership. As part of a renewed emphasis on customer service, I spent a week working in the warehouse of one of our largest customers. What an eye opener! Being on the receiving end of one of our Caterpillar parts shipments rather than the shipping end was informative, to say the least. I learned firsthand why this customer was complaining about certain aspects of our parts service, because *I* was the one who had to open the boxes, sort through the parts, and process the paperwork. Now I believe this customer, and will act on his concerns, where before, I would tend to shrug off his complaints as "just part of doing business." Actually working *with* customers is the key to finding out what they *really* think of our company.

To follow that up, I have spent two days a week working as a warehouse-man on our day and night shifts. Again, my eyes were opened. Not only did I find out how our warehouse really operated, I found out that our warehouse people are genuine *heroes!* They have a hard, monotonous job, but they show up day after day, year after year, with smiles on their faces and willing to do their best. I can't tell you how impressed I was with their professionalism, dedication, and willingness to work with me. Before, I viewed them as employees on the low end of the pay scale. Now I view them as friends, worthy of all the respect and support our company can provide.

[These activities have] opened my eyes to the obvious—that my job is to learn to think as our customers think, and to provide the kind of environment that will let the people I work with think, innovate, make mistakes, have fun, and do their very best.

Sincerely,
General Parts Manager
(February 1987)

Case Two:

Although I will almost always be in my office not later than 7:30 in the morning, I do not want to see anyone until approximately eight o'clock, nor do I want people hanging around in the outer office. Again, because of the time demands on everyone, if you want to see me about a particular subject, call [my secretary] and leave a message as to the subject matter. It is my intention to see you as quickly as possible to resolve the problem or discuss the matter at hand. But I want no one just drifting around the office to visit or address a particular problem.

Excerpt from a memo to all
vice-presidents by a new chief
executive officer of a
multibillion-dollar service company

Between the two, who would you bet on?

Getting out and about is a dandy idea. But it is more than that. It is an attitude toward managing and leading. It is a way of life. It is virtually a theory of organization unto itself. That is, it deals with the fundamental way in which communication, including executive communication, takes place in and among collectivities called organizations—communication that deals with gathering the information necessary for decision-making, with making a vision concrete, with engendering commitment and risk-taking, with caring about people beset with an unprecedented disruption of normal routines.

Getting away with not getting out may have been possible yesterday. It is not today.

THE PERILS OF INFORMATION DISTORTION

I was appalled by a feature in the January 12, 1987, issue of the Detroit *News* titled "The Hazards of Business Fads." In it the president of the American Management Association, Tom Horton, took on "managing by wandering around" with a vengeance. Or, the paper reports, "by stumbling around, as Horton says. It's his nomination for most ridiculous recent management fad." The article quotes Horton's argument: " 'The theory is that the captain needs to get away from the bridge and roam the ship. But somebody's got to be steering the ship.' Good managers, he points out, don't wander aimlessly; their visits are planned and purposeful."

This is utter nonsense, for several reasons:

- Management enemy number one, perhaps at all times but today for certain, is information distortion, especially when the information comes professionally packaged, accompanied by computer-generated sixteen-color graphics. As a longtime consultant, I know almost every trick of the trade when it comes to distorting information behind crisp logic and clever schematics.

  The world today is uniquely "messy," with a host of new variables surfacing at lightning speed. The manager had better be as "messy" as the world; that is, she or he must have an undistorted feel for the uncertainties out there on the line. Information-processing scientists even have a term to describe this need: requisite variety. That is, the variety of your sources must match the complexity of the real problem, or you will be led to erroneous conclusions.

  In the office, whether you are chief of a big organization or a small one, you are shielded from the truth by a bewildering array of devices, prudent or malicious, all designed to "save" you from trivia and complexity so that your mind can be clear as you confront the "big picture" decisions. Instead, your mind is all too likely to be empty of all but prepackaged data, leading you to make uninformed decisions.
- The action and the information necessary for implementation are on the front line, as the parts manager from Caterpillar quoted above learned so swiftly. The team plugging away in the distribution center on the 11 P.M. to 7 A.M. "graveyard" shift knows more about the company's problems with quality and service and about new competitors than the bosses do, all nine levels of them, from center supervisor to CEO. But to get at that information, and to "feel" what is keeping people from acting on it, you must visit and chat with these knowledgeable people where and when the action is—at 3 A.M., on the loading dock.
- Ambling must be semi-aimless to ensure numerous sources and perspectives. Psychologists used to preach to guilty dads: "It doesn't matter how much time you spend with your kids, it's the quality of the time that counts." Common sense, as well as subsequent studies, says that's bunk. Most good experiences with kids (or anybody else) are inadvertent, [illegible] to the

planned purpose of an activity. As philosopher Vilfredo Pareto put it: "Logic is useful for proof, but almost never for making discoveries." That meticulously planned state visit by the chief of the 16- or 16,000-person unit or firm will be fashioned by subordinates to ensure that the views they've espoused to the boss before won't be distorted by, say, an irate customer.

- The distortion of information is everyone's problem. It is worse in the White House than in the corner store. But not by as much as you'd think. Distortion in the ten-person outfit can be mind-boggling. Oddly enough, if you're a "good guy" or "good gal," it doesn't help either. That is, if you're well liked, easy to get along with, committed to service, you're still in trouble—because the gems whom you've hired don't want to disappoint you. They therefore unintentionally shade the truth. Three or four sequential, little shadings rout veracity. So no matter what your style, Simon Legree in pinstripes and vest or warm and tender in shirt sleeves, you've got a problem.

But let's return to Horton's bridge. I think he means "someone's got to be in charge." I half agree. Recall prescription L-2; the leader in turbulent times must articulate a vision that others (1) sign up for and (2) are empowered by. But stamping in the vision, the essence of the new leadership, is not best done from the bridge. It is best done on the front line, where exemplars who are taking "little" risks to implement the new way can be found and singled out for all to see. Moreover, it's out there where the leader finds answers to the more fundamental question: Does the vision make sense in its implementation?

Furthermore, the main reasons a captain gets stuck on the bridge add up to a frightening Catch-22: (1) his vision is muddy, (2) he doesn't dramatize examples of effective initiative-taking, (3) he fails to break down functional barriers to action-taking, and (4) he doesn't effect true delegation. Thus, even minor decisions flow up to the top—and the captain gets ever more firmly stuck on the bridge (1) deciding about trivial affairs (2) based upon distorted information (3) provided by equally out-of-touch staffs who (4) stay at home themselves to await the boss's call for more overhead transparencies.

Visible Management: A Return to the Old School?

Horton's objection about aimlessness is one of two principal gripes about "managing by wandering around." The second is the polar opposite—some see it as a repudiation of the delegation of responsibility through management by objectives. They contend that visible management can be a return to close, over-the-shoulder, KITA (kick them in the ass) supervision. While I'd admit that such an interpretation is plausible, the point of being out and about, as I conceive it and observe it at its best, is the antithesis of KITA—it is to listen and facilitate, not give commands and inspect. That's easy to say, but recall that a major thrust of the people prescriptions dealt with a revolution in the first-line supervisor's role. Extensive training and coaching are required to shift an old-timer from out-and-about-as-KITA to out-and-about-as-facilitator-and-listener.

The Special Case of Offices

Consider the all-too-characteristic course of a mom-and-pop enterprise. Years ago, when the company was founded, the owner sat in a chair at a little desk out on the shop floor. Then he moved into a cubicle with a three-foot partition around it. Later the walls were extended up to the ceiling. Then a door was added. More and more frequently it was observed to be closed. Next came a secretary's desk outside his office. Then she was given a cubicle, then high walls, then a door. An executive row began to form.

And now you check in with a security guard and get a plastic card. Then, escorted, you ride an elevator to the middle floor. Next, you shift to another elevator for the trip to the top floor. Then you check in a second time at a reception desk on the top floor. You wait, and a new escort appears. You are taken down a long, imposing hall with a fourteen-foot-high ceiling, punctuated by dark oak doors on either side—almost all of them closed. At the end of the hall, you enter *his* door and are passed off to his personal secretary, who seats you in the anteroom. Eventually, his door opens. . . .

And this man, I invariably find, wonders why he has gotten out of touch. He doubtless believes he stays close to his company's product by using it. But each nut and bolt in his edition of the product has, of course, been inspected ten times before it gets to him.

This sort of detachment plagues most of us, not only chairmen of Fortune 500 companies. It starts with that initial shift from the plain desk to the cubicle, and occurs one step at a time, mostly invisible, through a 100-step (or, more likely, 1,000-step) process. I observe the problem in corner stores, in restaurants, in twenty-five-person shops, in schools, in hospitals, in municipal offices.

One executive reversed the process. During a Skunk Camp, Ted Santo, a senior manager from Dayton Power & Light, called home to order a drastic step: he had his office dismantled. Several months later he wrote:

> My office is indeed gone. I wanted to wait a while before describing the effects to you so I could be sure of my feelings and to be sure my feelings wouldn't change over time. It has been seven months now and I still don't miss it. I love the "freedom" it has given me to move about or wander. I find myself meeting people more often and on their turf.
>
> As luck would have it, I have been promoted recently and have gained the responsibility for three new departments. Fortunately, without a "large stuffy office," I have the freedom to jump around all four work areas. My former office would have been even more of a hindrance to me now then it was before.
>
> The reaction to the demolition of my office was profound. People genuinely thought I had gone off the deep end. Also, people thought I had

worked years for my beautiful office and that I had earned it. Besides, they were looking forward (especially my staff) to their big office someday. Since then, they have accepted it, although I still catch a fair amount of ribbing over it.

I do maintain a small work area in two departments: a round table with three chairs and a file cabinet in an open area by the entrance door. This allows me to correspond with my secretarial support, correspond on the phone and handle my mail efficiently. However, I am in full view of everyone, and, therefore, I am more accessible to all. I love it!

Consider the two cases carefully. I strongly urge you to turn back the clock as far as you can. If you don't go so far as to dismantle your office, at least consider:

- dispensing with all executive secretaries, and sharing a secretary with three or four other executives. ("The world" will adjust—the flow of paperwork to you will actually go down to match the newly diminished secretarial capacity; I guarantee it.)
- dispensing with the secretary's office, and the door to your office.
- ensuring that your office is no bigger or better appointed (if you're chief) than the office of the manager of the factory/operations center.
- starting to answer your own phone, all the time when you're in (when you're out—which, remember, should be at least two-thirds of the time—let the overall office secretary take messages).

GETTING ON WITH VISIBLE MANAGEMENT

Ten Steps:

1. **Put a note card in your pocket and write on it: "Remember, I'm out here to listen."** I don't carry such a card, but I used to. I've now got the habit down to the point where I can merely say to myself before each meeting, "Shut up. Shut up. You are here to listen." In two-person sessions, I sometimes informally keep track of the time I talk versus the time I spend listening.

2. **Take notes, promise feedback—and deliver.** Fix small things on the spot, or within twenty-four hours. Send thank-you notes to individuals or small groups, perhaps summarizing what you thought you heard, within twenty-four hours of the meeting. Listening is abetted by note-taking; note-taking also lets the other persons know you are serious. But the clearest indicator is that something happens—either on the spot or soon after you get back to the dreaded office: A directive is issued wiping out a silly regulation you found was irritating everyone; or a faulty toilet is fixed up in three hours; or new lights are installed in the parking lot within the week. (Recall the discussion about the role of symbols in L-3. Make sure that two or three "little" things like this happen fast.)

3. **Cycle your actions through the chain of command.** Do it, yes—that is, take direct action on some small stuff (or maybe large, if you're sure you understand the issue). But tell the chain of command what you are up to; let them take—and take credit for—the bulk of your follow-up actions.

4. **Protect informants.** As you demonstrate your commitment by listening and fixing things, you will hear more and more unvarnished truth, often drifting in through side channels. Use it with care, and make sure, by using your own network, that no informant gets burned by an irate supervisor. And if a supervisor ever comes down on someone who was candid with you about a problem, remove him or her from managerial responsibility on the spot.

5. **Be patient.** When you start to wander, even in a ten-person purchasing operation, you will be treated cautiously and as if you were a bit mad. You are sometimes challenging a decades-long routine of comfortable, if nonproductive, noncommunication. Only repetition, and lots of it, will lead to opening up. Only repeated instances of swift follow-up and action by you will make it worthwhile for them to talk freely. Only evidence that you will protect informants will turn the tide. It takes time to demonstrate all these things.

6. **Listen, yes; but preach a little too.** Don't preach as in sermonize, but use tiny, concrete opportunities—dealing with housekeeping, or excessive paperwork—to preach, via example, your guiding theme. Don't scream at too much paperwork. Laugh at it, instead: "Why, surely this is a mistake—a two-page form requiring three signatures to requisition a $17.95 spare part for this machine, so you can repair it before it breaks and stops the line?" Then declare that form dead as of that moment—and check next week to make damn sure that it did, in fact, die.

7. **Give some, but not much, advance notice, and travel alone.** The limited advance notice is not meant to "catch" people; it is meant to head off the truth-inhibiting trappings of state visits that accrue to the hinterlands forays of even middle managers, especially from corporate "headquarters." And whatever your "management level," don't bring a staffer/note-taker with you. Take your own damn notes!

8. **Work some night shifts, take a basic training course.** Follow the path of the parts manager from Caterpillar. Of course you might be treated "oddly." But if your commitment is sincere, you will be responded to genuinely. You cared enough to try, awkwardly or not, and that trying sets you apart. Human beings respect human acts, and even respect the awkwardness, because we've all been odd man out ourselves on numerous occasions.

9. **Watch out for the subtle demands that you put on others which cut down on their practice of visible management.** You may preach getting out and about for all, but then you call for some data "right away, I've got a meeting with the investment bankers in two hours." You have just sent a bulletin, printed in six-inch-high red letters: "Getting out is great, but be in the office whenever I capriciously beckon." Bye-bye, visible management.

10. **Use rituals to help force yourself and your colleagues to get out and about.** A· [illegible] uestions that can only be answered through

firsthand knowledge: "You know, we have an awful lot of errors in shipping. How does the system work? What do the people on the night shift think about the new computer? Let's go through a couple of individual orders in detail. How does the paper actually get transmitted from Joe to Jane? Does it come to Joe's desk? Who brings it? How long does it take?" Keep homing in until subordinates have no choice but to go out and find out for themselves. But watch out for gimmicks doomed to fail. I used to believe in "meeting-free days" that would allow people to get out and about. It never works, given the perceived crises that always arise (and seem to demand a meeting).

The primary tool for inducing visible management, recalling L-3, is the behavior you model. You planned a visit to a distribution center on the other side of the country, your first in eighteen months. A minor crisis arises. Cancel or not? Don't cancel. Let your able team handle the crisis. Go on with the visit. That sends an unmistakable message.

What If Your Boss Is an Ogre?

My file has more than one like this: "My boss is in the office 90 percent of the time. He expects me to be at the ready when a question arises, as it often does, before or during one of his endless meetings. So how am I supposed to be out and about with my seven-person economics forecasting group and our 'customers' throughout the firm?"

It won't be easy, I'd be the first to agree. But here are three possible strategies:

- Chronicle your three worst failures in the last year. Odds are, they occurred because you were out of touch. Admit your guilt to the boss, and propose a plan, including visits to your customers, as a way to avoid repeating the sin this year.
- Build customers' demand for your services. When a line executive vice-president comes to your boss, a staff vice-president, and asks for you to visit the Rubber Products Division in Sacramento, he'll have little choice but to acquiesce.
- At least you can get your gang of seven out of their offices. They, after all, are probably mimicking your behavior. Don't let them. Force them out, and their real-world contacts will doubtless enhance your work product—and maybe induce your boss to see the merit of your getting out.

Pay special attention to the last of the three strategies. Our bosses may be able to force us to do dumb things, but they can't force us to transmit the dumb things on down to our people. Manage down, not up—always begin by cleaning up your act in those areas where you clearly do have discretion.

The Power of Very Visible Management: The Revolution at Valley Medical

The Association of Western Hospitals gave one of its prized Innovation Awards (sponsored jointly with 3M) for 1986 to Valley Medical Center, in the Seattle area. The association's magazine reports on the turnaround:

> [CEO Richard Roodman explains:] "Valley Medical Center developed a very poor reputation in the Seattle community for the quality of care delivered. In fact, it was known as 'Death Valley.' . . . The night I was hired there were 150 protesters outside a room where a public session was going on and they were carrying pickets and banners that said 'It's cheaper to die.' The press had a field day."
>
> Indecision, lethargy, demoralization, insecurity, feelings of betrayal—these were some of the conditions that the VMC medical staff and employees were experiencing when [Roodman] came on board. "The culture was one in which there was a total absence of pride," he said. "The employees basically felt left out. No one had seen the administrator in five or six years . . . they had *heard* there was a guy there. . . ."
>
> To further complicate the situation, the community "hated" VMC. . . . *Within approximately two weeks [of being hired], Roodman visited nearly 700 employees* [my emphasis]. He wrote each of them a letter and mailed it to his or her home, and met with medical staff and formal and informal leaders. . . . "What we decided to do was develop a skeleton of what we wanted to accomplish and then we asked for *their* ideas," he said. "We got close to 600 people—union representatives, department managers, members of the community—and we went around the area and met with the chambers of commerce, the elected officials, the mayors. We tried to work the formal and informal structure of the medical staff into the process. We went to the volunteers, the auxiliary . . . we tapped the chaplains . . . we did all this in about three months."
>
> The result of these and other innovative approaches to the web of problems at VMC was a long-range plan that involved *people* in a variety of ways. The plan focused on five different areas: patient and community responsiveness (quality issues), medical staff relations, human resources, marketing, and financial management.

The article concludes with an impressive array of statistics attesting to VMC's subsequent success. It all started with a powerful dose of getting out and about.

FIRST STEPS

1. Take ten small steps in the next ten days to get closer to raw information. Take one step before the sun sets today!
2. Starting today, have all customer calls put through to you directly. Is your theme quality? If so, put a red "quality" phone on your desk. Publish the phone number; anyone with a good-news or bad-news quality story is to call you directly (your secretary mustn't even have the number on his or her phone console).
3. The next time you pick up the phone to ask someone to stop by and see you, check yourself. Go visit the person instead—it is precisely by such (individually) "small" actions that you get your time in your office down to one-third—or less.

L-5

SUMMARY

While keeping in touch with the first winds of the new has always distinguished superior leaders, it is now a necessity. Today's effective leader must:

▶ Become a compulsive listener.

Today's successful leaders will work diligently to engage others in their cause. Oddly enough, the best way, by far, to engage others is by listening—seriously listening—to them. If talking and giving orders was the administrative model of the last fifty years, listening (to lots of people near the action), is the model of the 1980s and beyond.

Rip one front-line job apart: Listen to those who hold it. Learn their frustrations. Then act to clean up the mess and encourage them to do what must be done to react to today's volatile environment. Repeat with another job every 120 days.

L-5

Pay Attention! (More Listening)

Continuous improvement and flexibility—those are words that can't be repeated enough. What do they mean, practically? Turning over "control" and responsibility for action (test, modify, improve, repeat the cycle) to the front line, shifting the bulk of communication from "vertical" (up and down the hierarchy) to "horizontal" (people from multiple functions working together at the front line to do/create new, rapid responses to every customer need).

"Empowering" really boils down to "taking seriously." No one denies where the answers are: on the firing line. How do we get people to come forth and give the answers, to take risks by trying new things bound to fail at times? Near the top of the list is listening—that is, taking people seriously by the act of listening per se, and making it clear that you do take people seriously by what you do with what you hear.

The most effective leaders, political or corporate, empower others to act—and grow—in support of a course that both leaders and followers find worthy. The leader's job is at once to articulate the empowering vision (L-2), and to stay in touch with followers to ensure that she or he is in tune with the needs of the real world where the vision is implemented. Studies of effective leaders demonstrate that they do not induce narrow obedience to a precise objective among followers. To the contrary, powerful leaders make followers more powerful in pursuit of a commonly held dream, jointly defined. Furthermore, the listening leader inspires other leaders (managers at all levels) to be listeners too. The listening organization is in turn the one most likely to pick up quickly on changes in its environment.

Listening and Visible Management

Visible management (see L-4) involves listening, too, of course. What's the difference here? First, the prime "listening objective" put forth in L-4 was to reduce the distortion of information flowing to the boss, to enable him or her to make better decisions, for instance. Second, visible management is also about parading and symbolizing the vision—it has a "telling" component. Third, and most important, listening to the front line, in particular, is too important to be a subsidiary point. There are many who would say that unvarnished listening is the chief distinguisher between leadership success and failure, especially in times such as these when the empowerment of everyone is paramount. Oddly enough, to listen, per se, is the single best "tool" for empowering large numbers of others.

THE LISTENERS

There's a certain image of Roger Milliken that I keep in my mind's eye. It's from his firm's annual strategy meeting at Calloway Gardens, Georgia, in 1986. Four grueling, down-to-the-wee-hours-of-the-morning sessions, no recreation—this is a survival exercise, as Roger sees it. He's just come out of a meeting with his company presidents and a few handpicked outsiders, in this case from Dana, IBM, and Du Pont (and me). At the meeting, he probably asked sixty questions an hour. Each principal question was followed by five or ten more to get at the details, always the details—the real implementation story, not the gloss. In two-and-a-half hours he probably filled a quarter of a yellow legal pad with notes. (The next morning he'll turn the copious notes from this and other such sessions into his traditional meeting's-end speech—at which time he will announce a score of specific programs that will set the tone for the next twelve months.)

The participants of the meeting are exhausted from the intensity of this tireless 70-year-old, who's held the chief executive's job for over forty tumultuous years. We race back to our rooms for a fifteen-minute breather before the next grueling session commences—twenty-five action-packed small-group reports in ninety minutes. I happen to look up. There is Roger, pacing the corridor in front of his room, dictating at a staccato pace—yet more notes.

Listen. I don't know when it first occurred to me that I was observing a pattern. At our first Skunk Camp I watched Frank Perdue, the chicken king, and grocer *sans pareil* Stew Leonard engage in an Olympian struggle: Who would take the most notes?

Leonard won hands down, but even runner-up Perdue topped the rest of us put together, I'd bet. Both have been at their jobs, engaged, for decades. What was the subject? Milliken's president, Tom Malone, was describing the firm's quality program. Perdue, Mr. Quality to me already, rudely interrupted him dozens of times. He wanted clarification. Malone, a scientist, is as clear a speaker as I've heard, but he wasn't concrete enough for Frank. The reason quickly became clear. The next morning Perdue was up at 3 a.m. discussing with his people on the East Coast the implementation of the stuff he'd heard the day before. A major new executive compensation plan focused on quality and a landmark corporate training center were among the big ideas Perdue took from the seminar—and implemented in short order.

Stew Leonard didn't wait until 3 A.M. He was on the phone at lunch break.

"Are you sure you know what this means?" I asked. "It makes sense, doesn't it?" was Stew's reply. Well, yes, I agreed. "So why wait?" Leonard snapped back. I had no rebuttal to that one.

Another time, I gave a talk to a civic group in Baltimore. Mayor Don Schaefer attended. My speech lasted two and a half hours. I've had Fortune 500 CEOs and governors attend my sessions. Most come for the opening remarks and to be seen, then scoot out as soon as the lights are dimmed, or fidget endlessly and talk to a stream of aides rushing in and out half bent over so as not to disturb others in the front row—and doing so all the more because of their pronounced scurrying. Well, Schaefer sat there for two and a half hours, and he took as many notes as I used to take in a semester-length engineering course. I next saw him at a purely social occasion, a 1987 Toast honoring his over fifteen years as Baltimore's mayor. Several speakers appeared at the event—and true to form, Schaefer took copious notes, on napkins, on the menu, on various scraps of paper. The results of Schaefer's scribbling were legend in Baltimore—when the mayor took notes, action memos were sure to follow, including very pointed advice.

EFFECTIVE LISTENING IS ENGAGED LISTENING

There's an important emotional component to this. There's listening, and then there's engaged listening. The note-taking habit is a tip-off to the latter, but there's more to it than that. Engaged listening may be the principal mark of concern that one human being can evince for another, in any setting.

Once more, Roger Milliken provides a role model. Despite his decades in the business—to be sure, he's "seen it all"—he's like a kid when attending a session with dozens of team presentations from the front line. He'll turn to me with stunned amazement: "Can you believe that? Look at what they did." All news from the front is engaging to him, and especially if it comes from junior people who've caught fire and pushed Roger's vision further than anyone had a right to expect.

We've all been victims of the other side of the story. The vice-president goes on a field trip. He's been isolated for so many years that he really doesn't have, or feel he has, anything to talk to that truck driver about. After all, he's just reviewed twenty-three pages of "driver productivity indicators" with the boss of the driver's boss's boss. Why bother with the driver herself? Questions at best are brief and pro forma. The boss hasn't got the inclination, or nerve, to really dig in and ask about the forms and procedures. Trucks sure as heck don't interest him; he has a limousine. In fact, I'm not being fair. Down deep he's probably greatly embarrassed that he doesn't have anything to say or ask. He's scared to death of revealing his ignorance (especially to her), though to do so would doubtless break the logjam.

Prescription C-9, among others, made it clear: The drivers and the dispatchers will become the heroes of the newly responsive organization—or else. Leaders are only as good as they are: *They* have the answers to *your* problems. You must get passionately interested in the view, and the impediments, as seen from the dispatch center and rolling along I-80 with your products jostling in the back of the vehicle.

Engaged Listening Is Strategic!

When I deal with this issue of "engaged listening" in seminars, I'm at a loss to give prescriptive advice. It's not possible to prescribe "engagement" in any direct way. I can, however, give you a tip that will help. This "stuff" is strategic. If you can muster the nerve (that is what it takes) to get engaged with that truck driver (or reservations center person), I guarantee you that a lengthy discussion of the "little things" that rule their lives in your organization will collectively reveal the *strategic* stumbling blocks to higher quality, more responsiveness, etc. Wonder why your $80 million investment in a new reservations (or distribution) computer system is not reaping the benefits promised by senior staff experts? The people in the reservations center know. If you can stomach the repeated "You should've asked us about———" (to which you reply, stunned, "They didn't ask you?" . . . "No"), you'll end up with an earful.

Listen because they are your heroes; but if that's not your view, listen because the answer to strategic conundrums lies within the "little" roadblocks to their executing the vision.

You Must Have the Guts to Ask Dumb Questions

I was blessed early in my consulting career at McKinsey & Company. My first boss, Allen Puckett, is one of the smartest people I know. He was smart enough and comfortable enough with himself to ask really elementary (some would say dumb) questions.

He'd be with an oil executive from Getty who was paying us a bundle to be there. The fellow would, unself-consciously, be talking a private language: rigs, wildcatters, landsmen, scouts, stepouts, tertiary recovery. Whenever Allen would hear a word he didn't understand, he'd ask. "What's tertiary recovery?" he'd say. "Stepouts?" The rest of us were scared stiff; we assumed that since we were being paid an exorbitant fee, we shouldn't ask dumb questions. But the result was we'd lose 90 percent of the strategic value of the interview because we were afraid to display our ignorance by asking, "What's a barrel of oil?"

Mostly, it's the "dumb," elementary questions, followed up by a dozen even more elementary questions, that yield the pay dirt. "Why in the heck does this form go *there* next?" and "Who has to sign it?" are probably the two most vital questions when it comes to discussing the reason a firm is slow to act on something. "Experts" are those who don't need to bother with elementary questions anymore—thus, they fail to "bother" with the true sources of bottlenecks, buried deep in the habitual routines of the firm, labeled "we've always done it that way."

BREAKING DOWN FUNCTIONAL BARRIERS BETWEEN WARRING FIEFDOMS: THE POWER OF PATIENT LISTENING

Numerous scholarly monographs and case studies offer complex theories about ingrained stereotypical assumptions and resistance to change, the principal bases for the incessant battles that take place between major functions in any organization. But the most effective tactic I have observed for overcoming these stereotypes is the manager at the local level taking the initiative and offering, in a nonthreatening way, to sit down and chat with everyone involved; that is, from all functions. It takes a while—perhaps a long time—for any noticeable change to occur. But with lots of patience, the results can be startling. Here are two typical cases:

- During a seminar a debate about why doctors and administrators seem unable to cooperate bogged down. A woman who had crafted a brilliant turnaround of a troubled hospital in the Boston area proclaimed, "Look, we just assume that doctors don't want to cooperate and we treat them based on that assumption. I simply declared that I was going to be in my office on the same morning each week, with coffee and Danish, and I'd be pleased if any of the medical staff would drop by and join me toward no particular end. It was slow to catch on, I'd be the first to admit it. There were a lot of lonely breakfasts, but now it's the most important and real 'staff meeting' of the week."

  A young man chimed in with another, equally pointed anecdote. He said he held an informal staff meeting every two weeks with a group in his hospital. They went to a local pub for burgers and shop talk. For no particular reason, a year or so into the process, he invited some doctors to attend. They did. He was surprised, and asked one why he'd showed up. "Why not?" came the reply. "You always have this lunch, and no one ever invites us. Why do you think we wouldn't want to attend whenever we can?" Decades of stereotyping was the clear reason.

  In fact, over the course of several seminars with several hundred senior hospital managers, we collected a list of dozens of ways of breaking down the barriers. They almost all had the same theme: Find a setting that is not charged with tension and invite voluntary participation at some form of "let's chat" get-togethers. My favorite was the administrator who reported this strategy: "Eat your way through the medical staff." During a year's time, she had scheduled about seventy-five lunches, never with more than one doctor at a time; the cumulative outcome was a revolution in relations between the medical staff and the rest of the hospital.
- Les Wexner, founder of The Limited, provides corroboration. After acquiring the Lerner store chain in 1986, he cut off a host of hard-nosed suppliers in order to deal with bloated and outdated inventory. Naturally, the suppliers responded with a passel of lawsuits. The Limited's Bob Grayson, who is now

chief executive of Lerner, was tossed into the wolf pack of New York garment makers. Grayson, whom Wexner calls "a good Iowa farm kid" and a hell of a merchant, discovered the power of the kaffeeklatsch. He said he'd show up at Lerner's midtown Manhattan headquarters at the crack of dawn each morning to read *Women's Wear Daily* and be available to discuss the business with anyone who cared to come. It started small—very, very small—but it's still growing to this day. Suppliers, with whom relations started so poorly, are there in droves. The Limited's once very strained relations with suppliers, in the toughest environment imaginable, were substantially reversed.

After careful consideration, I conclude that this is an especially good tactic for breaking the stereotypical images that keep warring functions apart, in all organizations. Some manager must take the lead to disarm, sit down, listen, and accept repeated rebuffs. After all, she is often facing decades of bruised feelings. More important, she must wait it out until it becomes clear to her "adversaries," not that she is in any way a "good gal," but that she has the conviction to sit quietly, to start a dialogue, in order to salvage or enhance the increasingly threatened organization on whose payroll all "sides" depend for bread, butter, and recognition.

The only danger, and it is a grim one, is a badly damaged ego. Sitting and sitting and waiting and waiting for the first coffee-and-Danish attendee is the ultimate in passivity if being out in front leading the charge is your style.

FIRST STEPS

1. Develop some personal listening ritual immediately. For instance, once every couple of weeks have an hour-long discussion with some first-line person. Think of yourself as a consultant called in on a nitty-gritty systems improvement assignment. Track down, in great detail, the nature of one or two critical tasks the person performs—precisely what's done, why it doesn't get done faster, and so on. (Use the outcome as you wish. This little listening device, repeated regularly, will unfailingly yield strategic insights.)
2. Start some form of "coffee and Danish" in the next 30 days.

L-6

SUMMARY

The flexible organization's leaders will put a disproportionate emphasis on the care and feeding of front-line people (see also C-8, C-9, P-1 through P-10). We must:

- Ensure that the front-line people—the implementers, the executors—know that they are the organization's heroes.
- Honor staff people to the extent that they support line people, not on the basis of the beauty or the elegance of their paper solutions to intractable problems.
- Promote managers (or promote to manager)—of line and staff functions alike—only those who create excitement among their people and colleagues from other functions; do not promote dull ducks, turf guardians, or those who do not take their greatest pleasure in the accomplishments of others, particularly their subordinates.

Success in today's environment will come when those on the front line are honored as heroes, and empowered to act—period. A prime leadership task is to ensure that honor goes to the line and those who support it most vigorously.

Review your actions at the end of each day. Have you made your "bias" for front-line operators—and for those on staffs who support them most vigorously—unmistakably clear?

L-6

Defer to the Front Line

Harvard Business Review: Everybody talks about ["Celtics Pride"]. It's at the heart of the Celtics' mystique. What is it?
Boston Celtics President Red Auerbach: It's the whole idea of caring.

From an interview in the
Harvard Business Review, March/April 1987

The "visible" half of execution—the marketing professionals—can perform only as well as the "invisible" operations area allows it to. Moreover, the quality of operations can also determine an institution's ability to innovate. . . . Executives can promote quality operations by giving that area an independent identity . . . [and] status along with identity. "Class" divisions between lending officers and backroom operators are crippling. Institutions that are serious about the quality of their operations give employees compensation, recognition and opportunities for advancement comparable to what they offer marketing professionals. Citibank made John Reed [now chairman] its youngest senior vice president [in 1969] largely due to his role in operations. At Goldman Sachs, the partner in charge of operations is widely regarded as the third most powerful person in the firm, and the firm actually recruits promising business school graduates for that function.

Amar Bhide
"Hustle as Strategy"
a *Harvard Business Review* article
on financial service institutions

I love 'em all. [The offensive linemen are] my guys. Anytime I felt bad about something, . . . I always went over to where they were warming up at practice. We would always warm up in groups—offensive linemen here, wide receivers there, running backs over here. . . . Somehow, just being with the offensive linemen always made me feel better. Maybe it was because they were such solid guys—solid as rocks.

John Madden
Football commentator
former NFL coach

John Sculley has masterminded a remarkable turnaround at Apple Computer. The nature of it is nicely captured in one comment: "Implementers aren't considered bozos anymore." That is, those who write the manuals, answer the phones, sell the product, spend time with dealers, build the product, and are engaged in constant improvement of the product are the new Apple heroes. There's nothing wrong with talented designers, to be sure. They are essential. But there is something very wrong with any company that is over-dependent upon talented designers to pull its bacon out of the fire.

Bacon will increasingly be pulled out of the fire at 2 A.M. on the loading dock and at the reservation center. That is, it is pulled out of the fire by the people who work on the firing line. The role of everyone else—from president to junior accountant—is to enhance the ability of the front line to do its job.

ARE YOU LINE-ORIENTED?

Here are a few of the indicators that reveal the status of line personnel:

1. Pay. There are two key indicators here—entry-level pay and managerial pay. Prescription P-6 and others described the high front-line pay at Andersen Corporation, Lincoln Electric, Federal Express, Worthington, Nucor, Nordstrom, and others. Pay was often "off the scale" by others' standards—and so was productivity—several *hundred* percent above average.

From my days at McKinsey & Co., I remember one study especially well. Over a fifteen-year period, senior staff executives at an old-line manufacturing firm came to be paid almost 60 percent more than senior line executives (with comparable titles). That is, an accounting boss, sitting on the corporate staff at Level 4, made half again as much as a manufacturing boss at the same level. What was important in this firm? It was clear as day—how close your office was to the chairman's, and the brilliance and beauty of your paper solutions. The staff ran the line. The bright young men and women on the way up wanted to get on that staff, and not get stuck in isolated factories, distribution centers, sales branches, or any other kind of operational function.

Managerial pay is a dead giveaway. To underscore the line's role, line managers (operations, sales, distribution) should be paid somewhat more than their staff (personnel, accounting) counterparts—or at least not paid less.

2. What's hot? What do the best and the brightest head for? Operations or the corporate controller's staff? The line-oriented firm's objective must be enhancement of the line jobs. Over the long haul, this can be best accomplished via the promotion pattern ("three of the last five general manager promotions went to people who spent most of their careers in the line functions"). The problem can be addressed immediately by: (1) insisting that entry-level college graduates or MBA recruits start on the line (those that don't buy in aren't hired), and (2) offering better pay and a clearer career track to those who start on the line, and (3) lavishing symbolic attention on line people.

3. Where the action is. Do people in your firm blanch at the prospect of a three-year tour as deputy director of the Spanish affiliate? Or distribution manager for the southwestern United States? Making "boondocks" operating jobs the plums (a chance to demonstrate independent initiative), rather than those closest to the throne, is essential to achieving a line orientation.

4. Who calls the shots. Does the operating review consist of a parade of lonely line people called in one by one for a ritual grilling by three top executives and twenty staffers—with another twenty staffers, with "backup data" by the pound, sitting in the anteroom? Or is the line "overrepresented," with a few key staff people in attendance? This indicator—attendance at decision-making forums—is a first-rate tip-off of a firm's orientation.

5. What the calendar says. Recall L-3 (leading by example) and L-4 (visible management). Quite simply, does senior management spend more time with customers, suppliers, and line operators—especially front-line people—than huddled in session with staffers?

This means both the chairman and the president. In some firms, the chairman is "Mr. Outside"—dealing with analysts, the board, etc.—and the president is "Mr. Operations." This is the GM pattern, for instance. It doesn't cut the mustard. The top gun must demonstrate commitment to the line—by time spent. This is especially so in this era of uncertainty, when the firm's top priority is often retooling line skills and reestablishing contact with long-neglected customers and distributors.

6. Who gets the recognition. Does the boss send notes congratulating young staffers on superb presentations, but fail to discover and praise similar accomplishments in the field—25, 250, or 2,500 miles away? The lion's share of recognition should go to line people; measure this *quantitatively*—track yourself by the week.

7. The language you use. Recall John Sculley's remark. Hang out at most corporate headquarters and you soon come to believe that in most firms everyone on the line is considered a "bozo." As one (line) friend put it to me: "They've never met a dumb marketing staffer or a smart sales manager in their lives." That's precisely the wrong feel. Linguistic disrespect leads to subtle—and not so subtle—denigration when decisions are being made and pay/honors are being apportioned.

8. What the "little things" reveal. Would a vice-president turn down an invitation to the chairman's dinner party at his Long Island estate in order to visit a new plant in County Cork, Ireland, because he wants to be with his newest troops on Christmas Eve? Would the chairman publicly applaud the decision? Or ignore it? Or would the hallway talk be about "naïve Joe"? "He'll learn. The rough edges wear off in time. He's spent too many years away from the pulsebeat [the halls of power]."

These and a host of other indicators provide clear evidence of the organization's concerns. The good news is that each of the eight can be managed. The first step is to take the list seriously, do an assessment of your own firm using a list like this—and then get meticulously to work reversing the polarity of the firm's interests, if it is not line-oriented.

LEADERSHIP THAT HONORS THE LINE

Pride in the Accomplishments of Others

A related trait is taking obvious pride in the work of others, especially people on the firing line. In *20 Teachers,* author Ken Macrorie talks about an extraordinary high school woodworking teacher, Sam Bush. Bush spent most of his time with Macrorie bragging about his charges: "Isn't this beautiful work?" "Do you see this mirror?" "Isn't that turning done beautifully?" "And the way that design is laid on there?" "That piece means something special to me because it was done by a boy who was falling apart in life and couldn't get it together in the shop either."

Bush takes genuine pride in his students' work. He describes his accomplishments, not in terms of techniques taught, but in terms of his genuine and transparent thrill at *their* accomplishments. Obvious as this may sound, it is at once unusual and a trait of exceptional leaders in all walks of life. (A psychologist's recent study of child-rearing practices employed by the parents of successful businesspersons concluded that constant, outright—and often public and obnoxious—bragging about the child's accomplishments topped the list of successful parenting traits.)

Bragging about the achievements of the front-line troops can rekindle long-dormant spirits; it is also a matter of increasing importance, given the demand of the times for stellar contributions from every front-line person.

This idea can readily be turned into hard-boiled management advice: Only promote people whose greatest pleasure is bragging about the accomplishments of their front-line troops.

"Measuring" Managers' Attention to the Line

How do you "measure" it? Simple. Suppose you're a regional vice-president making a site visit to a hotel. Where does the property manager take you first? To her office to review "the numbers" or a "summary presentation"? Or is she bubbling with energy and determined to make you walk every inch of the property looking at tiny touches and meeting the people responsible for them?

Does she introduce you only to the four assistant managers, including one who finished the night shift three hours ago, whom she ordered to stay around? Or does she introduce you to everyone (and know them by name), beginning with the bellhops and housekeepers? Does she have them explain to you what they're doing, while she glows with pride? Or does she explain, while they hover in the background?

It's easy to make judgments, once you start focusing on these differences, which usually are this extreme. Be careful, though. You might have brought this on yourself. You, and perhaps several of your predecessors, may have clearly signaled that "I've seen a million hotels in my time"—and that you are inter-

ested in skipping the umpteenth tour of the scullery in favor of "getting into the numbers." That is, the first task is to get your own priorities straight and signal them unequivocally.

Incidentally, this same advice holds for the evaluation of staff managers. Do they bubble on about great analyses and paper coups? Or do they brag about Judy, who is on temporary assignment to Brazil for ninety days, to work on implementing a just-in-time inventory management system with the operations manager there? That is, do they brag about (1) their people and (2) their support for the line? Or do they emphasize their central watchdog-analyst's role?

Promotion Priority: Creating Excitement as a "Hard" Leadership Trait

Promote those people who create excitement, zest, and enthusiasm among their colleagues (before they become a boss), subordinates (after they become a boss), and even their peers in other functions (see also L-10). This applies to accounting or personnel supervisors as well as shift foreman in the factory and engineering section heads.

I clearly remember the advice my first boss gave me when I became a consultant at McKinsey & Company. The organization, on any given day, is divided into project teams. Selecting your next project makes or breaks your career—and your mental well-being. How do you select that next project? "It's simple," said my mentor. "Choose somebody you'd like to work with, whom you'd learn from, who would be fun to be around in a tense situation." He shocked me by adding: "Don't worry *at all* about the content of the project." He was so right. An uninspiring boss can turn the most exciting strategic project into a dispiriting exercise. The genuinely engaged and enthusiastic boss can turn a dull inventory management problem into the most exciting thing since NASA put Neil Armstrong on the moon.

The key is to trust your judgment, not psychobabble spewed forth by the Ph.D.s in the personnel department. Promote people who love people, who cherish their subordinates' accomplishments, and who create excitement. It's easy. People with these traits usually show their mettle about midway through their first week on the job. They're talented, fun to be around—and they bring the place to a high pitch of spirited performance, years before the mantle of manager is first placed upon them.

Promote Leaders Who Lead

This prescription epitomizes the common-sense underpinnings of the entire set. Great football franchises—Pittsburgh, Oakland/Los Angeles, Washington, Chicago, Miami, Dallas—are marked, over the course of decades, less by Hall of Fame quarterbacks and halfbacks than by top-flight nose tackles, free safeties, linebackers, centers, and special teams. It's not that marketers and engineers (quarterbacks and fullbacks) aren't important. They are. It's just that the emphasis must be placed—especially today, when all competition is as intense as NFL competition—on the people who more fully determine the outcome *over time*—those troops on the line. In fact, each of these teams has had great "marketers" (Roger Staubach of Dallas, Ken Stabler of Oakland) from time to time. But the basis for sustaining performance has been year-in-and-year-out front-line brilliance.

Basically, I'm asking that you take leadership seriously. Promote into leadership positions those who perform like leaders. That sounds silly—at first. But we too often give our support chiefly to the "squared away" young man or woman who gives brilliant presentations, who is terrific to be around at lunch or dinner with an important client. I'm not against analysis and good presentations and social graces in front of clients. But I am in favor of understanding that success ultimately comes from making the implementers into heroes.

The point, as always it seems, is a "must-do." Executing the winning customer strategies (C-1 through C-4 especially) requires line leadership—the willingness of front-line people to take the initiative, to listen to customers, to act fast. The desirability of great quarterbacks and marketers is not diminished. However, the presence of great linemen and nursing staff is decisive for future success.

FIRST STEPS

1. Go back to the eight questions that determine a line-versus-staff mindset. How do you stack up? Use your next visit as fodder: Change your routine in five ways that enhance the line, not at the expense of staff, but to make it first among equals.
2. Hold off and reflect upon a current promotion decision. Are you evaluating the candidate on the basis of (a) his or her attitudes toward subordinates' accomplishments and (b) his or her ability to create excitement? That is, are you really looking at *leadership?* Or are you using technical traits as the primary determinant?
3. I can give no advice on making yourself care and enhancing your desire to be around offensive linemen, except for one small thing: Spend time with them. They're the greatest. I think you'll soon *see that.* If you don't, I sincerely propose that you quit and become a management consultant.

L-7

SUMMARY

Delegation of responsibility has been a central topic in management texts through the ages. But today's *marketplace*, which demands heretofore unheard-of front-line freedom to initiate far-reaching actions, propels the subject toward the top of the list. To be responsive, we must:

- Examine *each act of delegation* through the lenses of (1) really letting go, (2) not inadvertently "taking back," and (3) carefully setting the context for delegation by (a) establishing high standards, (b) developing commitment to a jointly shared vision, and (c) *encouraging mutual* faith and respect.

Delegation is "hot"! We must learn to let go, or suffer the consequences of unacceptably slow action-taking. *Other prescriptions*, such as P-8, have urged the elimination of most traditional forms of control. So we must learn the subtle art of delegation anew—more delegation than ever with fewer than normal formal controls.

Increase true delegation—radically. But first institute a new and paperless form of control—a shared vision (L-2) and remarkably high standards. Review *every act of delegation*, assuming such alternate controls have been established, to see if you are "really letting go" to the extent required to inspire others to take true and vigorous responsibility. Carefully monitor your casual *remarks to* those to whom you've delegated, c[illegible] that you don't inadvertently rescind the grant of autonomy.

L-7

Delegate

The Tower Board Report issued early in 1987 on the Iran-Contra affair gave delegation in general a black eye. That's unfortunate. The thrust of virtually all of these prescriptions is freeing up the organization to work faster and with less traditional hierarchy and supervision. That is, much more delegation is required *today than ever before.*

DELEGATION: THE SINE QUA NON OF EMPOWERMENT

Even without considering today's stepped-up need for delegation, the plain fact is that nine of ten managers haven't delegated enough. Oh, yes, they think they have. They hand over tasks and pass out assignments routinely. But only rarely does the "delegate" really catch fire and become empowered with true ownership—and its concomitant, the true burden of responsibility.

What goes wrong? To begin with, there's the difference between letting go and Really Letting Go. But wait, you say, doesn't Really Letting Go mean anarchy, chaos, and confusion, i.e., of the Iran-Contra sort?

Effective delegation does mean Really Letting Go—for instance, high spending authority (outrageously high, by old standards), relatively infrequent formal reporting, geographic separation, and, above all, psychological distancing—in other words, the works. But . . .

There is a big, qualifying "but"—true delegation, of the Really Letting Go variety, will result in superb performance only if these four counterforces are simultaneously at play:

- The boss (that is, delegator) has ridiculously high standards, which she or he lives, transmits, and uniformly demands.
- The boss has a crystal-clear vision about where the ship's headed (see L-2) in which she or he and the delegate have faith (in fact, the delegate is made the living embodiment of the vision).
- The boss wholeheartedly believes in people, and will be deeply disappointed, as a mentor, if the delegate fails or at least fails to make a herculean effort—all

the more so since the boss has made it clear (albeit indirectly) how far out on a limb she or he has gone to let the delegate take on this task.

- The boss lets the delegate bite off a lot more than he can chew if he is insistent upon doing so, but stops just a touch short of letting him bite off an absurd amount.

Subtle Cues Add Up to Really Letting Go: Four Cases

Take this seemingly simple case. British mystery writer P. D. James is also a superb management analyst; here's an apparently innocuous passage from her 1986–87 best-seller, *A Taste for Death:*

> Dalgliesh had accepted that the agreement must be kept; [Kate Miskin] would meet Carole Washburn alone. He had given her no instruction and offered no advice. Other senior officers would have been tempted to remind her of the importance of the meeting, but this wasn't his way. She respected him for it, but it increased her burden of responsibility. Everything might depend on how she handled the encounter. [Adam Dalgliesh is James's Sherlock Holmes, a respected senior detective. Kate Miskin is the only woman in Dalgliesh's new, elite unit. Carole Washburn is a murder suspect.]

That single paragraph, within the novel's context, reveals most of the attributes of successful delegation. Dalgliesh really does let go—on several levels. Most obviously, he lets the relatively junior Miskin go alone to a most crucial meeting. But there are several additional levels of letting go involved. To begin with, Dalgliesh's elite unit is new, and has been formed despite political objections. This is its first "visible" case. Moreover, the case is dragging, and Dalgliesh is being sniped at by the press and entrenched political enemies. Under these circumstances, to allow the youthful Miskin to go ahead, alone, takes on added significance. Dalgliesh is risking opprobrium from the press, from his own bosses, and from within his team as well—his seasoned colleagues are perturbed at his appointment of a relatively young woman. Finally, at the deepest, though seemingly most insignificant, level of letting go—that is, the Really Letting Go level—Dalgliesh pointedly has not reminded Miskin of the meeting's importance, a fact that she is well aware of (as you and I would be).

What does she doubtless feel? Terror, along with pride, at being on Dalgliesh's team. He is a stern taskmaster, seldom given to praise. His standards are widely known to be Olympian. But she also knows that he has faith in her. The meeting sequence is just the most recent indication. Dalgliesh is not sentimental, and certainly no radical feminist. She has been chosen early in her career because he thinks she's darned good.

In sum, we see the full-blown paradox of true delegation in this brief vignette. On the one hand, the boss lets go: (1) formal delegation, (2) a monumentally important task, (3) he is sticking his neck way out by delegating (both internal

and external foes are sharpening their knives), and (4) he ups the ante by pointedly not reminding her of all of the above.

On the other hand, she has hardly been sent on an anarchist's mission. That is: (1) the boss is a commanding professional and has made it clear that she's in this position because she's talented and he trusts her skills, even though he knows it will force her to test the limit of her capabilities, and (2) his standards are extremely high. The autonomy granted is real and significant, but it is matched by the psychological pressure to perform up to one's limits and to the highest standards.

Consider three shorter cases. Two involve me, the third a close friend. I began to learn to "really" delegate only after being forced into it. Ten years ago I was heading a small unit that was doing quite well. I had a stellar supporting cast. Yet, when crucial presentations came, I made them. And why not, since I'd been on board since the beginning—and my superiors had made it clear to me that it was my show—and my neck.

As the unit was approaching its third anniversary, I was in a severe automobile accident—knocked completely out of action for two or three months. My major interest became soap operas and midday TV game shows. Then, as the reports began to come in, it became abundantly clear what a talented team I had. It was disconcerting, but one heck of a learning experience. Rather than behave decently (as I would have put it then) and cancel the numerous engagements that I had booked, every single activity had been taken on by a team member. And while, a decade later, I still harbor the suspicion that I might have done any one activity 2 percent better than they, the reality is that a dozen people caught fire—all at once.

In the fall of 1986, a similar event occurred. A colleague had made a promise years before to contribute to a significant project that I too was interested in. She never quite got around to it. I kept my hand in, often bailing out the project before an about-to-pass deadline with last-minute heroics, all the while wondering why my colleague's promise remained unfulfilled. Then a family tragedy caused me to be unavoidably out of touch as a critical project deadline approached. Without a word from me, my long-dormant associate grabbed the reins. Once more, I'd like to believe that I could have done the task 1 percent better—we all hold such rationalizations dear. What I do know is that out of the woodwork she came, and the task was brilliantly done. Now her superb contributions are routine. We've still never discussed any of this.

A close friend had a similar experience. He had been letting go of a big operation of his making for about two years. Rather, he had been "sorta letting go." Suddenly, he was gone—on a long-planned trip, 10,000 miles from home. His interests didn't change entirely, however, and just three weeks after departing he called to get an update—and discovered that once it had become clear that he had "really gone," a series of hitherto unthinkable things had occurred. One senior colleague, in particular, had suddenly become wholly engaged in the operation—and effectively so, to the point of patching up a very frayed relationship with another principal player.

Each of these three examples involves some subtle attributes of Really Letting Go. "Sorta letting go," it's clear, doesn't work. It took a life-threatening accident, an unequivocally about-to-be-missed deadline, and a several-month-long, 10,000-mile journey to do the trick. In every instance there was not a shred of doubt on the part of the newly inspired participants that the "boss" had let go.

Beware the Subtle Cues That Add Up to "Really Taking Back"

The process is extremely delicate, which explains why so few do really catch fire as we'd hoped at the time of the act of delegation. Bob Townsend relates a cautionary tale: "You tell a guy to get on with it. He's on his own. You make that clear. Two days later, on the way out at about seven in the evening, you poke your head into his office ever so briefly. You say, as a last, inadvertent aside, 'Have you checked with Bernie on your plans?' If you had stuck around another ten seconds to watch his reaction, you would have seen physical deflation, like a balloon when its air is let out. And his color fades, too. You just stole the whole damn thing back from him, and in about five seconds. And worst of all, you didn't mean it. Or even know it, for that matter. I mean, he would have checked with Bernie anyway!"

The first four "case studies" related above all suggested that moving to true delegation means crossing an imaginary line which transfers psychological ownership to the delegates: This is the real thing, there's no going back. Recall the example from *A Taste for Death:* The apparently trivial act of refraining from reminding Kate Miskin that an important meeting was, in fact, important (nothing, it would seem, could be more trivial) was the key to upping the ante and putting the monkey squarely on her back. Townsend's caveat is frightening—how easy it is to then grab the whole thing back.

Checklist: Are You Letting Go?

Whenever you are delegating, then, you must address a lengthy series of questions:

- Have you first transmitted the overarching vision with clarity? That is, does the delegate, through demonstrated behavior, clearly "buy in"?
- Have you set high standards in the past that make it clear what level of performance you demand?
- Have you demonstrated in the past, in small ways, that you trust the delegate's judgment?
- Do you have a track record for jumping in at the last moment (before a deadline) to pull the irons of others (to whom you've delegated) out of the fire?
- Do you consciously avoid attending meetings (i.e., avoid the seemingly innocuous excuse for attending: "just to be informed; it's your show") when the delegate is meeting with (a) his or her team, (b) outsiders, such as customers or vendors, (c) more senior people (including your own boss)?
- Have you bitten your tongue and stayed out of the delegate's hair when "back channel" reports (i.e., gossip) inform you that "Joe's in over his head," "Joe didn't check with me on thus and such"?
- Have you staved off your boss (or staff experts) who want status reports ("He's awfully young, I assume you're on top of this")?
- Have you avoided excessive reporting (a paragraph a week is okay—preferably handwritten; 10 pages is not okay)?
- Have you given the manager formal authority (a high dollar sign-off level) to insure he doesn't need to come running every five minutes?
- Have you provided (in most cases) a separate physical location for his/her team (at least an enclosed, separate space; at best a grubby space in another building—even a block away helps)?
- When she or he calls (or stops by) for advice or to "touch bases," do you (a) avoid giving direct orders ("Hey, I'm rusty on that, you might go see Mary or Jean" is the best response) and (b) keep the "touch bases" conversation from being an approval-granting (by you) session (practice the art of the slightly disengaged "uh huh," rather than "sounds good" or "good work")?
- Have you made it clear, by your total (and visible) inaction as a critical deadline approaches that (a) you are not going to jump in and (b) you are not even going to raise the volume of questions ("uh, Joe, uh, three days to the presentation, huh?" He knows that!)?

ESTABLISHING THE CONTEXT FOR DELEGATION

I've pounded on the idea of letting go, and its subtlety and fragility. Let's take a closer look at the issues of faith, mutual respect, and high standards. Napoleon and Moshe Dayan had something in common. Napoleon made it clear, in word and in deed, that he would not leave wounded soldiers behind to be savaged by the enemy. A crucial part of the Dayan legend likewise involves the lengths to which he went to ensure that his wounded Israeli soldiers would not be picked up by their foes.

The same chord was struck by legendary Green Bay Packer coach Vince Lombardi. He said that you didn't have to like your football players but you must love them and respect them. The University of Alabama's equally legendary coach, Bear Bryant, was in the same mold. Former Oakland Raider quarterback Ken Stabler said that Bryant was indeed a tough son-of-a-gun; but he quickly added that you could abide it, because Bryant made it abundantly clear that he had total respect for you.

Napoleon, Dayan, Lombardi, and Bryant asked their soldiers and players, time and again, to do the impossible, to do more than they had ever dreamed they were capable of. And time and again, to the dismay of so many enemies and opponents, the people responded. The bosses were tough. But beneath it was abiding love and respect for the people who were asked to go out and meet a challenge greater than they had ever met before.

Management expert Karl Weick studied musicians. In one experiment, he gave a talented jazz ensemble a new piece of music that no member had ever seen. He told them it was a little-known piece by a famous composer. Then he gave them a second novel piece, which was in fact by the same composer; this time, however, he told them it was by Joe Doaks. The experiment was repeated numerous times with several groups to ensure the validity of the results.

When musicians played the new (to them) work of the unknown (Doaks) the first few times, they made numerous mistakes. However, their first attempt with the new (to them) piece by the "renowned composer" resulted in far fewer mistakes. That is, the confidence induced by the famous name alone led to substantially more competence on the part of the musicians from the outset.

Why include Napoleon, Dayan, Lombardi, Bryant, and a jazz ensemble in a discussion of delegation? Most treatments of delegation focus almost exclusively on the letting go, with a bit on formal controls needed to keep track. Few discussions of delegation emphasize the role of faith, belief, vision, caring, intensity, and the psychodynamics that the effective leader sets up with his followers. To discuss delegation without this misses the point.

Small things enhance delegation. Even smaller things destroy it. It happens in a context. Paradoxes abound, such as really letting go, but establishing an inspiring moral context for the importance of the task—including the leader's obvious confidence and caring.

The Mayor Believes in You

Laurie Schwartz had worked for Mayor Don Schaefer but had taken off to pursue a career in the private sector. After a chance get-together at a Christmas party, he once again tapped her. She had indicated that she might be available for one of his famous "special projects." Without another word, he invited her to a meeting. He didn't tell her what it was about, even after she joined a confab of senior business people from Charles Street.

With amenities quickly out of the way, the mayor got down to business. "I want you to meet Laurie Schwartz. She," he declared, "is now Ms. Charles Street. She's going to get us going here." (Baltimore's main business street was not being transformed at a pace that was up to Schaefer's soaring standards.) And that was that. Charles Street was Schwartz's. The mayor dragged her back down to City Hall, where the city's department heads were assembled. "Laurie's back," the mayor announced. "She's running Charles Street, and you're to do whatever she says."

The charge was about that simple, though the execution obviously was not. A couple of years later, Charles Street was fast becoming a gem, with over 100 million new dollars invested in it. Laurie Schwartz was the cheerleader, the quarterback, the de facto chairman of the board.

Did Schaefer really believe that she could pull off this miracle? One suspects he did. It is clear that he delegated the responsibility to her unequivocally. She was out on a limb. She had said she was somewhat interested in doing something for him; in return, he had lobbed a key part of the city her way.

Schaefer had done a frightening thing to her. She believed in him, believed in his compelling vision, believed in his track record of making the impossible seem almost routine. Moreover, she believed that he believed in her, and that he wouldn't have done this "to her" unless he thought she *could* pull it off. So she now had the monkey on her back for a piece of his—their—vision. It was her ball, in her court. Deliver or else, her psyche said; and that's precisely what His Honor had intended.

DELEGATE TO ACT "HORIZONTALLY"

Delegation has traditionally meant "pushing decision-making to the lowest level." That has been the thrust of this prescription, too. The implicit (or explicit) target is the individual and his or her work group (see P-2 on self-managing teams, for instance).

But there is another "half" of delegation, growing in importance. That is, delegation to the front line and self-managing group to act "horizontally," to seek out fast connections with other functions, without checking "up."

This "horizontal" delegation was a theme of P-8 and P-9. It is also the theme of the next prescription, L-8, which urges nothing less than a full-blown "horizontal style" of management.

FIRST STEPS

1. Make it a habit to examine and reexamine regularly every important act of delegation. Have you really snipped all the strings—physical, psychological, etc.—necessary to transfer psychological ownership? While I believe as a rule in spontaneity, also take care that your language in chance encounters doesn't make that monkey jump back your way.
2. But examine the context equally carefully. Is there real agreement about the vision? Are your standards known to be high?

L-8

SUMMARY

We must pursue fast-paced action at all costs, and therefore:

- Vigorously and gleefully, with all hands participating, take the lead in destroying the trappings of bureaucracy.
- Manage the organization "horizontally"—that is, insist that "vertical" obfuscating be replaced with proactive (no checking "up"), "horizontal," front-line cooperation in pursuit of fast action.

Test. Try. Modify. Test. Act. Or: Act, act, act. To do so means to become an avowed and public hater of bureaucracy, and to ceaselessly pursue more spontaneous communication among functions (at the front line).

Let no day pass without acting as a *visible model* by engaging in at least one feat of bureaucracy destruction. Ensure that most of these publicized feats of bureaucracy-bashing are in service to a "horizontal style" of management, which minimizes up and down (vertical) communication and replaces it with *fast, front-line* cooperation across functional boundaries.

L-8

Pursue "Horizontal" Management by Bashing Bureaucracy

In December 1986, I gave a speech to young graduates of the U.S. Navy's Civil Engineer Corps Officers School. The centerpiece was a list of ten suggestions. At the top: "I beg each and every one of you to develop a passionate and public hatred for bureaucracy." I meant it.

The central point of this prescription is its proactive nature. Don't appoint a paperwork reduction committee (see P-10). Such an approach might be dandy, but I mean something much more proactive. Become an emotional, vociferous, repetitive, public hater of bureaucracy. Become a nuisance!

ENERGETIC BUREAUCRACY-BASHING

Rant and rave. Tear up papers. Refuse to read them. Don't attend meetings. You may put your career in jeopardy in the short run, for having a lousy attendance record. But if you don't put it in jeopardy for that, it will likely be in jeopardy in the long run, when the business goes bust or the city can't pay its debts or the weapons system won't work.

Be outrageous. Get rid of all your file cabinets—think of it as the white-collar equivalent of installing a just-in-time inventory management system. Put big cardboard boxes around your desk, and throw all the junk you receive into them—unread. Put a big red label on the boxes: "This week's unread paperwork."

Whenever you get a report, read only the first two pages. Call the sender: "I didn't understand your report."

"I'll come down to your office and explain."

Your office, a short time later:

"Of course you didn't understand it, you only read the first two pages of my thirty-nine-page report."

"My eyes tire. I can't read anything longer than two pages. It's age, I'm sure. I'm thirty-eight [or twenty-six or fifty-two] now."

"I think I get the point. Shorten it up."

"No, you don't get it at all. Next time, just come down and explain—like you did just now. Don't write a damn report!"

Be colorful. Have a Friday afternoon ceremony, once a month at 4 P.M. Bring beer and invite your people out to the incinerator. Burn all the paper you received but did not read.

Invite them next month to a spot in the woods. Bring beer and shovels. Dig a hole. Tote out a small wooden casket. In it place all the forms and rules and discontinued reports that you and they have tagged for immediate elimination. If you've got real nerve, bury the office copier next to the casket. Wear mad garb. Lead a chant as the casket and copier are lowered into the ground: "No more paper, no more forms."

(Yes, I know you may be the highly respectable chairman of a staid $1.5 billion company. "Antic" is not exactly your middle name. But then what's so bloody honorable about your miserable earnings record and the 4,000 jobs you've shipped offshore in the last six years?)

You've got two choices: (1) find your own style of doing this or (2) go broke. I realize the danger of losing the reader here: "You can't do that around here." "It's not me." I urge you to reassess those oh-so-reasonable responses: (1) We all agree that urgency is essential to survival today. (2) We all agree that getting rid of "bureaucracy" induces urgency (no number of "motivational devices," including gobs of incentive money, will overcome our petrified forest of barriers). (3) And, sadly, we all agree (those of us who are honest, anyway) that we don't know what to do about the problem, other than rail at it. (4) Therefore, I am merely suggesting that we match the need to address these radically shifting times with a radical and proactive strategy: fun, energy, anger, participation, vigor—and time and attention—in urgent pursuit of demolishing the barriers, especially the excessive "vertical processing" of information that slows action down among functions at the front by orders of magnitude.

Involvement and Celebration: Part and Parcel of Bureaucracy-Bashing

Make bureaucracy-demolition fun—and participative. Get everyone to nominate forms and procedures for elimination. Have a committee, made up principally of junior line people, assess the suggestions and act on them within a week. Insist that they accept at least 50 percent.

Give an award to every individual who makes a nomination, a bigger award for every nomination accepted—then group and unit awards. Perhaps even put "anti-bureaucracy effectiveness" in your performance evaluation scheme.

Have a semiannual or annual luncheon or dinner, labeled: "Beating Back Bureaucracy: Luncheon of Irate Red-Tape Cutters." (Bronze shears of various sizes would make nice trophies.)

Formalize a separate, anti-bureaucracy suggestion system, individual- or group-based. There's no end to such ideas. Fun and participation are the keys. A more serious matter—survival—is the goal.

Is a project stuck at a fairly important milestone? A negotiation with a supplier bogging down? Spend lavishly on airfare (and long-distance phone calls). Get on the plane, visit with the supplier or customer or project team—and don't leave until the darn thing is fixed. Forget the committee meetings that you missed in the process—most of them were to worry about how to deal with other project teams around the company that were stuck or with other negotiations that were bogged down.

In fact, go a step further. Give awards to the persons who spent the most money (or logged the most miles) in pursuit of unblocking stalled projects or negotiations; give a concomitant award to the person who missed the most meetings while in pursuit of speeding up stalled affairs. (See L-10 for a broader discussion of inducing a sense of urgency.)

INSTALLING A "HORIZONTAL STYLE" OF MANAGEMENT

Consider your group to be a company. Every other function is, by definition, either a vendor or a customer. Treat them with the respect and care with which you'd deal with outsiders. Practice relationship management, customer listening, customer visiting, and, mainly, reward your "salespersons"—i.e., everyone—for getting and keeping your "customers" happy. Hold "vendor"/"customer"-appreciation days and open houses.

Suppose you are in manufacturing. Invite the division controller's staff to your next beer bust. Send one of your shift foremen to the chief cost accountant's office on a sixty-day temporary assignment. Teach "customer-serving" habits—accounting in this case—to your supervisors. Send thank-you notes to an accountant who did a job swiftly for you, with a copy to his or her boss and boss's boss.

Devote 15 percent of your monthly operations presentation to specific examples of smooth cross-functional cooperation. Devote 20 percent of your discretionary bonus money to awards for those in other functions who have assisted you; devote another 20 percent to rewarding your own people for meritorious acts of proactive skid greasing.

Hold a surprise party for a team from MIS that took the trouble to spend a weekend getting bugs ironed out of a new program's software—to help your unit. Send one of your machine operators to a full-blown, twenty-week information systems department training program so that he or she can be a well-schooled prime contact when the next new manufacturing software package is on the drawing boards.

Keep daily or weekly score for yourself or your unit: For instance, perform a dozen "barrier bashers" each month.

Poke fun at the bureaucracy, bureaucrats, and barriers that interfere with "horizontal" management. Regardless of how deeply you buy and live this message, you will still act like a bureaucrat and turf guardian several times a day. That's wonderful news, because it means you can unfailingly preface an attack on others with an attack on yourself!

At each weekly staff meeting, consider including a "report card" on yourself. Cite your violations: paperwork excess, turf guardianship, and so on. Have a half-dozen such categories. Give yourself a grade on each one—a bureaucrat's grade on your dealings with each key "customer"/"vendor" functions you work with—and an overall grade. Then post the results. Give people hell, lightheartedly (present a duncecap) or in earnest, who have "checked in" with you on a horizontal-action issue instead of acting on their own.

Have a different person present a report card on your function as a whole each week. Anybody who has the temerity to give the function an A on anything buys lunch for everyone and makes coffee all the next week. The chosen report-card preparer should be encouraged to spend several hours collecting instructive stories and preparing the report card.

The logic is impeccable: Two towering hindrances to quality, service, responsiveness, fast innovation, and people involvement are functional barriers—"vertical" management—and bureaucracy. Therefore, it follows logically that two of the leader's top strategic priorities ought to be proactively attacking bureaucracy and working at that "horizontal style."

"Hot Buttons"

In *The Leadership Challenge,* Jim Kouzes and Barry Posner tell of a productive barrier-bashing device that was also great fun: "At Sequent Computer, company president Casey Powell at one critical point handed out buttons. Most of the company would wear green 'How Can I Help?' buttons, but people on the critical path would get red 'Priority' buttons. People with green buttons were to do anything to remove obstacles for those people with the red buttons. Powell wore a green button. . . ."

FIRST STEPS

Review the numerous practical, and participative, devices for establishing "horizontal" management included in this prescription. In the next thirty days, select two activities and begin to implement them.

L-9

SUMMARY

To up the odds of survival, leaders at all levels must become obsessive about change. They must:

- In the matter of formal and informal evaluations of leaders (managers at all levels), focus less on measures that deal with such things as budgets, and more on the explicit questions: "What, exactly, have you changed lately? What, exactly, have your subordinates changed lately?" Additionally, every meeting should commence with a rapid, explicit review of exactly what has been changed since the last session, even if it was yesterday; every newsletter should emphasize change; and so on.

Change must become the norm, not cause for alarm. The bottom line: If you can't point to something specific that's being done differently from the way it was done when you came to work this morning, you have not "lived," for all intents and purposes; you surely have not earned your paycheck by any stretch of the imagination. Furthermore, the incremental changes of today must almost unfailingly be in support of non-incremental change—that is, a bold goal to be achieved in record time.

Make "What, exactly, have you changed?" the most common question in the organization. Ask it a dozen times a day, at least.

L-9

Evaluate Everyone on His or Her Love of Change

Are sales consistent with your forecast? Did you exceed budget? These are reasonable and important questions. They are standard fare for performance appraisals or quarterly or monthly reviews. They deal, as the experts say they should, with results that presumably are more or less under the manager's control.

But I believe these are the wrong questions for the times. They are tangential to the main event. We should be asking something more fundamental: "What, precisely, exactly, unequivocally, have your changed—today?" And: "Are you sure?" And: "What's next?" And: "Exactly what bold goal does the change support?"

The questions are deceptively simple. Most often they go unasked. Yet I firmly believe they are far and away the most crucial questions for all today's managers, at all levels.

A vice-president from IBM said flatly that this question—What have you changed?—has become the most frequent query at all levels throughout his firm. Discussions with IBMers down the line confirm his assertion. And well they should. IBM's industry is in chaos—and will remain so for years—and there is mounting evidence that on some dimensions the giant company has not been keeping pace.

From computers to retailing to health care to government, managers of all functions and at all levels are confronted with an unprecedented amount of turmoil. Just over a dozen years ago, when I was working with McKinsey & Co., my colleagues and I didn't even bother to take inflation into account while making twenty-year cash-flow projections for quarter-billion-dollar petrochemical facilities. Moreover, we were confident in our ability to predict supply, demand, and commodity prices for wheat and corn (we were concerned with a fertilizer facility) with a fine degree of accuracy, over a twenty-year period. Feedstock (oil and gas) prices, we felt, were also predictable. As for the value of the dollar compared to other currencies—it never crossed our minds to consider wide fluctuations.

Today all of those variables—and a host of others—are just that: highly variable (see Part I). Nothing is "for sure" over a *three-month* time horizon, let alone one of *twenty years*.

NEW TIMES DEMAND NEW QUESTIONS

This radically new environment demands radically new forms of organization and radically new forms of evaluation of those who manage. To be sure, making budget remains a valid aim. But while it may be a necessary condition for survival, it is no longer even close to a sufficient one—for the shift supervisor, let alone the division general manager.

The IBM executive continues: "We must reexamine every relationship, every element of doing business, every process, every procedure. The only plausible criterion for success is: 'Are you changing enough, rapidly enough, to successfully confront the future?' "

To adapt to a radically altered environment, each procedure—in MIS, accounting, personnel, manufacturing, product development, distribution—that links up with other functions, each relationship with suppliers and distributors, must be "zero-based," that is, wholly reassessed and, in nine cases out of ten, changed in its essentials. We must, then, measure each manager directly on his or her ability to change things dramatically.

How Many? How Much? How Fast? How Bold?

Are you looking for new opportunities to exploit technology? Opportunities to, say, link your data base electronically with that of your key—and probably even smaller—suppliers and middlemen and customers? Have you launched a new training program to expose all hands to one or another aspect of an altered future? Are front-line people being empowered to change things and cross traditional functional boundaries at a moment's notice without checking "up" first? Are temporary organizations being created on twenty-four hours' notice, and then scrubbed fifteen or thirty days later when the task is done?

It's no longer adequate to ask: "How many people, up from whatever last year, did you process in basic sales training?" It's necessary to ask:

- "How, *exactly*, have you changed basic sales training to match possible future scenarios—within the last three months?"
- "How much material in the sales refresher course has been updated in the last six months?"
- "How many new case studies are you using?"
- "Why *these* new cases?"
- "Whom have you recently asked to advise you on course content whom you *never* asked before?"
- "Are you *sure* that your advisers—from inside and outside the firm—are diverse enough to mirror the changing conditions in the real world?"

- Is all of this change dramatic enough/fast enough to allow us to surge ahead of our competitors—or at least keep pace with the new ones entering the market each day?

CREATING NEW RITUALS

"What have you changed lately?," "How fast are you changing?," and "Are you pursuing bold enough change goals?" must become pressing questions asked of any manager, at any level, in any function, as a matter of course. For instance, during each staff meeting, go around the table posing the question to each colleague. Don't spend much time, perhaps no more than ten minutes for ten people. But do it, ritualistically. Make the simple question a prime element in your formal performance appraisal system, as well as in your informal monthly sit-down appraisal: "What have you changed? How much have you changed? What are you planning to change next? What are your direct-reports changing? What have they changed in the last two days, two weeks, two months? How bold are the goals of your change program?"

My assessment of the surprising continued vitality of 3M, PepsiCo, and Citicorp, arguably three of the fastest-moving giant firms in the United States, is that they are, above all, impatient. They'll reorganize on a dime, while others barely have the energy to do so every half-dozen years. In fact, my own measure is that if you aren't reorganizing, pretty substantially, once every six to twelve months, you're probably out of step with the times. These firms don't stand on ceremony. They never stop exploring ways to get it right—for now. And they don't fret much about getting it wrong—as long as it's fixed fast. They are brash experimenters, moving in tandem—through error and trial—with the pace of the dynamic markets in which they participate. And yet even they are showing signs of slippage; remember the opening sentence of this book: There are no excellent companies. No one big (almost no one at all), in my judgment, is changing fast enough.

DEALING WITH THE ARGUMENTS OF NAYSAYERS

There are three routine rebuttals to this idea. The first is: "Aren't you advocating wheel-spinning? You don't really want change for change's sake, now, do you?"

I'd be the first to acknowledge that I've seen many instances of very unproductive, frenzied behavior. I don't support that. The manager's job is to make sure that frenzy for frenzy's sake does not occur. On the other hand, I'm not a Pollyanna. I don't believe in pure win-win situations. There is something to be traded off. In today's environment, when you boil it all down, the principal enemy is inertia, in smaller firms as well as in large ones. Thus, [illegible] net, a fair dose of change for change's sake, even including some wheel spinning, is preferable to continued inertia.

The second argument is more fundamental: "You've gone on and on about work-force commitment and achieving the highest level of quality and service. Don't these things, which by their nature suggest stability (how can anything be better than best?), fly in the face of 'changing everything'?" Once more, the answer is not simple. Constant change programs surely do threaten many people, especially traditional supervisors and middle managers. But constant change is thoroughly consistent with pursuing perfection in quality and service. Indeed, it is a must, for no one among the increasing array of competitors is standing pat. In the time it takes to read this prescription, Toyota will have implemented another fifty suggestions—that is, will have gotten better (there is no best for long).

But the threat posed to stability by constant, incremental changes is the least of it. For I have just proposed radically changing the organization's structure annually or even more frequently—it's a must. Changing all the procedures and then changing them again—another must. Smashing the market into bits, and then smashing it into even finer bits—a must as well. Restlessly altering the structures and markets and procedures depends upon keeping the vision and value system constant, more constant and more prominent than ever before—replacing control by procedure with control by vision and trust. The vision and managers' consistent, daily actions in support of it is the sea anchor, the basis for keeping people from running aground as the waves of change toss them to and fro.

Yes, it is a paradox (see also L-1): In the face of more change, more stability (but not the paper-driven kind) is essential. Charts and boxes and stability based upon lengthy job descriptions and your place in the organizational structure must be replaced by vision, values, and stability based on trust.

The final argument: "You keep asking for pursuit of incremental change; now you're saying 'dramatic change,' 'bold goals.' Can you reconcile the two?" Yes, on two scores. First, there is no choice. The goals must be bold, even to stand still. Hence incrementalism must always be in pursuit of the dramatic minimum improvements set out in these prescriptions.

Moreover, the most efficient and effective route to bold change is the participation of everyone, every day, in incremental change (see I-1 on small starts and I-3 on pilots, especially). Most bold change is the result of a hundred thousand tiny changes that culminate in a bold product or procedure or structure. The dramatic success symbol is usually just that, a symbol. The road to it is paved with a million experiments, a million false steps—and the wholehearted participation of everyone.

THE ACID TEST: CHANGE IS THE MANAGER'S DAY-TO-DAY BOTTOM LINE

Lately I've been ending my speeches with a snide observation which directly concerns this prescription: "If you are interested in keeping your jobs, ask yourself at the end of the day, every day, 'What exactly and precisely and explicitly is being done in my work area differently from the way it was done when I came to work in the morning?' The average manager starts each and every day as an expense item ('wealth dissipator,' in the words of Brunswick's Jack Reichert), not a revenue enhancer. You must earn the right to draw your substantial managerial salaries. The only way to do so is by making things different and better. Different and better today can only mean—changed, acted upon. If you can't put your hands on something—a coaching session that's leading to demonstrably new behavior, a changed form or eliminated rule—that's being done differently in the afternoon from the way it was done in the morning, then you haven't been alive." Furthermore, that specific something changed today had better have been changed in pursuit of a very bold goal (i.e., a 90 percent decrease in defects in the next thirty-six months). That is, the moment's tangible change must be in pursuit of dramatic change.

It's tough medicine. The manager, in today's world, doesn't get paid to be a "steward of resources," a favored term not so many years ago. He or she gets paid for one and only one thing—to make things better (incrementally and dramatically), make things different (incrementally and dramatically), to change things, to act—today.

FIRST STEPS

What exactly, precisely, have you changed today? What precise bold goal is that change connected with? Ask yourself. Ask everyone, junior or senior, with whom you came in contact this very day. Repeat, daily, for the rest of your career!

L-10

SUMMARY

Since our foremost need is to change more, faster, we must:

- Induce a sense of urgency and hustle throughout the organization.
- Seek to minimize potentially paralyzing fears, despite the uncertainty which makes fearfulness legitimate.

To achieve the awesome but minimum acceptable agenda laid out in the thirty-nine previous prescriptions, the organization must be energetic, from stem to stern. A principal leadership challenge, then, is to go all out to create a sense of urgency.

Every managerial act must be seen as an unequivocal support for urgency in pursuit of constant testing, change, and improvement.

L-10

Create a Sense of Urgency

George Washington University business researcher Peter Vaill, the pioneer scholar of a field called "high performing systems," says that the stellar outfits—whether Brownie troops or factories—all have a certain feel, or "aesthetic motivation." A U.S. Air Force general I know insists that the best air squadrons "hum." Similar words or expressions include "electric," "electricity in the air," "in synch."

Most of us "learned" about this phenomenon in grade school. Some classrooms "hum," are "electric," are "in synch." Most lack any such spark. So, too, with training departments, retail buying offices, and software development groups.

The challenge this book lays down is all about "hustle" (see C-4 and Amar Bhide's superb description of "hustle as strategy"). We must challenge everything, change everything, improve everything. We must cut this cycle time and that by 75 to 90 percent (and do it fast), become orders-of-magnitude more responsive, implement thousands of individual and team suggestions each day just to keep up with the Joneses (the Hondas, Electroluxes, Limiteds).

The necessity of learning to love change permeates this book. Most of the prescriptions, sometimes indirectly, have taken aim at inducing flexibility and minute-to-minute risk-taking. Figure 18 is a partial listing, some forty key factors whose primary effect, working in tandem, is to create organizational fluidity—i.e., love of change (and the ability to make changes) by everyone. They range from the power of information provided to the front line (detailed knowledge of competitors, for instance, is an unsurpassed spur to action) and the removal of excessive "layers" of structure, to extensive worker training in how to solve problems and a straightforward call to evaluate everyone on the basis of how much he or she has, in fact, changed (I-9, I-10, L-9)—and lately, to boot.

But even if you do all these things (an imposing challenge), there will still be something missing—an intangible (that maligned "soft" word) "X-factor": electricity, hum, hustle, or whatever else you choose to call it. This prescription urges you to add the "X-factor" to your organization, whether it's a small team in the loan department or a large multinational institution.

Well, just what is it? After all, this is a book of practical suggestions. Allied-Signal, a then-sluggish firm embarking on a turnaround, ran advertisements a couple of years ago that featured otherwise stodgy-looking executives without suit jackets and with their shirt sleeves rolled up; the inscription read: "We mean business." I don't know what the ad's effect was (on customers or employees), but its flavor is to the point here. We must break out of the old molds, and fast. Rolled-up sleeves are hardly the whole answer, but they do provide a hint.

Figure 18: **40 Factors That, Reinforcing One Another, Induce Flexibility**

1. The visible presence of new, flexible competitors
2. Visible display of the exploding array of new products
3. Talking up sales lost to revolutionary new technologies
4. Spruced-up old competitors intruding into your market
5. Business failures and restructurings in your industry
6. Good competitor analysis available to all
7. A belief that new market creation is the premier business success strategy
8. A belief that any product can be constantly improved
9. Unvarnished customer listening programs of every description
10. Constant measurement of customer satisfaction
11. Unadulterated feedback from sales and service forces
12. Customer (and supplier and distributor) visits by everyone: us to them, them to us
13. An environment that encourages numerous "small starts" and instant pilot tests of everything
14. Vociferous support for fast, thoughtful failures
15. Encouragement to fight NIH (not invented here) and "swipe" ideas from anywhere
16. Support for somewhat eccentric champions at all levels who may break the rules (who exhibit "constructive defiance"); praise of risk-taking supporters of champions
17. The use of "fully staffed," self-sufficient product development teams
18. Skill training and constant retraining; training in jobs in other functions; training in problem-solving techniques (cause and effect analysis)
19. Involvement in a "pay for performance" plan
20. Membership on a self-managing team, responsible for most of its own support activities such as budgeting and capital planning
21. A chance to be a team leader
22. Removal of bureaucratic impediments
23. Removal of humiliating rules
24. Provision of an attractive (clean and peppy) work environment
25. Constant rewards and celebrations for small accomplishments
26. Guaranteed employment
27. Fewer (or no) first-line supervisors

28. Middle managers who encourage constant front-line contact among functions
29. Middle managers who act as "on call" experts, spending most of their time helping teams; likewise, middle managers (experts) living "on the floor" of the factory or operations center, or distribution center
30. No more than five layers of structure
31. The use of small units, "small within big" configurations, everywhere
32. Senior management in touch with the line; strong, demonstrated top management support for the front line
33. Encouragement to "be the best" and "be unique" on some important performance dimension
34. Supervisors (and others) who are promoted on the basis of their ability to create an exciting work environment
35. Suggestions systems, reward systems, and other devices that invite zestful bureaucracy-bashing and constant cross-functional contact
36. Everyone evaluated on what/how much they have changed/improved
37. Wholesale information availability to everyone
38. Basic business forecasting and evaluation systems that emphasize trust, fairness, and integrity
39. People evaluation systems that emphasize "degrees of winning"
40. Genuine "bottom-up" setting of objectives and appraisal of performance

CREATING A SENSE OF URGENCY

How do you create urgency, hustle, and electricity? Part of the answer, of course, lies in a review of Figure 18; are you making use of all of these factors—at once? The rest involves management (leadership) by example—but example that doesn't so much emphasize, for instance, the quantity of time spent on your top priority (see L-3) as it does the presence of that intangible "X-factor." That is, if you want hustle—well, hustle yourself:

1. Cut out excessive trappings of office. Begin at home. Answer your own phone. Damp down the regal splendor of the office (regal is relative; this applies equally to first-line supervisors and chairmen of $10 billion firms). Don't travel with executive assistants. Etc. (See P-10, L-8.)

2. Follow a spartan routine. Give up executive perks and increase your people's perks. I can't tell you to fly coach or drive a 1965 pickup; I can tell you that doing so helps others take your "lean, mean, and urgent" speech seriously.

3. Be enchanted by the product or service. Want others to be excited about the 2379B widget, or the new "home bakery" you've added to your 125 supermarkets? The answer is simple (to state): *you* must be—and act—excited. If it's not crystal-clear to all that you love "it" (and "it" may be a new training program), then it's hard to imagine that "they" will love it

Love it? How? I can't say how, as in how to love, but I can say what, as in what love means. The what is—being fascinated by it; asking questions about it; showing it off to everyone; displaying it everywhere; bragging about it (and its creators); examining it regularly; using it (if possible). It is, yes, intangible, but it boils down to engagement. If you're not engaged, others' sense of urgency will be damped immeasurably. (See C-2.)

4. "Go to the sound of the guns" (customers). The late Lieutenant General Melvin Zais (featured in *A Passion for Excellence*) advised would-be generals to do this—to seek the center of the maelstrom. Maryland's Governor Don Schaefer, a World War II Army veteran, puts this near the top of his list. When he was Baltimore's mayor, "go to the sound of the guns" meant go to the neighborhoods.

In business, the sound of the guns is wherever the customer is. Again, recall L-3 (Manage by Example). Want others to become obsessed with customers? You go first, Ms./Mr. Leader. A big (and longtime) customer calls from the other side of the country with a "little problem" with the first shipment of a new product. The board meeting is only forty-eight hours away. You've got very tough queries coming. So what do you do? Call the sales vice-president and order him to "get on it"? No. *You go to the sound of the gun/customer.* With some public fanfare, you toss your board presentation out, order up a charter jet (charters are okay when a big customer is involved), and *you* go there. Buy a clean shirt when you arrive; don't wait to pack a bag. It's almost that simple: Become a "hustling fool" (as a friend calls it) when the customer beckons; a whole lot of other such "hustling fools" will quickly be born in your organization.

This suggestion also applies, without modification, to lower-level managers and staff managers. Be observed (by your people) canceling an important meeting with the boss in order to rush to a customer's side (which, if you are in a staff job such as MIS, may mean a factory manager for whom you are installing a new CAM system). Yes, it is risky; but the risk you take as well as the nature of the act itself will go a long way toward instilling that "X-factor."

5. Redouble your commitment to "symbolic management." Much of L-3 (and L-4, L-6) was about symbols. All of this, the last leadership prescription, is about symbols. Creating a sense of urgency is, make no mistake, a symbolic exercise. It may come naturally. But it may not. If not, there is good news: You can learn to think symbolically—in fact, you must.

The most important step is heightened self-awareness: Put each small action through an "X-factor" filter. Does it foster or impede a sense of urgency? A perfectly reasonable decision, such as sending a proposal for a new product back for more staff work, when put through the "X-factor" sieve, should be reversed. Yes, you *could* learn more from another six weeks of study; but the presenter, a staff manager, said he was ready to charge ahead. Even though you're not sure, throw caution to the winds (at the margin) and tell him to proceed.

The more subtle trick is achieving a "bottom-up" perspective on urgency. What looks eminently reasonable to you often as not looks from below like waffling based upon power politics or mistrust of the line

6. Laugh/cry/smile. "Hustle" and "electricity" are purely emotional. The era of the effective but detached manager, supervisor, or chief executive is gone. Necessary urgency throughout the organization and detachment at the top (or in any managerial post) cannot coexist.

This is not a "style tip." Former Oakland Raider football coach John Madden was a screamer, shouter, and arm-waver. Dallas Cowboy coach Tom Landry has a contained style. But talk to their players, as I have; both are paragons of emotionality. That is, both are transparently intense; their will to win and their passion for flawless execution are unmistakable.

I am not, then, urging you to be more extroverted or introverted. I am advising you that *involvement, especially with the work of the front line* (see also L-6), is a must for survival in a world where the front line's willingness to take spontaneous initiatives counts for more with each passing day.

One form of emotional involvement, laughter, deserves a special comment. Urgency and laughter go hand in glove. "Get going" and "try something" are among this book's central tenets. To speed action-taking, we simply must learn to laugh at our own (personal, organizational) bureaucratic, action-delaying foibles (L-8); and we must learn to laugh at interesting and useful mistakes (or "fast failures"—see I-8). In general, a spirited environment is marked by laughter—enthusiasm for being on a team and trying darn near anything to make the service or product better.

7. Be the first to get in to work. I have some qualms about this one because of the possibility of a "macho" misinterpretation. But I believe it is essential. Let me indulge once more in a sports analogy. My memory reaches back to the great Oakland Athletics team of 1972 (few now recall that Oakland is the only team in the last thirty years to win three consecutive world series, starting in 1972). Young Vida Blue pitched for the A's and was a whirlwind. Blue did a lot well, but I vividly recall one of his habits in particular. Pitchers are in general cerebral sorts by baseball standards and march to the tune of a different drummer; among other things, they walk, often with studied slowness, off the mound at the end of an inning. Not Blue. He trotted off. And that simple trot came to symbolize the hustling, scrounging, brilliantly successful A's.

I urge you, then, to come to work first, and trot off and onto the mound. Your personal display of spunk, of energy and zest for your task and life in general, especially if you are visible to the line, will be the single most important determinant of the organization's energy.

URGENCY AND FEAR

The fearful organization is not a hustling organization. Fear, of tiny failure or impending layoff (management or non-management), is the chief enemy of urgent action and flexibility. Unfortunately, in many of our biggest firms, the middle or first-level manager, on whom we must ultimately depend for survival, has lots to fear. Until that fear is erased or minimized, hustle and urgent testing of the untried—will not become common. Information hoarding rather than sharing (information is power, after all) and action-delaying tactics (not to act is not to risk failure) become the norm in fearful organizations. Political maneuvering (in an effort to make oneself apparently valuable to someone who looks like a survivor) goes up too.

Dealing with fearfulness requires any number of strategies, which either have already been discussed (see C-10 on establishing a revenue-enhancing attitude, I-8 on supporting failures, P-7 on tactics to accompany guaranteed employment, and P-4 on retraining managers and others) or will be discussed (see S-4 and S-5 on integrity and trust).

But beyond all these is yet another leadership "X-factor." Wartime military leadership provides the best and most obvious analogue. By definition, wartime command involves, day in and day out, the ultimate source of fear—sudden death for those in the prime of life. Military leadership offers two answers: confidence and accessibility.

Confidence means non-paralysis, a willingness to act, and act decisively; to start new things and cut failing ventures off. It does not mean false confidence about the future—complacency or unwarranted certainty about the correctness of the organization's strategy. Such false confidence, amidst obvious turmoil, is correctly read as foolishness, inducing more fearfulness—i.e., loss of confidence—rather than less. (The continued unwillingness of many corporate chieftains to face up to reality in the face of plummeting market share provides ample demonstration of complacency, and of its dire consequences—a continued lack of a sense of urgency on the part of the rest of the organization. GM in 1986 and Xerox and Kodak in the mid- and late seventies come to mind.)

So demonstrating confidence means demonstrating self-awareness of the competitive problems (which we all have) and then exhibiting a willingness to move fast to test strategies that will lead to fast adaptation. Move fast, above all, does not mean "get it right"—it does mean experiment fast, bravely, and continually. (And, I reiterate, it means having the guts to cut off the failed experiment before it becomes an elephantine disaster, then plunging ahead with a new one posthaste.)

I cannot, obviously, provide a formula for "getting confident." I can suggest that confidence only comes not when you are rolling the dice on a "big idea," but when you know you're working successfully at implanting the basic skills which will turn the organization into a hotbed of experiments aimed at improving everything dramatically and creating little new markets at a record clip.

The second tactic for fighting fear is accessibility, discussed in L-4 and L-6 as well. When times are chaotic, in war or in an increasingly crowded marketplace, just to *see* the leadership, to be around the leaders, to observe their humanity, is a tonic. (Even the leader who appears appropriately fearful helps instill confidence—if he or she is still willing to act boldly.) To "stand beside" at time of need is the best killer of fear. It doesn't necessarily lead to acts of extraordinary bravery (or risk-taking in the market), but it does induce a willingness to shed paralyzing fright and move forward, begin acting (testing). And

to act, to have everyone taking those minuscule moment-to-moment risks (which are, of course, not cumulatively minuscule at all) is the essence of urgency and, ultimately, success.

FIRST STEPS

Pass every action, starting now, through the "scullery filter": That is, "Will the new worker in the scullery (or housekeeping or accounting department) view this as an example of our organization's new sense of urgency, will it be viewed neutrally, or will it look like delay and 'business as usual'?" If you cannot decisively answer "foster a sense of urgency, readily apparent to all," then the act is a step back, not even neutral. You have no time to waste; every tiny act must be an unmistakable demonstration to the scullery crew that a newfound sense of urgency has been unleashed.

VI

BUILDING *S*YSTEMS FOR A WORLD TURNED UPSIDE DOWN

SECTION SUMMARY

Systems are more important than ever, principally because today's systems cause real harm. For starters, if the market logic set forth in Part I and in prescriptions C-1 through C-10 is valid, we are measuring the wrong things. Second, our systems, as conventionally conceived, channel information narrowly and restrict the power to act. Thus the systems prescriptions (see Figure 19), like the leadership prescriptions, are aimed at both controlling (directing attention to appropriate strategic concerns) and decontrolling (empowering everyone to act).

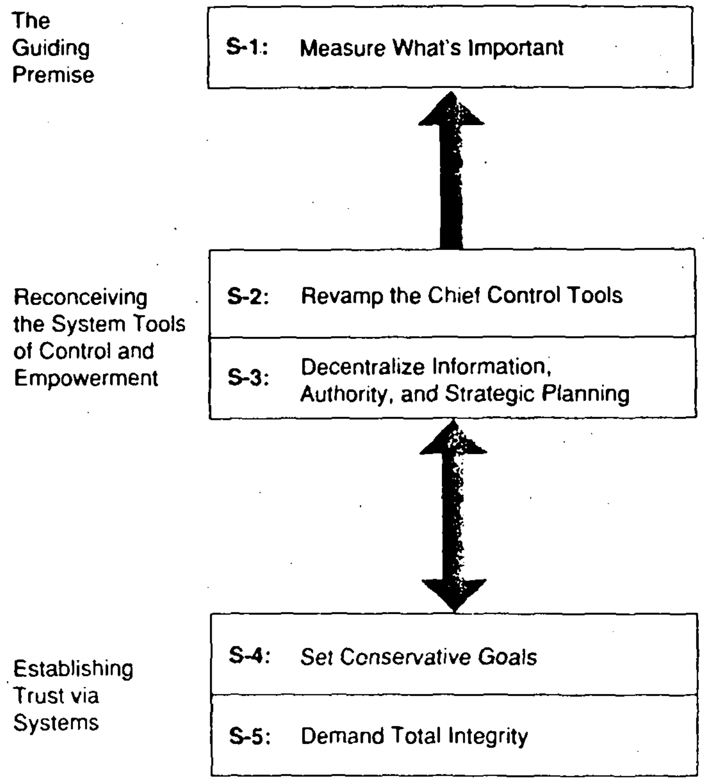
The Guiding Premise, prescription S-1, is a paradox: Measure more by measuring less. That is, simplify systems (in some instances replace computer printouts with flip charts), but make sure that they measure "the right stuff"—e.g., quality, innovation, flexibility, and even such especially "soft" traits as effectiveness at bureaucracy-bashing.

Reconceiving the System Tools of Control and Empowerment is the topic of the next two, enabling prescriptions: S-2, revising performance appraisal, management by objectives, and job descriptions through simplification (or elimination in the case of job descriptions) and redirection toward what's important; S-3, sharing information (and power, since information is power) widely, increasing spending authority, and instituting simplified, relevant, nonbureaucratic, "bottom-up" strategic planning.

The "glue" that binds a company together in an uncertain world, and provides the stability necessary to encourage constant experimentation, is trust, which can be abetted by systems. The last two prescriptions address this central topic of Establishing Trust via Systems: S-4 makes the case for conservative financial and nonfinancial goal-setting; and S-5 focuses on maintaining total integrity.

The fifteen leadership and system prescriptions (1) revise the nature of control, (2) radically decentralize the power to take action, and (3) come to grips with the stability-instability paradox—the need to provide more stability in order to encourage the greatly increased day-to-day risk-taking necessary to deal with that instability in a world turned upside down.

Figure 19: **Building Systems for a World Turned Upside Down**



S-1

SUMMARY

New competitive challenges call for rethinking supporting systems. We must:

- Develop simple systems that encourage participation and understanding by everyone and that support initiative-taking on the front line.
- Measure what's important to the business; in particular shed the distracting biases of traditional cost-accounting procedures.

Our systems are too complex. The complexity thwarts flexible execution at the front line. Further, they fail to measure most of what's important to success today.

Simple, visible measures of what's important should mark every square foot of every department in every operation. Place special emphasis on developing measures associated with revenue generation, supplanting the current systems bias toward cost containment. Every manager should track no more than three to five variables which capture the essence of the business.

S-1

Measure What's Important

Measurement is too often equated with how many pounds of numerical indicators the senior manager receives weekly. There is little feel for the data at any level. Line—especially front-line—involvement in its use or formulation is limited. Ironically, the need for flexibility in an increasingly complex environment requires systems to be made less complex.

In addition, our systems invariably measure "the wrong stuff." We know how to measure costs—using models whose assumptions were created decades ago for a much different world. Sources of long-term revenue enhancement—such as quality, service, flexibility—are virtually absent from most measurement systems.

KEEP IT SIMPLE (AND VISIBLE)

Keep It Simple: Flip Charts and Line Involvement

Flip charts, two-variable management, back-of-the-envelope calculations—surely these were yesteryear's way of life, inappropriate to today's complex setting.

Not so. An accounting firm executive recalls his surprise at the "systems" used by NUMMI (the GM-Toyota venture). He had expected state-of-the-art—that is, complex—measurement techniques. "Instead," he says, laughing, "it was flip charts, red and green lights depicting a system's status . . . absurdly simple, but to the point."

A primary test of a sharp manufacturing operation, according to Richard Schonberger in *World Class Manufacturing*, is the presence of living, and simple, measures: charts on the wall assessing the causes of delay, updated hourly by crayon or marker pen; physical space for teams to meet near the line, equipped with blackboards that can be covered with simple, to-the-point analyses.

Schonberger makes no bones about the method: "Data recording comes first. The tools are cheap and simple: pencils and chalk. Give those simple tools for recording data to each operator. Then make it a natural part of the operator's job to record disturbances and measurements on charts and blackboards. The person who records data is inclined to analyze, and the analyzer is inclined to think of solutions." He goes on to describe the feel of a pragmatic, measurement-happy environment:

> . . . One [plant] stands out for its attention to keeping the walls covered with measured data on the basics. It is the Hewlett-Packard plant making the HP-3000 series 500 minicomputer. . . . [Simple] charts are everywhere in the California plant where the 3000-500 is produced. The charts have been in use for several years with excellent results. . . .
>
> A main wall near the center of the manufacturing floor has three large charts posted on it. One shows the JIT [just-in-time] material flow. Another chart shows the total quality control process. The third, centered between the other two, contains a wealth of data plotted on graphs and charts, mostly on performance in printed circuit assembly (PCA). One graph plots PCA throughput time: down from fifteen days in 1982 to 1.5 days in 1984. Another shows WIP [work-in-progress] inventory: down from $676,000 in 1983 to $200,000 in 1984 to $20,000 in 1985. Three more graphs show scrap, floor space, and labor hours in PCA—all cut roughly in half. Several more graphs show declining defects. . . . Every day PCA people post detail sheets showing number of bent leads, missing parts, and other nonconformities, and they plot defect total on the graphs weekly. . . .
>
> In short, the plant is set up for *visual management* [my emphasis]. A manager, a quality engineer, a supplier, a customer, or a visiting class from a college campus can make a circle tour of the compact facility in an hour or two and know what is right and what is wrong. Compared with this, managing a plant by examining periodic reports seems like looking through binoculars the wrong way. . . .
>
> World-class manufacturing surely does require strategic leadership. I am convinced that the best strategy is doing things better and better in the trenches. The best leadership is that which insists on visible measures of what is going on in the trenches and on actions there to achieve a high rate of improvement.

The essential variables are these: (1) simplicity of presentation, (2) visibility of measurements, (3) everyone's involvement, (4) undistorted collection of primary information throughout the operations area, (5) the straightforward measurement of what's important, and (6) achievement of an overall feel of urgency and perpetual improvement. Unfortunately, all six of these elements are missing in systems that govern the average operation I've observed.

Getting started on achieving this sort of environment involves all of the activities covered in the people prescriptions (P-1 through P-10). Once more, the outcomes are readily describable, but they hinge on attitude—a belief that people can accomplish their tasks and that they wish to accomplish them.

Of special importance, recalling previous discussions (especially P-8), is the

idea of staff on call. The information-intense environment—with the information used by those who collect it—is based upon "bottom up" initiative. Decisions on what to collect, when to collect it, how to record it, and how to use it must remain the almost exclusive province of well-trained front-line people, aided only on an "as needed" basis by the experts.

Keep It Simple: One or Two Measures That Count

> . . . the manager good at monitoring has at his fingertips [a few general measures] with which—he or she feels—the pulse of the business can be tracked. Whether or not the variables identified are causally related to the effects measured in a scientific sense is immaterial; the point is, the manager has driven his or her understanding of the business to such a fine point that he or she has isolated the two or three really useful measures about the products, company, and industry and religiously tracks these as a test of progress and a barometer of change.
>
> Tom Bonoma
> *The Marketing Edge*

For senior managers, the idea of simplicity, as captured in this comment by Tom Bonoma, means boiling what's important down to a couple of variables that capture the strategic essence of the unit or firm.

The uniqueness of wildly profitable Deluxe Check (see C-4) lies in remarkable customer responsiveness, going back to an "order" written by founder W. R. Hotchkiss on August 18, 1936. He declared that henceforth all orders would go out no later than the day after they were received, adding that "no money should be spared" to achieve this end.

This dictum still drives the firm, and the two simple service statistics measuring their success are prominently reported in the firm's annual report. In 1986, Deluxe shipped 97.1 percent of orders in accordance with its promise; 99.6 percent of those orders were error-free.

How is this achieved? While appropriate automation marks Deluxe's sixty-two plants, simple, visible systems are the essence of success. For instance, each day's order slip is a different color. Tuesday's is orange, and one plant manager comments: "At 4:30 Wednesday, I don't want to see any orange around here."

Detailed, computerized data collection systems are a must, but operating managers must also "know the [essential] numbers" from memory. "No orange by late Wednesday afternoon" is easy to remember. And the greater the complexity swirling around us, the more important it is to maintain this kind of grasp on reality. The operating manager must not slip into a morass of complexity, answering every question, as so many do, with: "I'll have accounting run the numbers, and we'll get an estimate in four or five days." Requisite lightning-fast responses demand keeping a feel for things at all times.

Thinking About Vision, Symbolic Action, and Recognition as a "Control System"

Recall the discussion of managing as symbolic action (see L-4). In particular, I stressed the role of stories in guiding an institution. Analogously, prescription L-2 emphasized the role of a succinct vision. In an ambiguous environment, people need something to provide day-to-day guidelines in handling an endless series of novel circumstances.

The old hierarchical organization provided a simple answer: Buck *everything* up the line for decision. We no longer can afford the luxury of such time-consuming deliberations. We must increasingly depend on front-line people to make the right choices. Further up the line, but far short of corporate staffs, we must depend on senior functional or general managers to make decisions on strategic affairs.

The best "systems" to ensure correct choices are (1) a clear vision, (2) sharing stories that illustrate how others, at all levels, have reacted to novel situations consistent with the vision, and (3) recognition for jobs well done, those that illustrate imaginative responses in the face of numbing uncertainty.

These devices—vision, symbolic action, recognition—are a *control system,* in the truest sense of that term. The manager's task is to conceive of them as such, and to consciously use them. There is nothing soft about a Federal Express, Domino's, Nordstrom, or Deluxe Check "story" or recognition affair. It purposefully defines what each firm means by "go the limit to serve the customer."

MEASURING WHAT'S IMPORTANT

Current Systems Mislead

Our traditional measurement systems are dangerously misleading. Take the [illegible]dard cost-accounting system. It "all[illegible] costs such as the accounting department, engineering, utilities, machinery, and management to direct labor. That is, direct labor "hours" are the most readily counted indicator; all of the other expenses are appended to this one, visible expense. In fact, each typical "direct labor hour" may carry an overhead "burden," as the accountants call it, of as much as 1,000 percent. That's why, when a manager is pushed by higher-ups to cut costs, there is but one sensible target under this accounting regimen: to cut direct labor, which, on the books, includes that huge "burden." Thus, for accounting purposes, when he cuts a direct labor hour, he will usually be credited with the reduction in the "burden" as well, *whether it actually occurs or not.*

Suppose the manager decides to subcontract production of a labor-intensive part. He saves 100 hours of direct labor a month at $20 per hour ($2,000 in all). But on the books, he saves not only the direct labor costs but the 1,000 percent burden (worth ten times the labor) as well—for credited monthly savings of

$22,000. The subcontract to a smaller, low-overhead, perhaps offshore operation costs, say, $5,000 a month. The net "booked" saving, then, is $17,000 a month. Much applause goes to the plant manager.

Unfortunately, the real story is different from the accounting story. In fact, actual factory overhead is not reduced much or at all by the act of subcontracting (you can't shut off the heat around one idle machine). Most likely, overhead is increased, because the plant manager (or someone, somewhere) has to negotiate and administer a contract with the new supplier and handle the incoming components. Not to mention the increased uncertainty of delivery and quality in the early days of dealing with any supplier—that also carries real costs. So the true net saving is the $2,000 saving in direct labor minus the $5,000 subcontract cost minus, say, $1,000 in real, added overhead—or a loss of $4,000. Nonetheless, thanks to the miracle of "modern" accounting, the plant manager still takes that bow.

Such perverse outcomes are standard, according to H. Thomas Johnson and Robert S. Kaplan in *Relevance Lost: The Rise and Fall of Management Accounting.* In fact, the authors report, some experts claim that "cost accounting is the number one enemy of productivity." Industrialists trained in engineering, such as Andrew Carnegie, used accounting to assist line managers in decision-making on the factory floor. But slowly, as professionally trained accountants began to take control of the system, accounting's emphasis shifted from being a management tool for the factory floor to financial reporting. And it's those oh so frequent financial reporting requirements laid on by agencies such as the SEC and the IRS that necessitate, for instance, allocating all overhead costs to direct labor and the cost of goods sold—which in time leads to the kind of flawed decision-making described above. That is, to determine profit for the fleeting "accounting period" across numerous products in a factory (a meaningless number from a proactive managerial standpoint), you must, by hook or by crook, assign every dollar of expense to something. Direct labor is the easiest "something," even though the result misdirects decision-makers.

The "expensing" of activities such as research, worker-skill upgrading, and process improvement is another prime example of a traditional cost-accounting device that can have a deleterious effect on performance. Since these investments in the future are treated, *for accounting purposes,* as "expenses of the period" (wholly written off each thirty days, for instance), they fall prey to the short-term cost cutter. That is, cutting *R&D* is a *100* percent cut—you get full credit; thus it's a fat target. Were it "capitalized" as a building is, when you cut it you'd only get a few percent credit in the short term—and the temptation would be reduced accordingly.

Another error of this sort involves hidden cross-subsidies among products that make it difficult, especially with today's conventions, to measure true product profitability—a particularly dangerous problem in these times, when short production runs for an ever wider variety of products are becoming the norm. You must know whether a product is making money or not: our present systems cloud the issue. A related sin is our fixation on short-[illegible] measures, which makes it almost impossible, for instance, to assess the long-term costs of developing a product.

A last example involves purchasing: Most purchasing departments still are evaluated principally on the contract cost of procurement. Almost always, however, they fail to factor into these "contract costs" how the poor quality of purchased goods can diminish final product quality—tarnishing the ultimate producer's reputation and driving up other, hard-dollar costs (fixing defective supplier material, warranty work).

The Essential Variables Are Ignored—But Can Be Measured

Bad as these problems are, however, there are sins of outright omission in traditional accounting that are far worse. Our fixation with financial measures leads us to downplay or ignore less tangible nonfinancial measures, such as product quality, customer satisfaction, order lead time, factory flexibility, the time it takes to launch a new product, and the accumulation of skills by labor over time. Yet these are increasingly the real drivers of corporate success over the middle to long term, as emphasized in the first forty prescriptions in this book.

The good news is that nontraditional measures are popping up. Prescription C-2 offered several examples of the thoughtful measurement of poor-quality cost, for instance, at Tennant, IBM, and Milliken. Firms such as Ford, Tennant, and Perdue Farms use quality objectives as a basis for compensation. IBM continues to refine the measurement of quality, most recently devoting substantial effort to the quantitative measurement of business systems (see C-2); that firm also uses direct incentives (rewards and penalties for quality) in supplier contracts.

Quality is slowly becoming a basis for purchasing department evaluation. For instance, Schonberger reports on Uniroyal's Rubber Division, which adopted a scheme in which quality accounted for 40 percent of its Vendor Service Rating; price carried a 25 percent weight, on-time delivery 20 percent, and service 15 percent. But obvious as such schemes might seem, they are still very rare. A discussion with acquisition quality managers at the Department of Defense underscored the point. Quality is receiving lip service at DOD these days, but one frustrated senior civilian executive reported: "The files are filled with vendors who've delivered 20 to 30 percent defective parts for years; yet we still won't cut them off."

Getting quality into the routine measurement system is not easy. In *The Chain of Quality*, TRW's John Groocock (see also C-2) describes the effort he made when he took on his first quality assignment at ITT Europe. In Harold Geneen's ITT, nothing was taken seriously until it was measured and included in the intricate financial review process. If quality were to be a priority, Groocock reasoned, it would have to edge its way into that all-consuming system. So early on he sought an accountant as an ally:

> He was responsible for accounting systems throughout the company, and reported to the controller. He showed me how to write a controller's procedure and together we did so. He suggested we should make quality costs a quarterly report instead of a monthly report. That seemed rational. Quality costs do not change all that rapidly, and he said it would save the divisional controllers, who were already greatly overworked, a substantial amount of effort. I had never asked a senior accountant for anything before in my life and was surprised that he was taking my request so seriously. However, I felt intuitively that, as most of the financial system was on a monthly reporting, a quarterly measure would always be a low-prestige bother (it would never become institutionalized). . . . So I kept my nerve, dug my heels in, and got away with monthly reporting. . . . We circulated the draft controller's procedure to the division quality managers and controllers and quickly incorporated their comments. Most of them felt it was not serious and that it would not really happen. Early in December the controller's procedure was signed off. People had been surprised to find that they could not think of any good reason for disapproving it. No one had stood up and shouted "Nonsense!" during my presentation at the conference. The division people had their chance to table rational objections, and these were taken into account. My colleague in accounting devoted so much personal effort that he was becoming a champion himself. Suddenly, it was no longer an academic exercise, and amazingly at the end of February, most of the required reports for January 1967 came in (January is a quiet month for accountants). The delinquents were a minority and were exposed to the pressure that minorities suffer, and soon came into line. I nursed the fledgling system for three years, and after I went to Brussels as Director of Quality ITT Europe (ITTE) in 1969, I championed the system throughout Europe for the next eleven years.

Other prescriptions supply other examples of companies that are measuring "the right stuff." McKesson (C-4) measures its responsiveness to its customers. Schonberger's *World Class Manufacturing* underscores the importance of measuring responsiveness, which he calls lead time: "The number of believers in zero lead time as a superordinate target is still small but growing fast. One by one, top companies are coming to the conclusion that reducing lead time is a simple and powerful measure of how well you are doing. The manufacturing people at both Motorola and Westinghouse have chosen lead time reduction as a dominant measure; various divisions of Hewlett-Packard and General Electric have too. Lead time is a sure and truthful measure, because a plant can reduce it only by solving problems that cause delays. Those cover the gamut: order-entry delays and errors, wrong blueprints or specifications, long setup times and large lots, high-defect counts, machines that break down, operators who are not well trained, supervisors who do not coordinate schedules, suppliers that are not dependable, long waits for inspectors or repair people, long transport distances, multiple handling steps, and stock record inaccuracies. Lead times drop when those problems are solved. Lead times drop fast when they are solved fast."

The innovation prescriptions also emphasize measurement. Prescription I-9, for instance, features 3M's measurement of innovation, and its linkage between executive pay and a precise, quantitative innovation target. The people prescriptions, especially P-6, advise rewarding everyone on the basis of measured quality and/or productivity improvement, and present many novel schemes for doing so. The people prescriptions also emphasize the need to foster cross-functional coöperation. We aren't used to measuring or rewarding on this basis, but a 1986 story in *Fortune* about American Express suggests it can be done:

> [Chairman Jim Robinson] started preaching the virtues of intramural cooperation. Amex, he said, is "one enterprise." . . . He then reinforced his pitch with steel rods, requiring senior executives to identify two or three promising One Enterprise synergy projects in their annual strategic plans and work on them during the year. He made it corporate policy to evaluate every manager and professional employee on their contributions to One Enterprise, and then he handed out extra bonuses to senior executives who did their bit for the cause.
>
> One of the two bonuses paid in 1985 went to [the] chairman of American Express Bank. He received $80,000 because the bank had worked on a dozen or so successful synergy projects, including introducing Shearson investment bankers to its overseas clients and selling $240 million of money orders and traveler's checks for the card division. . . .
>
> In addition to providing his senior executives with financial incentives to cooperate, Robinson relies on a watchdog to make sure the middle managers do so too. [The manager of corporate strategy] issues . . . a monthly report on the status of each One Enterprise project, which [is] circulated among the company's top 100 executives. The report gives managers collaborating with other managers unusual visibility; it also turns the high beams on task forces that get bogged down in internal politics. In those cases [the report indicates] "no progress" in the Project Status column: "After two or three months of that kind of attention . . . people start finding ways to resolve their differences."

I have, in fact, attempted to provide quantitative measures for most of these prescriptions. Figure 20 summarizes several of them. Unfortunately, the course is largely uncharted. There are a few, pioneering examples, such as those just mentioned. In most instances, however, you are on your own, with my sketchy outline as guidance. But the issue is of the utmost significance. "What gets measured gets done" has never been so powerful a truth.

Figure 20: **A Sample of Unconventional Measures Proposed in This Book**

Prescription	*Measure*
C-1: Niche Creation	Number of "differentiators" added to each product every 90 days.
C-2: Quality	Relative perceived product quality; poor-quality cost; rewards based on quality goals. Devise quality measures in every unit. Evaluate suppliers on the basis of quality.
C-3: Service	The ten attributes of customer satisfaction; customer evaluation of the intangibles; the lifetime value of a customer.
C-4: Responsiveness	Speed of response to customer needs; percentage of customers covered by tight (electronic or other) linkages; new links (electronic or other) added to each product each 90 days.
C-7: Listening	Informal listening ("call three customers per week").
C-8: Factory as Marketing Arm	Customer visits to factory; factory manager and nonmanager visits to customers.
C-9: Sales, Service, and Distribution	Time spent with sales and service people; rate at which additions are made to sales and service force; number of franchisees/distributors pruned.
I-1: Small Starts	Number of small starts; percentage of time/R&D budget devoted to small starts.
I-3: Pilots	Number of pilot tests of anything going on in each area.
I-4: Competitive Analysis	Number of ideas "swiped" from competitors per month.
I-5: Word of Mouth	Percentage of ad/marketing budget devoted to word of mouth.

(continued on next page)

Figure 20 *(continued)*

Prescription	*Measure*
I-6: Support Innovators	Number of awards to innovators; number/percentage of awards to unsung supporters of innovators per month.
I-8: Support Fast Failure	Number of awards for interesting failures, constructive defiance of rules.
I-9: Share of Revenue from New Products	Percentage of sales coming from new products introduced in the last 12, 24, 36 months.
P-2: Teams	Percentage of people in team configurations.
P-3: Recognition	Number of recognition acts/events per month.
P-5: Training	Hours/dollars devoted to skill upgrading.
P-6: Compensation	Percentage of total compensation from profit-distribution bonus plan/ pay-for-knowledge program.
P-9: Middle Management Role	Number of acts of boundary-bashing; number of awards going to boundary-bashers.
P-10: De-bureaucratize	Number of demeaning and debilitating regulations renounced per month; number of amenities added to each facility per month; your "housekeeping," scored vis-à-vis competitors.
L-3: Manage by Example	Time spent per day/week on top priority.
L-4: Visible Management	Percentage of time out of the office; percentage of time with customers, front-line people.
L-6: Line Focus	Number of line versus number of staff at meetings; line versus staff salaries; time spent with line people.
L-9: "What Have You Changed?"	Amount of things changed; formally evaluate everyone accordingly.

FIRST STEPS

1. Assign each business unit and department the task of developing in 30 days five rough, unconventional, paper-and-pencil measures of what's going to be important to their unit's ability to support the firm's mission.
2. Use the measures, in rough form, in formal reviews. Insist that two-thirds of the new measures emphasize (a) customers (e.g., quality, service, listening), (b) flexibility/responsiveness, (c) innovativeness, and (d) the relative increase/decrease in the value of the workforce's skills, taken as a whole.

S-2

SUMMARY

In an effort to induce flexibility, we must turn our backs on, or radically redefine, the three staples of control over individuals—performance appraisals, the setting of objectives, and job descriptions. We must:

- Simplify these three primary control systems.
- Focus on what's important (e.g., flexibility rather than rigidity).
- Make the process of developing objectives, etc., truly "bottom up."
- Make the documents "living" ones, subject to constant discussion rather than infrequent, pro forma review.

These three control systems, like the measurement systems just discussed in S-1, are increasingly doing more harm than good. As typically constituted, they attempt to achieve a specificity of result inconsistent with today's fluid, competitive environment. If we can't fix them, we should scrap them.

Performance appraisals should be ongoing, based upon a simple, written "contract" between the person being appraised and his/her boss. Limit objectives to no more than three per period (quarter, year). Eliminate job descriptions.

S-2

Revamp the Chief Control Tools

W. Edwards Deming has contended that performance appraisal is the number one American management problem. He says it takes the average employee (manager or nonmanager) six months to recover from it.

I think Dr. Deming is about right, though I'd add the setting of objectives and job descriptions to the list of personnel control devices that are downright dangerous—as currently constituted.

Like the cost-accounting systems described in S-1, these are systems started for useful reasons which (1) have become increasingly bureaucratic, run by "experts" (often personnel departments in this case, rather than accountants as in S-1), and (2) are frighteningly out of touch with today's and tomorrow's needs. They are stability-inducing systems at odds with a world where flexibility is the chief survival requirement.

PERFORMANCE EVALUATION AND PAY SCHEMES THAT ARE SIMPLE AND TO THE POINT

Performance evaluation is essential—more than ever, in fact. It is a tool for directing attention, and attention today must be directed to new targets (see C-1 through C-4, for instance). Throughout the first forty prescriptions, I implicitly endorsed performance appraisal—at various times suggesting that it emphasize quality, constant innovation, and functional-barrier destruction.

The following attributes can turn performance appraisal from a minus to a plus:

1. "Appraisal" must be constant, not focused principally on the big annual (or semiannual) appraisal "event." (Dr. Deming points out that, in contrast to American dependence on the one or two big events, specific feedback to the average Japanese employee comes daily.) To ensure this, middle managers should evaluate first-level managers on the degree to which the first-level managers give their people constant feedback, both good and bad.

Above all, the annual (or quarterly or semiannual) appraisal review should never come as a surprise. The employee should be fully aware of his or her status and progress throughout the year.

2. Appraisal is—and should be—very time-consuming. We usually fail to give regular and direct feedback (painful negative feedback in particular) in the course of day-to-day affairs. Now it's time to fill out the semiannual appraisal form. We put it off until late on Sunday afternoon prior to "appraisal meeting week." Then we hurry through it, accompanied by a stiff scotch or two. Likewise, we rush through the scheduled meetings at the rate of seven or eight a day. (We hold them—as opposed to slipping the form under the door—only because the personnel department representative says we must.) Then the office is a shambles for the next few weeks. A few find their superb self-images confirmed; most are stunned, hurt, and disappointed. In no case has the meeting been a useful one for either the appraiser or the target.

Successful appraisal requires four different sorts of time: (a) day-to-day time spent giving constant feedback; (b) preparation time for the annual or semiannual evaluation; (c) execution time for the appraisal meetings, which should be spread out rather than bunched by the dozens in a single week; and (d) group time, during which fellow managers are consulted and appraisal criteria coordinated. (This last category not only provides the manager with input, but also engenders a sense of fairness and equity throughout the organization.)

3. There should be a small number of performance categories, and no forced ranking. I'm well aware of "category inflation," in which 90 percent of the people end up being graded as nine or ten on a one-to-ten scale. Nonetheless, there is simply nothing dumber (and more debilitating) than labeling one-third to one-half of your people losers, which is exactly what virtually all forced-ranking systems do. Surely, all the time you've spent recruiting and coaching has resulted in a work force more than half of which is doing an adequate job. Label an individual a loser and you will induce that person to behave like a loser. In particular, the person so labeled will work at keeping out of sight, and therefore cease to take even small risks, which is intolerable in today's environment.

This is not a plea to go easy on your "problem" people. They deserve counseling and a second and third chance, to be sure; given that nod to genuine due process, I am behind you when you make the necessary decision to demote or let go. But forced ranking doesn't help you go after those who need serious help, and its unintended fallout creates a large number of unnecessarily disaffected employees.

I suggest a system in which about 10 to 20 percent receive a "superior" evaluation; another 70 to 85 percent are satisfactory; and no more than 5 to 10 percent or so are in a questionable/unsatisfactory status. The lumping of 70 to 85 percent in one "grade" does not in any way limit your ability to pay tribute to jobs well done by individuals and groups. Recognition (see P-3, L-6) and group/team financial and other awards (see P-2, P-6) are the heart of the true evaluation—and motivation—system. Bob Townsend, in *Further Up the Organization,* urges just three categories, with attendant bonuses: "unsatisfactory (no

bonus), satisfactory (bonus of X, on average), outstanding . . . equal to 2X or greater." Townsend adds ruefully: "Keeping it simple means fighting the experts. . . . [Yet] every change [of rules or percentages] means loss of understanding, loss of trust, loss of motivation."

4. Minimize the complexity of formal evaluation procedures and forms. I am against complexity. I am not against putting comments in writing. You, as manager, and each subordinate should jointly and literally sign off on a one-to-two-page written "contract," drafted initially by the subordinate, that includes the following: (a) one or two specific annual or semiannual objectives; (b) one or two personal/group/team growth or career-enhancement objectives; (c) one or two objectives for skill improvement in deficit areas; and (d) one objective that relates to the group's (or team's) overarching strategic theme—such as quality improvement. The format should be open-ended prose. Formal reviews of progress should be scheduled at least bimonthly, and informal reviews should be more frequent. You (the manager) should be able to recall—from memory—the content of each and every contract.

One executive, in a financial services firm, responded to this idea with: "Aren't you catering to your bias—after all, you're a writer, and prose seems natural. I'm a numbers guy."

I objected vigorously. First, I'm an engineer by training—and disposition. And a measurement fanatic, as this book demonstrates (see S-1). My point, I said, was that numbers too often focus on highly abstract outcomes. We need, instead, to emphasize capability building—developing the skills that will give us strategic advantage over the long haul. We need to talk about "building sales-force capability and support systems," "achieving flexibility," and "cutting product development time" more than about achieving "15 percent earnings-per-share growth." The latter target may be admirable, but is not much related to the skill enhancement necessary for adjusting to the changing world.

Of course, I have no objection to quantitative indicators of the enhancement of the skills of the sales force or the shortening of development cycles, for instance. But I'd also want to see an objective statement such as "be rated, by 1989, by third-party survey as having the premier sales force in the region."

5. Performance appraisal goals ought to be straightforward, emphasizing what you want to happen. You want quality improvement to rank as number one for your group? Rank it number one in the performance evaluation, and ask each manager to have one key objective—the first one—dealing with it directly (recall that Tennent did this—C-2). If barrier-dismemberment is the key for a middle manager, put it first in the jointly edited "contract."

Grocer Stew Leonard doesn't beat about the bush: Everyone's evaluation asks of them how they contributed to "STEW." The "S" stands for customer satisfaction, the "T" for teamwork, the "E" for excellence, and the "W" for Wow! The last is Leonard's favorite word, referring to the sense of excitement which he believes is the essence of the store's achievement. In other words, Leonard's evaluation is unequivocal about what he deems important to the business's continuing success.

6. Make the pay decisions public. Most bridle at this, but the benefits are several. In the absence of public disclosure, speculation is rife, and the picture it paints usually distorts or darkens the truth. More important, public disclosure causes embarrassment only if there truly is an inequity, about which, regardless of its convoluted historical basis, you should be embarrassed.

7. Make formal appraisal a small part of overall recognition. I have argued vociferously here for appropriate use of appraisal, especially to direct attention to new concerns. I even stated it was more important than ever before. That said, the thrust of the first forty prescriptions is clear—recognition (listening, celebration, pay, involvement) should/must come from a host of ongoing activities, of which performance evaluation is but one.

Together the seven attributes of performance appraisal outlined here add up to a common-sense approach. The rejoinder I most frequently get is: "But how can you not resort to complex categories—level 9 [of 23], pay step 7 [of 10]"—in a complex organization?"

The answer harks back to prescription P-8:

- First, keep the organization simple, with few layers. That is, there should be only a handful of managerial and nonmanagerial (professional, scientific) categories, or levels.
- Second, each should have a small number of wide, overlapping steps for pay purposes.
- Third, fight conventional wisdom in one last way—allow stellar professionals (salespersons, engineers) to outearn, sometimes by a wide margin, their bosses. I'll go a step further: 10 to 25 percent of each sales manager's salespersons and 10 to 25 percent of each R&D manager's engineers/scientists should be outearning their boss. "Let the top pros remain pros" (if they wish) is the guiding advice—don't force them to become frustrated managers.
- Fourth, "spend time." Managers develop a sense of what's equitable on the basis of hours and hours of discussion—at the time of formal reviews, when opportunities for promotions arise, etc.

OBJECTIVES THAT EMPHASIZE THE ACHIEVABLE

Put a 5-foot-10-inch person into 6 feet 3 inches of water, and odds are he'll learn to swim. He may sputter and spit a bit, but he can always hop up off the bottom and get air. Put that same person in 7 feet 4 inches of water, and you may have a dead body on your hands.

In any managerial forum, the topic turns at some point to goal-setting. Most American managers seem all too ready to toss the people who report to them into the 7-foot-4-inch-deep tank. This is what I hear: "You've got to push your people. Shoot for the *moon*. That's what motivates 'em. Give 'em half a chance and they'll sign up for a goal 10 percent less than last year's, even though the market is way up." And so on.

I have come to hate the term "stretch target," as it is commonly used. Yet I fervently believe in "stretch." I believe, however, in the 6-foot-3-inch variety for the 5-foot-10-inch participant. There is an attribute of goal-setting that stands out in creating a highly charged environment—teaching people that they are winners and that they can succeed, which in turn induces them to take on more, risk more. Thus, the prime objective of goal-setting should be to turn 90 percent of the people in your firm into confident winners who will take the new and always greater risks required by the chaotic times we live in.

That does leave room for "stretch"—it's a must. Without it, there is no sense of accomplishment. But the real art for the manager lies in creating challenging but achievable targets. That may mean, for example, creating just a two-inch hurdle to "teach" a previously demoralized individual (or group) that she or he (or it) is a winner.

This is not just theoretical speculation. I am an inveterate reader of biographies. Consider Field Marshal Bernard Montgomery and General George Patton; the two have something surprising in common. In North Africa, both (at different times) launched their careers in the limelight after inheriting winless and dispirited armies. And both rapidly reversed these armies' fortunes—using exactly the same technique to begin the turnaround. Both focused on the instantly "doable"—pushing their men to achieve *something*, and thereby leading them to realize they weren't born losers. In both cases, appearance and fitness were the chosen vehicles. A first "stretch target" (of the two-inch variety) was to demand spotless uniforms and to launch an intensive physical fitness program. A study titled "Excellence in the Surface Navy" describes a similar turnaround by a successful ship captain: "He began by 'planning victories for the ship.' By this he means that he was constantly on guard, looking for competition that the ship could enter into reasonably sure that it would emerge victorious. This could be something as trivial as challenging other ships in the task group to a sailing competition, knowing full well that their ship was the only one that had any sailboats, to seeking recognition as the top ship to complete refresher training in a given year. In either case, the crew's image of itself was enhanced by such actions."

The right attitude is one I call "degrees of winning," rather than "winners and losers." This is especially important today. We are required to teach so many fundamentally new things—how a manager can be a facilitator instead of a cop, how to stop emphasizing volume and enhance quality, how to manage a flexible organization instead of a stable one, how to make everyone rather than a handpicked few an agent for change and a risk taker responsible for constant improvement. Building new skills, when large numbers of people are involved, depends above all on generating momentum and commitment. Momentum and commitment come from learning that you can act as needed in—and succeed in—the brave new world. "Punishment," the behavioral scientists have long told us (with compelling documentation), is a futile strategy in general, but especially when new behaviors are required, as they are today. Punishment drives us to hide and be even more averse to risk.

A final word and pleasant surprise: If you work with your team to set achievable goals, you may find yourself managing goals downward—and "unstretching" them, if you will. Social psychology experiments reveal time and again that once people (singly or in groups) get on a roll, they set their objectives too high! They rapidly come to believe they can leap any building of any height in a single bound; by overreaching, they set themselves up for demotivating disappointments. The best route to long-term success, especially where new skills need to be learned, is therefore to meticulously set tailor-made targets that do indeed stretch, but which can be hurdled by almost everyone.

A Comment on Management by Objectives

Management by objectives (MBO) is one more great idea that has been neutered by bureaucrats in nine out of ten applications. That is, MBO (like performance appraisal) is a superb tool if the objectives are (1) simple, (2) focused on what's important, (3) genuinely created from the bottom up (the objectives are drafted by the person who must live up to them, with no constraining guides), and (4) a "living" contract, not a form-driven exercise.

Peter Drucker "invented" MBO in 1954, in *The Practice of Management.* Interestingly, Drucker never capitalized the words, nor did he use the three words by themselves. He spoke of (lowercase) "management by objectives *and self-control* [my emphasis]"—that is, nonbureaucratic self-management was the avowed purpose. The antithesis, an accountant-driven extra layer of bureaucracy, was what usually ensued, as the fine idea became encumbered over time by complex top-down techniques.

So by all means keep MBO—but get rid of the capital letters, restore Drucker's "and self-control," and follow the four rules proposed above. Once more, the point is underscored by the times—we can't afford systems that implicitly abet inflexibility, as most MBO routines do today.

SCRAP JOB DESCRIPTIONS

Who would fight "you gotta know what you're supposed to do"? No one, until the job description starts to constrict options—which is almost inevitable. Perhaps a case could be made for job descriptions in a stable, predictable, very vertically oriented (functional) organization. Today, in all cases the "j.d." is a loser.

Begin by answering this question: Have you—the average reader has been successful—ever read your job description? Most, if they're honest, will admit that they haven't. If you haven't read your job description, yet have had a successful career as a nonmanager and manager, what's the big deal about job descriptions? I have never read a job description in any of my incarnations. I've done stints as a U.S. Navy Seabee battalion operations officer and a detachment

commander (overseas); a Pentagon junior assistant (in the Office of the Chief of Naval Operations); the President's senior drug abuse adviser; and a junior consultant, senior consultant, and partner at McKinsey & Co. My failure to read my job descriptions has never been a handicap. In fact, it doubtless helped me from time to time. By not reading my job descriptions, I've never been burdened by knowing exactly what I'm officially *not* allowed to do or with whom exactly I am required to "interface" on a project. (To be very honest, and this speaks volumes, I'm not sure whether any of my jobs, even in the Navy, had a job description.)

In the typical job description, with the stroke of a pen the boss sets all her or his managerial worries to rest. She or he conjures up the tasks that need completing (however impossible they may be), and then sets any nasty worries about coordination aside by endlessly listing all the groups that are to be "interfaced with" in the process of executing the "wish list."

This misleading comfort is, in my experience, unavoidable in written job descriptions. The only solution therefore is to scrap them.

While I am an archenemy of job descriptions, I am an unabashed supporter of great coaching as the alternative. That is, I wholeheartedly acknowledge the validity of "you gotta know what you're supposed to do." Especially today. I was blessed with uncommonly good coaches throughout the formative years of my career. I've found those who rely on job descriptions to be those who, in general, favor paper over people. In contrast, great coaches put in grueling hours teaching values—and, most important, they teach the "how-to's" of successful day-to-day risk-taking; that is, their coaching emphasizes flexibility under fire, not inflexibility. They do not try to replace that painstaking coaching effort with the typical job description, a four-page document which "covers all the bases."

The job description is a cop-out, pure and simple. But it is more (or less) than that. It is imperative today that managers and nonmanagers be induced to cross "uncrossable" boundaries as a matter of course, day after day. Standing on the formality of a written job description (as an excuse for inaction, or the reason you have to "check up—and up and up—the line") is a guaranteed strategy for disaster.

NEW SYSTEMS IN SUPPORT OF FLEXIBILITY

Performance evaluations, objective setting, and job descriptions are three staples of management "control." All, though sound of purpose, typically become bureaucratic. They stamp in distinctions and rigidity, rather than stamping them out. They impede fluidity.

To throw them out (job descriptions) or revamp them (performance evaluations, objective setting) is not to promote anarchy. Control, in service to the new business requirements, is brought about through a shared and inspiring vision (see L-2), by coaching—and by treating people as fully participating parties (P-1 through P-10). The contract for performance evaluation, for instance, must be as fluid as the fluid, highly competitive system in which it exists.

PUBLIC PARALLELS

The worst offenders on performance appraisals and job descriptions are in the public sector. The reasons, as usual, are sound. The turn-of-the-century reform movement, led by Teddy Roosevelt and others, struck at the caprice, favoritism, and corruption of the political machines. They replaced hooliganism with professionalism.

As with most movements, this one went too far. Today, there is an especially virulent form of corruption induced by overly rigid systems. This new corruption, in service to the "system's imperative," is nonresponsiveness to constituent needs. A second form of corruption is the shocking waste of time and talent poured into beating the system. In my public sector incarnations, I saw that the master job description writer was prized indeed; she or he could make almost anything come to pass, through painstaking construction of job requirements that would jump scores of regulated hurdles and end up with the desired placement of Ms. X in job Y.

I have no illusion about the elimination of job descriptions in the public sector. I do believe, on the basis of my observations, that such systems can be greatly simplified. Most regulations, written in response to legislation or executive orders, amount to killing gnats with a sledgehammers. The average public sector operation is choked on bureaucratic garbage of its own design, not that of misguided legislation. Goals of 75 to 95 percent reduction in system complexity (including all those described in this prescription) are within the domain of the *average* mid-level or senior public sector manager.

A promise to ask, at least five times each day, "Who says we have to do it this [complicated] way?" will launch the attack on systems gridlock—especially if you create an environment where everyone starts asking such questions.

FIRST STEPS

1. In one division or department, replace a complex system of performance appraisal with a contract written in plain prose. (Invest heavily in group discussion with those affected before doing so. It is essential that the "security" of the current, complex, objective-appearing system not be wholly compromised; the people to be evaluated must "buy in" and understand why the new system does not mean they will be prey to the whims of their managers.)
2. In conjunction with the establishment of a vision (L-2), eliminate job descriptions entirely or in one part of the organization this year. Again, substantial discussion, involving everyone, must accompany this move.

S-3

SUMMARY

To deal with the new strategic requirements for success, all the tools to induce and support action-taking must be available at the front line. Therefore, we must:

- Share virtually all information with everyone.
- Decentralize control systems, and decentralize the accountants/systems people who oversee them.
- Provide very high levels of expenditure authority for division general managers—and all other levels as well.
- Decentralize strategic planning.

The ability to take action close to the market—and fast—is the first requirement for competing. Therefore both information availability and the authority to move forward at the front line are musts.

Share, publicly and visibly, virtually all information about operating results—with everyone. Provide training to abet understanding this newly available information. Spending authority for business unit managers should be $20,000 to $50,000 (in a $25 million unit); spending authority for facility heads (and all others) should be proportionately as high. Make strategic planning an exclusively "bottom up" activity, with two-thirds of the content focusing on skill/capability-building rather than prediction of the future.

S-3

Decentralize Information, Authority, and Strategic Planning

An individual without information cannot take responsibility; an individual who is given information cannot help but take responsibility.

Jan Carlzon
from *Riv Pyramiderna!*

Promoting information exchange . . . was the original purpose of Quality Control circles in Japan, and it still is probably the most valuable use of circles.

Richard Schonberger
World Class Manufacturing

UNLEASH INFORMATION POWER

There are few greater liberating forces than the sharing of information. There is no such thing as "delegation" or "motivation" without extensive information.

Knowledge is power—it always has been; it always will be. Power—at the front line—is one more "must-do," not a "nice-to-do." Without power, there will be no (or, at least, no timely) action.

One stutters with amazement: The meeting is with executives of a food-processing company in the Midwest, over one billion dollars in size, privately held. The discussions turn to the distribution of profit-based bonuses, and the ins and outs of the facility (such as a factory) versus the division as the basis for distribution. A plant manager, who would be among those most affected by any scheme, has surprisingly little to say. I probe, and am stunned to learn that he has never been privy to data on the profitability of the facility he runs.

How can he manage? How can he be "motivated" to improve? How can he cope at all? A twenty-year veteran (and obviously successful), he acknowledges that there's "lots of conventional wisdom about individual product profitability" but no one really knows the score. In fact, a detailed corporate study had just revealed that an all-time favorite, a product thought to be a "cash cow," had in fact been losing money for years. This was clearly seen when costs were allocated more logically (see S-1).

This story is bad enough in any circumstance. It is terrifying in this case. New competitors are offering a bewildering array of new products. If the firm can't figure out what it takes in the plant to profit on a given product, it is doomed.

Information hoarding, especially by politically motivated, power-seeking staffs, has been commonplace throughout American industry, service and manufacturing alike. *It will be an impossible millstone around the neck of* tomorrow's organization. Sharing is a must.

Sharing means, apropos the preceding vignette, the availability of all data to facility managers. Equally important, it means availability of *virtually all data* to everyone, all the time.

"Everyone" includes the front-line team. Moreover, much of the most important information should be posted.

Yes, post the quality, scrap rate, and efficiency statistics. Let the whole factory team know—and visiting customers and vendors too. First Chicago, a bank with $40 billion in assets, worked with customers to develop some 700 performance measures (encompassing a large number of business units); these are the spearhead of its highly touted quality improvement program. Charts track progress on each of the indicators. Weekly performance reviews depict progress, or lack thereof, *on each measure in terms* of a stringent goal. The reviews, with dirty and clean linen alike aired, are always attended by customers and suppliers. The bank's executives believe that being publicly "on report" on what were previously the most confidential (or simply not tracked) *measures* is a *great* spur to performance. As they see it, there is no downside risk.

Leaks: The Phony Threat

The possibility that information will slip into the hands of competitors is the chief objection to widespread information sharing. It is a phony excuse on several scores.

First, there is no evidence that people on the line do leak the information. Firms such as Tandem Computer and Herman-Miller have long shared their corporate secrets—with everyone. More recently, firms such as GM have been sharing previously sacrosanct cost and operating performance data with front-line employees. There is just not a shred of evidence that such information gets leaked. (As one executive wryly observed: "*If there's any evidence of leaking in* general, it's usually vice-presidents who are the culprits.")

Second, determined competitors will have ferreted out, indirectly, what's important anyway—so you end up hiding the data only from those who could best use it on a day-to-day basis, the machine operators or first-line supervisors.

Finally, the specter of leaks is beside the point. Even if they were to occur, the value, for motivation and fast decision-making, of making information available to all is so high as to make any debate meaningless.

Is there any information that shouldn't be shared? Not much. Certainly patent information, confidential personnel records, and information about would-be acquisitions are off limits—for legal as well as common-sense reasons. But that's about all.

The evidence is unequivocal. People's thirst for understanding, especially *amidst the new and permanent turbulence we now face,* is *unlimited;* and with some training, their skill in interpretation is always extremely high, according to those who have been the most liberal sharers.

The Multiple Facets of the Power of Information

Information motivates in several ways:

1. It provides critical confirmation that the firm sees the worker as a partner and problem solver. The absence of such information confirms the worker's impotence.

2. The widespread availability of information is the only basis for effective day-to-day problem solving, which abets continuous improvement programs. Recall Jan Carlzon's comment at the beginning of this prescription: Without *information, taking responsibility for improvement* is highly unlikely.

3. Sharing information on the front line inhibits the upper-level power game playing that is the prime enemy of flexibility and moving fast. Basically, most power plays (and thence delays) are born of information hoarding. One group doesn't want to share a problem it may have caused. Another sees its unique data base as a way to control or delay action on a proposal it doesn't favor. Make information available to all, and most such behavior disappears—fast.

4. Visible posting of information radically speeds problem solving and action taking. There is an inherent human tendency to "butt in"—and it's great in this case. Post information on something, and a million experts bloom; most are helpful. Information—charts, graphs, operating data—is the organization's lubricant. When the plant or distribution center becomes one big billboard, a *thousand chance interactions are triggered.*

5. Information sharing stirs the competitive juices. Unit-versus-unit comparisons do this. But so do simple charts and graphs, even without such comparisons. Just about everyone would rather get better than get worse, especially when spurred by the increasingly intense competitive environment. Put a chart on the wall, and you've upped the odds that the suggestion box under it will be filled with ideas on how to make the performance curve go up.

6. (Useful) information begets more (useful) information. When information is "around"—a lot of it, publicly posted—people start asking all sorts of useful questions, and require more (and more relevant) information. Time and again, new measures are invented by groups close to a machine or process who have finally been let in on its secrets.

7. **Information abets flattening the organizational pyramid (see P-8 and P-9).** Information availability inherently shifts skill and responsibility to the front line and facilitates front-line communications across functional barriers ("horizontal management"). Information in and of itself is the chief substitute for first-line supervisors—and many staff experts too.

Training in the Use of Information

But information availability is not enough. It must be accompanied by extensive training in ways to develop the information, record it, analyze it, and act upon it. Successful firms such as Worthington Industries and Johnsonville Sausage go so far as to provide extensive training in economics and accounting for everyone (see P-4). All the best-quality programs involve training in problem analysis and data collection and interpretation, as well as in group problem-solving skills to promote the interchange of information and speed implementation (see also C-2, C-8).

HIGH SPENDING AUTHORITY

This prescription is really about the nuts and bolts of systems-induced autonomy. Information is a primary source of power, and a major stimulant of initiative- and risk-taking close to the action. Ranked right along with it is spending authority.

Again and again I find the most insultingly low spending authority granted to people—at all levels. It is especially self-defeating in a setting where everyone is being asked to act fast and take the initiative. All too commonplace is (1) the division general manager with $5,000 in "sign-off" authority (despite "control" over $40 million in assets), (2) the factory or operations center manager (600 employees) with $1,000 in authority, (3) the shift site manager or functional boss with $250 in authority, (4) the engineer or supervisor with $50 in authority, and (5) the first-line employee who must fill out a page-long form, with a supervisor's signature, to buy a $2.95 roll of tape needed in a practical problem-solving venture.

First, such low spending authority is demeaning and demotivating. We "trust" people to take the initiative and "make things happen," but give them *no authority to do so. Second, it is self-defeating to that essential strategic* need—hustle. Speed of execution depends not on big leaps, but on a million tiny actions taking a fraction of the time they used to. These in turn are driven by the ability to buy a roll of tape, a $100 tool off the shelf from Sears (rather than spending six weeks and $300 to "procure it" through channels), and take a $1,000 visit to a remote site, at a moment's notice, to speed up a project or move a new customer or supplier relation along another inch or two.

Here are the spending authorities I support:

- Front-line employee—$250
- First-line supervisor—$2,000
- Bench scientist or engineer—$2,000 to $10,000 (depending on seniority)
- Plant or operations center manager (two hundred people)—$5,000 to $25,000
- Division general manager ($25 million operation)—$20,000 to $50,000

The guidelines at Worthington are close to this, though much higher at the "lowest" level—$2,000 for a first-line employee (typical is the employee who went out and hired people and bought equipment to remove snow, making it easier for everyone to come to work). Chief Financial Officer Joe Stegmayer adds that "Nowhere is any of this written. . . . we want people to think, do it, and worry about it later. A person is never disciplined or chastised for spending money. In fact, we want people to make mistakes or they aren't being aggressive enough. If a person continues to make mistakes, however, then there's a problem."

More Control with Higher Spending Authority

Increasing spending authority does not entail a loss of control. To the contrary, it begets more control of the most powerful sort—self-control. Low spending authority leads to shenanigans—avoid a $1,000 limit by making an endless stream of $999.95 requisitions. High spending authority says to the worker, or unit boss, "I take you seriously." The monkey is on his or her back to live up to the trust.

And, to be sure, those who abuse the trust badly should be severely disciplined. Of course, it's not quite that easy; the leadership prescriptions come into play here. That is, the out-and-about leader (L-4), preaching the vision (L-2) and reinforcing it with stories about appropriate behavior (L-3), is essential to true delegation (L-7). Once more, I remind you that we are talking about substituting one form of control (vision, values, and visible management) for another (control by demeaning, voluminous rules).

The Leader's Job: Teaching About Limits

As a new consultant at McKinsey & Co. in 1974, I was immediately assigned to a team evaluating a huge addition to a southwestern petrochemical facility. An early task (second week) was to "check out supply and demand for [certain agricultural chemicals] in Canada over the next twenty years."

Arriving in Calgary, I soon decided that *I* needed a consultant. So I hired a Canadian energy specialist, for about $5,000, to do an analysis for me. No one told me to do it; nor did anyone approve my move. As a matter of fact, other than understanding that "you do whatever it takes to get an answer, fast," I don't know what led me to make such a bold (for a newcomer) move.

Sure enough, the answer helped the project along, but I also got a "coaching" lesson from my boss. He lavishly applauded my initiative as "good McKinsey tradition," but allowed as how I might have given him a jingle before doing the deal. He assured me he would have approved my effort, and I'm sure to this day that he would have.

The story is a fine example of how to teach initiative-taking—and limits. There was no spending limit imposed and in a similar crunch I would have done what I did again (I subsequently did many times), yet I also learned a lesson about touching bases first (which I subsequently also did). Thus my zest for reaching out—and the firm's support for such initiatives—was left intact, and, if anything, enhanced, while controls were maintained. This is all just common sense, not mysterious at all—and organizations can (and must) be run this way.

GENUINE "BOTTOM UP" STRATEGIC PLANNING

Sound strategic direction has never been more important—which is why the strategic planning process must be truly decentralized. Yet strategic planning, as we *conventionally conceive of it*, has become irrelevant, or worse, damaging.

What is a good strategic *plan*? There is none. But there is a good strategic planning process. A good strategic planning process (1) gets everyone involved, (2) is not constrained by overall corporate "assumptions" (e.g., about the general economics picture), (3) is perpetually fresh, forcing the asking of new questions, (4) is not to be left to planners, and (5) requires lots of noodling time and vigorous debate. As for the document per se, it (1) is succinct, (2) emphasizes the development of strategic skills, and (3) is burned the day before it is to go to the printer—that is, it is a living document, not an icon.

Flexibility is the necessary watchword. Sound thinking and debate about the future, marked by the asking of novel questions, foster flexibility of thought and action. Two-hundred-page plans do not. Moreover, flexibility is made possible by strategic capabilities and the habit of hustle (the ability to execute strategies quickly); strategic plans can address these topics, but seldom do.

Tomorrow's successful corporation will be a collection of skills and capabilities ever ready to pounce on brief market anomalies. Any useful strategic plan, or planning process, must focus upon the development and honing of these skills (which translates into readiness to seek and exploit opportunities), rather than emphasize static approaches to market development. That is, the strategy should focus primarily on such things as the time and energy to be devoted to creating revolutionary quality improvement (see C-2) or getting linked up fast with almost all of our customers (see C-4).

The "new" strategic plan, and planning process, must necessarily be "bottom-up." Assessing the ability (and necessary skills) to execute—to be responsive, flexible, attentive to customers—starts on the front line. Obviously, as the process moves forward, it will involve debate among senior officers, and compromise. But it should never lose touch with or sight of the front line, where execution takes place.

In fact, each facility, as well as each business unit and function, should have a strategic plan. The plan should not exceed a dozen pages, and perhaps two-thirds of it should be devoted to strategic skill/capability development in the context of the corporation/business unit's vision and the most significant external forces at work.

The plan, whose development involves everyone, should be shared with everyone after completion. At that point, there is a serious case to be made for destroying it—if not in practice, at least in spirit. Its value is as an assemblage of thoughts, not constraints. The process of developing it is close to 100 percent of its value—or perhaps more than 100 percent of its value. Slavishly following the plan despite changing conditions (now the norm), because of the time and political capital spent in assembling it, is counterproductive.

Finally, the content and format of the plan and the planning process should be modified substantially every year. Most plans and planning processes readily become bureaucratic (within two years), whereas the sole purpose is to be thought-provoking. Only changes in process which demand wholly new questions—from near the front line especially—will ensure vitality and usefulness.

FIRST STEPS

1. Do not hesitate or equivocate. Schedule an "all hands" meeting with your small or large group in the next 30 days. Share all operating information with them, leaving behind a printed version. Insist that every manager post key indicator charts, developed by front-line people, in every work area within the next 60 days.
2. Institute a thoroughgoing review of all spending authorities—this should not be an accountant-led review, but should be line-led, focusing on specific instances of delays in operations caused by limited spending authority.
3. Scrap your current strategic planning process—now. Burn your current strategic plan. Announce, in the next 30 days, that first-line input to the new process will be actively solicited—and demanded.

S-4

SUMMARY

Given the rising uncertainty that surrounds each project, and the firm as a whole, we must:

- Set conservative financial targets in all arenas—revenue, earnings, depreciation.
- Develop a true "appeal" system, which allows line managers ultimately to reject, if necessary, targets handed down to them.
- Set conservative growth targets, insisting in particular that infrastructure development—e.g., distribution networks, sales and service forces, the management talent bank—lead, not lag behind, projected revenue growth.

Above all, in an increasingly volatile environment, financial systems must have integrity and not be marred by unrealistic estimates. Likewise, if in a growth situation, we must be sure that the basic skills (e.g., distribution) are in place to support the exploitation of the opportunity.

Financial objectives should be small in number and conservative—only rarely should a manager fail to meet his or her objectives. Every growth plan must be backed up by the near-certainty of available supporting infrastructure.

S-4

Set Conservative Goals

This prescription is part of a paradox. The world is uncertain; so we must move at the snap of a finger to exploit any opportunity. To be ready and capable of this, however, we must be able to rely absolutely on our financial control systems and on the projections and promises we make. That is, the system must thrive on integrity and trust (see S-5). These two traits demand conservatism, not puffery, in our objective setting and budget promises.

Likewise, in order to grow through instant response to any opportunity, we must be certain that our execution skills—e.g., trained workers and managers, a well-oiled distribution system—are firmly established. To support aggressiveness in pursuit of new markets, then, we need conservatism of underlying systems.

There is an analogy in sports. A former all-pro defensive back, who once led the National Football League in interceptions, attributed his success to being the first to start and the last to finish the boring drills that make up everyday practice. "Any one interception," he said, "is just luck. But to increase the odds of 'getting lucky,' I needed to study and study the film and run and run with our guys who were running my [opponent's] patterns. I then stand a better chance of being in the right place any time the ball is a little bit off target."

Similarly, the most daring musicians are the ones who have mastered the basics so well that they can step out and try, at the margin, new variations. The boldest generals are invariably the truest masters of logistics; boldness under fire can only occur if the refueling operation runs like clockwork.

"SIGN UP"—AND DELIVER

In too many firms, budget drills, though nominally bottom-up, are in fact top-down. Targets are sent down, and you sign up—or else. So you do sign up, and some succeed. Many more fall short, and given the generally unrealistic nature of the estimates, you can't punish those who fail (that is, you can't punish 70 percent of all managers). More important, no one at any level can depend upon anyone else; the "numbers" are jokes. And when "numbers discipline" goes, so does the rest of discipline. Milestones are not met. Promises in general are not kept. Bad news is hidden or distorted. Blaming takes up most of the time, with little time left for doing.

Budgets, revenue projections, milestones, and objectives should be simplified (see S-1 and S-2). But what there is should be (1) prepared at the bottom and passed up, (2) believed in, (3) publicly committed to, and (4) subject to severe discipline if missed.

To move fast requires trust—period. Trust, though essentially interpersonal or one-on-one, is exhibited on a day-to-day basis by not signing up for what you can't deliver on.

Not a Plea for Timidity

The times do not permit timidity. They demand a new aggressiveness. So the conservatism I suggest does not mean setting unchallenging goals. To the contrary, goal setting should involve all sorts of peer pressure, and be done in the context of understanding the programs of competitors, which require us to respond energetically in return.

"Stretch" (within limits; see S-2) and fast movement are a must. But then when you commit to support manufacturing by April 27, at a cost of $70,000, with an installed system, you'd best deliver a working system—on April 27, for $70,000. And if you don't, there should be some substantial consequence, regardless of the reason for the miss.

Appeals

To support the integrity of goal setting, there must be a genuine, not phony or "paper only," opportunity for the manager to appeal any objective shoved down his or her throat.

You, as training officer, "get" an objective to support 50 percent growth in the minicomputer segment aimed at financial service institutions. You meet with the sales boss and come to understand the request. You go through several possible ramp-up scenarios, but you just can't do what's demanded in the next 120 days.

There must be, this prescription urges, a genuine, semi-formal (or formal) channel for you to appeal the request, up the line two or three levels if necessary. Ninety percent of the success of execution depends on commitment to the goal. If it is truly not achievable, commitment will not be there, and perhaps the whole plan will collapse like a house of cards.

Such an appeals process is not, as some suggest, tantamount to letting people off the hook. To the contrary, it puts them squarely on the hook. First, no manager will use it often (unless he or she has a very bad—unrealistic—boss); one does not lightly go over the heads of one or two bosses to challenge a target. More important, the system is a symbol of the overall seriousness with which the process of goal setting—and accepting—is taken. It says, in effect: "Don't

sign up for what you can't do. If you do sign up for an undoable chore, you are a lousy manager, and you probably won't be with us long."

INFRASTRUCTURE MUST LEAD GROWTH

"We must take advantage of this narrow window of opportunity to launch the [new product or service]." That's an increasingly common statement. And it's true. Yet there is a major caveat. If the machine doesn't quite work yet, if the sales force isn't well trained in its special features, if distributors have been chosen promiscuously, if adequate spares are not appropriately positioned—well, not only will the product launch go poorly, but the firm's reputation will be set back immeasurably, perhaps irreparably if it is a small firm.

Thus, there is a second form of conservatism—ensuring that growth at any cost and opportunity at any cost does not become the company's watchword. Growth (new-product launches, etc.) must be preceded by skills/capabilities development.

All too many firms—Atari is a recent example—take advantage of what they see as a once-in-a-lifetime opportunity; they pour the product out upon the world, then play catch-up with sales training, distribution center development, and distributor selection. It doesn't work.

Indeed, this strategy of conservatism, which demands that basic skills/capabilities development precedes growth, is more important in these volatile times than ever before. First, there are more temptations (little windows of opportunity) than ever before. You must regularly seize them; but if you get into the habit of doing so without doing your sales and service development homework, you are doomed to short-term project failure and long-term loss of reputation.

Second, with more products and services—and more good ones—available to the consumer, quality, service, and reliability/responsiveness (C-2 through C-4) are increasingly the only effective differentiating strategies; you can't play catch-up on quality and service. Given competitive alternatives, the customer will not let you get away with more than one lapse. That is, the skills/capabilities, per se, are *the* most valuable strategic weapons—they can't be "assumed" to follow a clever product's launch.

Loving Growth—with Good Sense

Let me reiterate that all of the above is not a plea for slow growth, or a rejection of opportunism. Opportunistic growth is increasingly essential to any organization's health. A firm is never static—it is either growing or stagnating. While growth for growth's sake at the extreme is silly, growth alone provides an expanding opportunity structure for everyone in the firm. Moreover, stagnation, absolute or relative, is enervating, negatively affecting every element of the firm. Excitement (growth) spurs performance; contraction doesn't.

I am simply insisting in this part of the prescription that the growth should be led by, and governed by, infrastructure development:

- Lead with upgrading the skills of the work force. Teach factory people to be flexible; invest in equipment that abets that flexibility *before* you need it.
- Upgrade the skills of the sales force continuously—*before* the need arises; provide the sales force with tools ahead of the market need.
- Engage in distribution system/distributor upgrading *before* the specific market requirement arises.
- Budgets should emphasize ongoing skill/capability development as the essential strategy (also see the section in S-3 dealing with strategy).

The firm should be looked at as an ever-improving packet of necessary capabilities. If this conception becomes second nature, then the company will indeed be ready to take advantage of almost any market opportunity that comes along, with foreknowledge that it can execute to support the idea.

A WORLD TURNED UPSIDE DOWN

This prescription constitutes a new view of organizing and of strategy development in particular: the company as a set of skills being continuously elaborated, to be applied as needed to market opportunities. The traditional view of strategy is to let the product, product family, or market drive all thinking, with skills in a secondary or supporting role. One does "what makes sense" based upon a static market analysis—filling in behind market opportunities with requisite support skills.

Paradoxically the "rightness" of that idea—conquering or reconceiving markets—is precisely what requires us to reject a "market conception" approach today. The company simply must be ahead of itself in capabilities in order to exploit these fast-appearing/fast-disappearing market/product opportunities. Essential skills must be in place before the fact.

3M has epitomized such an approach. It is a finely tuned machine designed to invent new markets. All of its organizational paraphernalia, from incentive schemes to management development techniques to approaches to factory development, constitute one giant exercise in skill/capability development—which is then directed opportunistically at fast market creation. Likewise, the development of responsive, field-centered marketing mechanisms at Frito-Lay and Campbell Soup (see C-4) is a strategy of "skill development in search of market enhancement opportunities."

The pragmatic implications are twofold. First, as observed, budgets and strategies—and individual evaluations—should emphasize capability development. Second, growth targets for products/markets should be conservative—that is, governed by the status of skill development/readiness.

FIRST STEPS

1. Ensure that each formal and informal review (operations reviews, performance evaluations) emphasizes promises kept—for instance, budget targets, milestones. No small breach of promise can go unnoted, regardless of extenuating circumstances (see also S-5). (In today's world "business as usual" has become a meaningless phrase; every circumstance is an extenuating circumstance—*promises must be made in light of expected extenuating circumstances.*) After due process is observed, fire those who don't get this message, especially those who don't come through on acts of cross-functional support, major or minor (if a pattern exists).
2. Devote two-thirds of budget preparation and strategy formulation/review to skill/capability/infrastructure development. Consider a single forthcoming product. Are growth projections driven by the availability of needed skills/capabilities/infrastructure or by "window of opportunity" logic? Reassess the project in light of an "infrastructure-driven" approach.

SUMMARY

Today's new realities (let alone common sense) require us to:

- ▶ Demand total integrity—of the Boy Scout/Girl Scout/"squeaky clean" sort—in all dealings, with people and systems, inside the firm and out.
- ▶ Eliminate Mickey Mouse rules and regulations (see also P-10, L-8) that induce cheating and game playing, which then spread to all the firm's affairs.

Integrity has been the hallmark of the superior organization through the ages. Be that as it may, today's accelerating uncertainty gives the issue new importance. People on the front line must be able to deal quickly across traditional functional barriers; sole-source arrangements must be made with suppliers in the face of uncertain future demands. Successful organizations must shift from an age dominated by contracts and litigiousness to an age of handshakes and trust.

Set absurdly high standards for integrity—and then live them, with no fuzzy margins. A deal made on a milestone (see S-4) which is subsequently missed is grounds for dismissal, especially when it involves support for another function or a vendor/customer. A person who is genuinely—and legitimately—surprised by his or her annual performance appraisal provides grounds for dismissal of the person's boss.

Demand Total Integrity

Without doubt, honesty has always been the best policy. The best firms on this score have long had the best track records overall—Johnson & Johnson, IBM, S. C. Johnson (Johnson Wax), Hewlett-Packard, Merck, Digital Equipment.

Yet once more, this very-nice-to-do for all times is a must-do for tomorrow. Quality and flexibility—and constant innovation—are chief among the new winner's watchwords. These traits require wholesale involvement by employees and a willingness to work together. Barriers between functions must fall, as must adversarial relations between labor and management, suppliers and buyers, sellers and distributors, sellers and customers.

Involvement by all and nonadversarial relations must necessarily rest on a cornerstone of trust, which in turn can only be engendered by total integrity. If a promise (even a minor one) is not kept, if ethics are compromised, and if management behaves inconsistently, then the strategies necessary to survival today (see C-1 through C-4, for instance) simply can't be executed.

This prescription once more reveals a paradox—namely, that the uncertainty of the environment can be swiftly dealt with only if the firm can fall back upon the certainty of relationships among people and among groups—in other words, upon trust and integrity.

INTEGRITY IN DEALINGS WITH THE FRONT LINE

Integrity means living up to commitments, inside and outside the firm. As discussed in C-3, in a world of exploding product and service offerings, keeping your word takes on added significance. It might at first seem that, faced with stiff new competition, you must make outrageous promises to get the deal. While I hardly advocate being the slowest in town, I do urge very conservative—high-integrity—behavior. With more, often newer, firms, there is more uncertainty surrounding the buyer's purchase, regardless of the offsetting joy of having more choices. With more uncertainty the norm, reliability is worth more than ever, especially when it comes to that all-important repeat business.

Routinely "over-delivering" to the customer cannot be achieved without more cooperation (among functions in a firm) and greater commitment within the firm—which again stems from integrity. Engendering wholesale commitment from everyone involves making "deals" (compacts) and living up to them. Chief among the "deals" is a commitment to lifetime employment (if performance remains acceptable) for some substantial share of the work force (see P-7). The vendor equivalent is sole-sourcing, as long as performance meets agreed-upon goals.

Quite simply, if we are going to ask people to be flexible (C-4), be responsible for constant innovation (I-10), take risks, and perform a host of tasks (P-1), we must provide a relatively certain future. It is inconsistent—or a pipe dream—to ask people to "step out and take risks" (speak up, change things, blow the whistle on poor quality or service) and then confront them with a capricious, never-ending, nickel-and-dime pattern of layoffs or force reductions.

Likewise (see P-10, L-8), it is inconsistent to ensnare people via Mickey Mouse and demeaning rules, and hogtie them with voluminous procedures—and then ask them to take responsibility for quality, maintenance, housekeeping, etc. And it is inconsistent to require much higher commitment and involvement without offering a dollar payoff if the performance is positive (P-6).

All such inconsistencies are abrogations of integrity—that is, they don't amount to a sensible and fair compact between the employee and the firm—especially the firm beset by uncertainty (as almost all are).

Integrity and Quality

High quality of product and high quality of service demand absolute integrity. Providing a superior-quality product or service is a moral and aesthetic act (see C-2), as well as an act that "conforms to specifications." Superior quality stems from pride and enthusiasm for the product or service as much as from good measurement instruments. Top quality also means, of course, not skimping or taking shortcuts in order to meet a production schedule, especially during the last week of the financial reporting period.

Superior quality simply cannot be extracted from a low-integrity organization. That is, unfairness in personnel policies, for instance, directly affects the quality of the product over time. To be treated capriciously by the firm is incompatible with caring about the product religiously.

Integrity and Perks

To use the psychologists' terms, integrity is not only absolute (stealing is bad, period), but it involves "perceived equity." That is, fairness is in the eye of the beholder. Paying bonuses to management and withholding worker bonuses in a problematic year is perceived to be unfair, regardless of the extenuating circumstances (the executive bonuses may have come from cashing in years-old stock options, or be due to extremely good performance in one small part of the business).

In general, the wisest firms avoid excessive executive perks and even the appearance of minor impropriety (an executive "off-site" at a lavish resort following a not-great year). Mars, Inc., is among those paying its managers very well, but avoiding almost all perks, including lavish offices. (It is the officers' special dental plan, covering orthodontics for kids, that causes more anguish on the line than their six-figure salaries. Somehow, the former is more tangible than the latter.)

"SMALL" INJUSTICES—BIG IMPLICATIONS

Integrity may be about little things as much as or more than big ones. It's about executives taking friends, rather than customers, to sit in the company's box seats at the ballpark. It's about pushing salespeople at the end of a quarter to place orders, knowing that many will be canceled within the week—but that the cancellations will count in the next period for accounting purposes.

These "minor" lapses set a tone of disrespect for people, products, systems, customers, distributors, and relationships that can readily become pervasive. That is, *there is no such thing as a minor lapse in integrity.*

"Squeaky Clean"

IBM has been known to fire an employee for accepting a gratuity from a supplier (a pen set), and then discipline the employee's boss severely as well. As a vendor to Stew Leonard's (he and others have attended our seminars), I am on a mailing list that includes a letter before Christmas asking me not to send any gratuities to anyone in the store. I believe that such rigid behavior around "little" integrity issues is a must.

Go a step further. An employee receives an annual performance evaluation, and is genuinely surprised by his or her low rating. Delve into it, and if it turns out that the supervisor misled the employee, or failed to communicate displeasure along the way, that supervisor should be severely (and officially) warned, and let go if there is a pattern of such behavior.

"Overdoing it" on "little" breaches of integrity pays big dividends as long as you are perfectly consistent (perceived to be even-handed). It pays with people in the firm—it induces integrity in general (living up to all commitments). And it pays with outsiders—suppliers, customers, communities, and even governments.

For example, Milliken's and IBM's squeaky-clean reputations make both firms very desirable to suppliers. Both are downright tough—but also unquestionably fair. You will not lose business for a capricious reason, though you might well lose it for a "minor" breach of promise (by the standards of others), such as a "slightly" missed schedule.

INTEGRITY IS CONSISTENCY

In *Leaders,* when Warren Bennis and Burt Nanus say they observed the highest integrity among their many heroes, they are referring especially to consistency. Visions were clear—and lived with almost frightening consistency, in small as well as in large ways.

Once again, this is a timely issue as well as an issue for the ages. All people must take risks and welcome change, if the firm is to survive. They will only do so when the larger picture (the firm's vision—L-2) is unmistakable.

If it is unmistakable (that is, consistent), then they can take small chances with impunity, knowing that these "tries," successful or not, are consistent with moving the execution of the vision forward. Conversely, if there is no vision, or if the edges of the vision are blurred, you don't know what is "risk in pursuit of the vision" as opposed to "risk for risk's sake." Few of us, mavericks or not, are willing to chance the latter. And a few risk-takers are decisively not the point anyway. We need everyone to be taking risks all the time within the context of the vision.

Hypocrisy: Enemy # 1 of Integrity

The boss who preaches quality, but puts wholly unrealistic schedule demands on the plant or operations center, is seen as a hypocrite. Trust, integrity, fairness in dealing with others (all under the gun to do unrealistic things and sign up for unrealistic promises), and quality/service all go kaput.

SYSTEMS SUPPORTS FOR INTEGRITY

Many of the prescriptions in this book, especially those dealing with people and leadership, are enhancers of integrity. Chief among these is removal of bureaucracy and demeaning rules. Silly and demeaning rules invite game playing; it's as simple as that. Likewise, reduction of "layers" on the organization chart (P-8) helps integrity too. In the absence of a lot of paper-pushing middle managers, there's likely to be less delayed action, which is always viewed on the line as being the result of political power plays made for personal reasons—that is, the antithesis of integrity in support of people and quality.

Widespread information sharing (S-3), wholesale people involvement (P-1), and extensive training (P-5) all foster integrity by making front-line people powerful themselves—full-scale, fully informed, participating partners.

Visible management (L-4) is chief among the leadership prescriptions that foster integrity. Integrity, that is, also means "knowing the score." When leaders are perceived to be out of touch (not out and about regularly, for instance), they cannot, in the view of the line, behave with integrity—that is, with consistency or realism. Since they don't know what's going on (in the line's view), their "orders" and policies and nifty new programs often look downright foolish.

Prescriptions S-1 and S-2 touted simplicity—in measures, goals, plans. Simplicity and integrity go hand in hand. If objectives are limited in number and thoughtfully negotiated, the odds of their being meaningful skyrocket. Complex and lengthy skeins of objectives are less well understood, are less likely to be carefully negotiated, and are therefore taken less seriously; in other words, the system lacks integrity.

REPRISE

The systems prescriptions are not a matter of some generic "good practice." They are all in service to the violently changed competitive conditions that now surround us. Moreover, they directly support the other four sets of prescriptions. Without these last five systems prescriptions, much of the power of the first forty will be lost. Though each prescription lays down a major challenge, it is vital to remember that each of the forty-five supports the others; you must somehow address all forty-five at once, even though specific programs will emphasize one or another. That is, the forty-five taken together, and nothing less, constitute the elements of tomorrow's surviving organization.

FIRST STEPS

1. Do not make any commitment, starting right now, internal or external, that you can't live up to (with room to spare)—large or, especially, small.
2. Review delivery promises to ten key customers. Review objectives for the next 90 days that you have agreed to or that you have negotiated with people who report to you, focusing on simplicity—and achievability. Review the achievability of commitments to other functions. Make such reviews a commonplace part of staff meetings, operations reviews, and managerial evaluations, informal as well as formal.
3. Seek out at least one symbolic opportunity each week (preferably small) to emphasize the simplicity/achievability of commitments—to a supplier, to a customer, to another function, to an employee.

THE PROFESSIONAL DECISION-THINKER

Our New Management Priority

BEN HEIRS
WITH PETER FARRELL

SIDGWICK & JACKSON
LONDON

1

A New Perception of Management: The Pre-eminent Role of Thinking

Is it possible to point to one factor which, above all others, determines whether an organization will survive and prosper? Successful managers know the answer: an organization will excel tomorrow only if those who manage it make the right decisions today.

Every manager must, of course, be capable of taking effective short-term decisions when he finds himself obliged to react to a new development or to an urgent crisis. But, in the long run, the decisions which will prove most important are the creative ones which involve a manager in initiating events and leading his organization into the future – those decisions that are required to set goals, determine policy, make plans and ensure that those plans are correctly implemented. This point does not need emphasis or explanation; it is now widely understood.

But to see the manager essentially as a decision maker is to oversimplify his true role. It implies that his *thinking* responsibilities are confined to selecting one course of action out of a range of options presented to him, rather as a customer in a restaurant chooses a dish from the day's menu. The definition of the manager that I want to propose is quite different. I see him, to continue the analogy, not merely as the customer who scans the menu and makes a choice, but also as the restaurateur whose duty it is to give direction to the menu, as the *chef de cuisine* who ensures that only top-quality raw materials come into the kitchen and only excellent dishes leave it, and as the head waiter who oversees the efficient and agreeable service of the meal.

In other words, decision making, properly seen, is just *one* stage in a mental process which begins when a manager determines what problems and issues his organization should be addressing and which ends only when he has done everything possible to ensure that his decisions will be effectively carried out.

Most management literature and most management education and training seem to concentrate on what might be called the executive aspects of management – the decision-making stage *and the implementing one which follows it. In this book I will* maintain that, important as these functions obviously are, they can only be dealt with successfully if they have been *preceded* by well-managed, imaginative and rigorous thinking. In management we now need to take one step back and focus first on thinking – the submerged nine-tenths of the iceberg, of which decision making is only the visible tip.

The manager's professional responsibilities should now be redefined, and his role as both a thinker *and* a manager of the thinking efforts of other thinkers should be recognized as being pre-eminent. Set out in summary form, my thesis is as follows:

1. The manager's most vital responsibility is to *manage* the thinking efforts of his organization in such a way as to ensure that it makes the best decisions about its future.

2. Unless he gets the important decisions right, *all* the manager's other skills – as an organizer, administrator and leader – will be exercised in vain.

3. A manager will only – can only – make a correct decision if he has *first* done everything within his power to ensure that the correct issue has been addressed, that there are no alternative courses of action which have been overlooked, that a serious effort has been made to foresee the consequences of each available alternative and that, finally, the chances of success and the balance between risks and rewards of each alternative have both been honestly calculated.

4. In order to achieve these considerable objectives, the thinking of both a manager and his organization must follow a *four-stage process* that begins with the posing of a question, proceeds via the asking and answering of a series of further questions, and culminates in the making of the decision.

5. The type of thinking that a manager is responsible for is *different* from, but certainly no less important than, other uses of human thought, such as scientific or mathematical thinking.

6. This different branch of thinking can accurately and usefully be identified as *decision-thinking*.*

7. The overriding need at each stage of the decision-thinking process is for clarity and objectivity. The manager must recognize that such clear and disinterested thinking – what could be called *pure* thinking – rarely comes naturally to people working within a managerial hierarchy, and he must work hard and with subtlety to overcome the forces of complacency, prejudice and corporate politics, which can so easily distort or destroy the mind of an organization.

8. A manager has *two* fundamental tasks – to manage a decision-implementing team and a decision-thinking team. The composition of the two teams may or

* This does not mean that we do not often use scientific and mathematical thinking to help make a contribution to our decision-thinking, but rather that their processes are different, in some vital ways, from the mental process that we need to follow to arrive at the best possible decision.

may not be different; what needs to be clearly understood, however, is that managing these two teams requires different skills and different leadership qualities.

9. Because decision-thinking is a discipline which must be applied not only to the *mind of the individual manager*, but also to the *collective mind of the organization* which he leads, it will only be effective if all the individuals chosen to participate in the process of decision-thinking think *together* as a team.

10. The manager, consequently, has a dual mental role. He must function, like a player-manager in baseball, both as a contributing *member* of his thinking team and as its *coach* – selecting, encouraging, cajoling and, where necessary, disciplining the other members to ensure that they give of their best.

11. To be an effective decision-thinker a manager must first understand the mental skills, principles and rules he needs *consciously* to call upon at each stage of the decision-thinking process, and then make a realistic appraisal of his own capabilities both as a thinker and as a manager of other thinkers.

12. Thus, the professional management of decision-thinking demands *specific* skills, perceptions and attitudes, and requires, above all else, that a manager should perceive his colleagues not only as implementers of policy, but also as a *team* of fellow thinkers.

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There may be some readers who will feel that reducing the complicated mental processes that lead to the making of a decision to a formula of any kind is either, somehow, to oversimplify them or to attempt, naively, to analyze something that is automatic, instinctive and intuitive. Others may say, 'I know all about that process; I use it all the time; so what else is new?' I would like to forestall this sort of criticism right at the start by taking an analogy from a very different field, that of sport.

All of us who are reasonably sound in wind and limb can run well enough to catch a bus or fool about with the kids in the yard. We do it quite automatically, without considering how we control and coordinate the movement of our limbs. But if we went in for running seriously, then, whatever our natural talent, we would have to understand the process of running at quite a different level. We would have to become *conscious* – with the aid of coaches and trainers – of what we were doing with our limbs and lungs, capable of analyzing our movements, identifying the faults and putting them right, all with the intention of *managing* our bodies *and* minds to produce the best possible performance. We would, moreover, have to train long and hard if we wanted to compete successfully in track events at, say, the national or international level.

The same logic, I believe, applies to our managers and leaders. *We can no longer afford to depend upon their natural thinking talents alone.* In the long term we need to seek out managers who have the potential, in terms of natural talent, of a Jesse Owens, a Mary Decker Slaney or a Sebastian Coe, and then ensure that they receive the best coaching and undergo the most rigorous training in order to develop their thinking abilities to the full.

In the meantime those of us who seek to be expert managers must strive – both as thinkers and managers of other thinkers – to improve on our strengths, analyze and remedy our weaknesses and, thereby, bring our minds to a higher level of professionalism. Today we need to supplement our conventional academic education with a practical and comprehensive program for developing a manager's thinking talents. The model, rules and practices of decision-thinking proposed in this book are intended to provide a basis for such a development program – both for our present-day managers and for the managers of the future.

In what follows I will argue that henceforth, given the magtitude of the complexities and uncertainties with which today's managers must cope, only a manager who becomes a professional decision-thinker can become a professional manager.

2

The Manager Is Also a Thinker

Quick fixes don't fix big problems.

Ronald Reagan

To be decisive is comparatively easy. The real problem, today, is to decide what to be decisive about.

Anon.

To be an excellent thinker does not necessarily make one an excellent manager. Who, after all, would suppose that the Swiss civil service lost a major executive talent when Albert Einstein resigned from his position as a clerk in the Zürich Patent Office? But I believe serious dangers arise if, conversely, it is assumed that an excellent manager need not be an excellent thinker.

Unfortunately, 'thinker' and 'manager' are words which, in our Western world, evoke completely contrasting images. Thinkers, however intelligent, are seen as passive, inward-looking and impractical, living a life more or less divorced from everyday reality. Managers, on the other hand, are perceived as being active, extrovert and, above all, concerned with finding solutions to practical problems.

These perceptions are, at least in part, accurate. Many of those who are commonly considered to be thinkers tend to stand aside from [illegible] they too often see it, above – the down-to-earth tasks of creating jobs, budgets and profits with which managers must contend. It is also true that far too many managers view thinking as an abstract, theoretical activity, having little to do with the world they work in. They see themselves as doers, men and women of action.

In the United States, in particular, we seem to admire 'action' for its own sake. We enjoy 'action movies'; we seek out 'a piece of the action'; our heroes are 'men of action'. It is hardly surprising, then, that 'active' qualities like drive, efficiency and leadership should come high on most people's list of management virtues. But few would rank imaginative thinking or, more importantly, skill in stimulating and managing other people's thinking efforts anywhere near the top of the list. Thinking, it seems to be assumed, is something we do naturally, like breathing and walking. And in management, as elsewhere, a preoccupation with thinking is often viewed as the choice of the weak and indecisive, those who lack the strength or courage to decide and act.

This emphasis on 'doing' at the expense of 'thinking' seems to me to be fundamentally wrong and, if left unchallenged, potentially fatal. What, after all, is the key function of management? Is it not to take information relating to the past and the present circumstances of an organization and its environment, and to process that information in order to create decisions and action plans relating to the future development of that organization?

But how is that information to be processed into wise decisions and effective plans, if not by thinking with and about it? To imagine that a management which refuses to face up to its thinking responsibilities can be successful is like expecting workers in a factory to take delivery of raw materials and, without using any energy or applying any skills, to transform them into marketable products.

Nor should it be imagined that the thinking skills and efforts which are, or should be, demanded of management represent an easy option or an academic exercise. Thinking is not a function that can be safely shoved aside into some backwater of

organizational life and left in the hands of the impractical or the second rate. On the contrary, as an organization goes forward into the hazardous waters of the future, it is the expert thinkers who must be up there on the bridge, charting the course and manning the helm.

Over the years my work has brought me into contact with many different businesses, and it has taught me to recognize one where excellent thinking is being practiced. Coming into the offices of such an organization for the first time is a bit like meeting someone who you know, almost instantly, is going to be a stimulating companion, with interesting things to say and an entertaining way of putting them. You get a feeling of excitement, open-mindedness and anticipation.

This atmosphere almost always emanates from the top. For *nothing* is more influential in setting the mood of an organization than the manager's attitude to thinking, and very little good thinking will get done unless the manager encourages it, stimulates it and sets an example for others to follow. In the end, you will find, every manager gets the thinking he deserves.

The next time you are in a really lively office where people are buttonholing each other in the corridors, dropping into one another's offices to exchange ideas, sending out for coffee and sandwiches so that a meeting can continue through the lunch hour, pause and consider that what you are witnessing is not just a lot of physical activity, but the *collective mind of that organization** in action.

If the organization where you work has corridors that are hushed, if it is a place where people only talk with, or at, each other when they get together for scheduled meetings, and if everyone's office door is shut because they are busy 'working', then maybe your organization has a pretty dull mind. And maybe, if you are the manager, it is time you rethought your definition of your responsibilities. If you are not, then perhaps it is time you tried, with subtlety, to change things.

* This is a perception which was first developed in a previous book, *The Mind of the Organization*, by Gordon Pehrson and myself, Harper & Row, revised edition, 1982.

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From now on anybody who wants to consider himself a professional manager not only needs to perform competently both as a thinker and a manager of thinkers – something which already many, though still not enough, American and European managers clearly do. He must also, *consciously*, understand and apply the rules and practices which underlie his own thinking competence, and be capable of communicating those rules and practices to the people who work *and* think for him.

The management skills involved can no longer be taken for granted or based only upon intuitive abilities. They need to be brought out into the open, analyzed, defended and, yes, even periodically audited. Nor can we afford to continue to rely on just basic brainpower, business school degrees and good fortune to see us through.

Three factors have emerged during the last few decades which have rendered traditional concepts of management incomplete. They are: the rising number of possible social, political, commercial, environmental and legal *consequences* associated with any important decision; the growing *complexity* of the information and assumptions that need to be considered before a decision can be taken; and the ever-increasing rate of *change* which obliges us to make more and more decisions. Any one of these factors would be serious enough to undermine traditional ideas about the way in which organizations are managed. In combination, they make it necessary to re-think entirely our approach to planning, decision making and management priorities.

It would have been possible to argue, perhaps as recently as half a century ago, that the sort of practical knowledge and good judgement that enables us to cope with everyday life was adequate for dealing with the challenges which a manager faced. Troubled though the 1930s were, people lived then in a less crowded world – one which was, by today's standards, far simpler and slower moving. That world was also more forgiving of errors, even large ones. People could survive without so much thought and concern about the consequences and interrelationships of their actions.

If, for example, lumber was needed to build houses, people simply cut down the nearest trees. The future results, in terms of land erosion, ecological imbalance and the destruction of a natural resource which could not easily be replaced were only beginning to be contemplated. Reactive thinking and short-term budgets, rather than foresight and careful planning, seemed to be enough.

Up to about 1950, maybe even later, learning how to be a manager was still rather like learning to drive a car. Special skills were involved, to be sure, and experience and natural aptitude were vital advantages, but most people could 'get the hang of it' given the chance. Today cars have, of course, become easier to drive. A motorist from the 1930s might find the appearance of a 1985 model unfamiliar and would certainly be surprised at the scale of the new super highways and the amount of traffic they carry. But he or she would quickly realize that the basic business of driving had changed little, and that the vehicle was designed to be handled in much the same way as its predecessors.

But to take a manager of the pre-war era and confront him with the problems of today's world would be like plucking the driver from a 1936 Studebaker and depositing him in the cockpit of a Boeing 747. He would find himself at the controls of a complex and terrifying machine, traveling in a strange medium at an unbelievable speed, and nothing short of a miracle could avert disaster.

We should now no more expect the thinking practices which allowed the managers of the 1930s (or indeed the forties, fifties and sixties) to get by or prove adequate in the circumstances of the 1980s and 1990s, than we should expect the skills of the average motorist to qualify him to take over the piloting of a jet airliner. And, as tragic incidents like those at Bhopal and Chernobyl or the disastrous failure of our own Challenger space shuttle show, 'thinking' failures at even the middle-management level can have consequences more far-reaching than a mistake in the cockpit of a 747.

Furthermore, when the pace of change was slow, one truly significant new idea was enough to assure the success of a manager or even a whole enterprise. The application of mass production to automobile manufacturing, for example, was an innovation that sufficed to secure the fortune of Henry Ford and the prosperity of the Ford Motor Company for thirty years.

Today even a highly successful manager cannot count on being so fortunate. The founders of Apple, for example, did for the computer industry very much what Henry Ford, with his Model T, did for the automobile industry, but within a decade the company's meteoric success had peaked and it faced near collapse.

In a business or government career the professional manager will now confront far more occasions when a right or wrong decision is crucial than were faced by a person in a similar position thirty or fifty years ago. This is simply because the accelerated rate of change is bound to mean that there will be *more* make-or-break decisions to be made within the time frame of one career. Mr Ford needed to be exceptionally brilliant once in thirty years. Mr Jobs, formerly of Apple, will, if he is to do as well, probably have to be exceptionally brilliant at least ten times in thirty years.

Paradoxically, the more pressing our immediate problems and the more rapidly the waves of crisis and change break upon us, the more we need to find the time and energy to raise our sights to look further ahead into the future. With each new technological, financial and social revolution coming hot upon the heels of the last, no manager can now afford to rest upon his thinking laurels.

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I can imagine, to digress for a moment, that there are some readers who are beginning to frown and to murmur to themselves, 'This is all fine in theory. We would all like to have more time to think and we would all like to be able to afford the luxury of setting medium- and long-term objectives for our organizations and creating the plans necessary to achieve them. But in the too real world, the world in which I must operate, things just are not like that. How, facing one crisis now, and two or

three crises that may break within the next ninety days, am I supposed to find the time or energy to think about next year, let alone the years after that?'

The reply to that, not uncommon, question is, I am afraid, quite straightforward. Today a manager is either a professional or he is a danger to himself and his organization. Of course every manager faces the problem of keeping a host of balls in the air; but the truly professional manager will be the one who recognizes that, even as he juggles, he and his organization are balanced on a tightrope which stretches ahead into the future. If he wants to stay on that rope, he has got to keep his eyes fixed firmly to the front.

So when I stress the overriding importance of finding the time and energy to carry out careful thinking, it is not because I underestimate or fail to recognize the urgency of the need for tactical thinking to cope with the problems that clamor for any manager's immediate attention. Nor do I for a moment underrate the tremendous pressure of political forces and P/L ratios, as well as corporate incentive schemes, that channel his thinking towards the short-term problem and the short-term solution. I have experienced these things personally and I have watched, almost daily, as they take their toll of my clients' and my own mental resources. I know how tempting it is to concentrate on them to the exclusion of all else – but I also know that the success, even the survival, of an organization depends upon the ability of its managers to resist these temptations.

The fact that short-term pressures are now so intense just makes it all the more urgent that we recognize them, resist them, and indeed avoid them when we can. No one would suggest that it is easy. As Lyndon Johnson once said with his customary pungency, 'When you are up to your ass in alligators, it is sometimes hard to remember why you started draining the swamp.' But unless managers can learn how to fend off the snapping alligators which constantly distract their attention and to concentrate, also, on their medium- and long-term thinking responsibilities, the swamp will not only remain undrained, it will just get deeper and more treacherous.

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Given our complex challenges and problems, the need for our managers to learn, and to learn quickly, how both to think more professionally themselves and to manage more professionally the thinking efforts of their colleagues – whether they concern the short-, medium- or long-term – should be obvious. But this does not mean that they need to excel in disciplines, such as physics or philosophy, which are traditionally considered to be the province of Thinkers with a capital T.

On the contrary, one of the main objectives of this book is to identify and focus on those thinking challenges and skills which are unique to management and practical decision making. For there is no doubt that managers are right in believing that many of the thinking methods appropriate to the contemplation of, say, scientific or mathematical issues are *not* sufficient for dealing with the kind of problems they must face.

Where they go wrong is in underestimating or playing down the importance of the special skills involved in their own particular branch of thinking. I will argue that the specific use of thinking we shall be considering in this book is a discipline in its own right, as valid a field for study and analysis as the thinking which is done by logicians or mathematicians – with the all important difference that the success or failure of those who practice it is crucial to all our futures. Just because it is different from the thinking required in other fields does not mean – and this is the key point – that it is any less definable, difficult or demanding.

If anything, the reverse is true. Managers must often think in circumstances and under pressures of time, stress and contingency which do not normally apply to our other uses of thinking. Moreover, for managers, along with a few other professionals such as doctors and engineers, thinking and the mental disciplines they employ are only a means to an end, never an end in themselves. No manager can afford the luxury of leaving a question open or an issue unresolved. And no manager can be satisfied with an elegant paradox, an abstract truth or a conclusion which is of purely academic interest.

A manager is concerned with reaching decisions – to act or not to act, to stop, change directions or continue on course. The

thinking a manager does relates to the world of possibility and probability, to the world of predicting and shaping the future, to the stage where much of the human story is, and will be, enacted.

Because the need for a decision is an imperative – the focus upon which every manager's thinking must concentrate – I have chosen to use the term *decision-thinking* to describe the special use of thinking which I believe managers must master and practice, with the intention that it should find a permanent place in the everyday language of management.

★

Before moving on to analyze and explain the principles and rules of decision-thinking, there are two points which need to be disposed of to avoid any misunderstanding. First, decision-thinking should not be confused with decision making. The term decision-thinking covers a four-stage process which is more complex and wider in scope than that usually covered by the words 'decision making'. Indeed, decision making, properly seen, is no more than the fourth and final stage of decision-thinking.

Secondly, although most of what follows will concentrate on the ways in which the decision-thinking process should be applied to business, it should not be viewed solely in a business context. Decision-thinking is not a technique, like 'discounted cash flow' or 'management by objectives', which is applicable only on restricted fronts such as financial management or management control. On the contrary, we now need to make explicit – and, therefore, capable of analysis and improvement – a mental process which has been implicit in *all* action-related thinking throughout human history.

The need to make decisions has, after all, been with the human race from the start. And the exceptional individual may now unconsciously adopt, for his own use, the modern techniques appropriate to the decision-thinking process without explicit analysis of that process.

But today a manager can neither think nor decide in isolation. He creates the organizational environment for the thinking processes of his subordinates, whether he is aware of doing so or not. The professional manager must, therefore, *consciously* structure the context in which his organization's thinking and deciding take place. And this context cannot be efficiently created without a clear understanding of the decision-thinking process and the specific rules that govern each stage of that process. Within organizations, excellent thinking will not happen by chance.

Summary

Thought should come before action and planned thought should come before planned action. Managers must therefore be thinkers first, doers second – and *equally* competent at both.

Careful and creative thought is a prerequisite for effective action. An organization's future success, therefore, depends on the quality of its collective mind and how well that mind is managed. Some managers may have muddled through in the past, but from now on they will need to recognize that:

when they and their organization think about making a decision, they need, consciously, to employ and manage a unique human thinking method – the decision-thinking process;

problems of complexity, change and contingency can only be dealt with by professional decision-thinkers;

to achieve professional status, managers must first analyze their own decision-thinking skills and strive to improve them;

they must then do the same for their organization;

decision making is only the final stage of decision-thinking – the tip of the iceberg; to be a professional manager, one must be responsible for the whole iceberg.

3

The Whole Iceberg: The Model of the Decision-Thinking Process

What is discovered by man is never the 'universal' or cosmic 'truth'. Rather, the process by which the mind brings about a 'discovery' is itself the 'universal'.

Joseph Chilton Pearce

If, in your imagination, you step back for a moment from our planet to observe how we human beings go about our daily work, one of the first patterns you will perceive is that, both individually and in groups, we are continually involved in making and implementing decisions. We are a decision-thinking, decision-making, decision-implementing animal – living through time. That is the essence of our practical, material life on earth.

Individually and collectively, privately and professionally, we shape our lives by the decisions we make and by the skill, energy and persistence with which we put them into effect. If we aspire to live better lives, then we must learn to make better decisions and to implement them more effectively. But no matter what daring or courage we bring to the making of a decision, or how great the drive and determination with which we carry it out, that decision can only be as good as the thinking, the decision-thinking, leading up to it. The single most important step we can take to improve the quality of our decisions is, therefore,

to improve the quality of the thinking which precedes them.

Yet, it is one which we have been strangely reluctant to take. In political life we at least pay lipservice to the idea that important decisions must be preceded by thorough thinking. Laws arrived at without full public debate are, we believe, likely to be bad laws. The various elements composing the mind of a democracy – the executive and the legislature, the media and public opinion – must all be brought to bear upon a social or economic issue, before we will be satisfied that it has been thoroughly thought through. But elsewhere, in business especially, many managers seem to be impatient with the clumsiness and apparent wastefulness of such processes; their role, they believe, is to generate action, not debate.

But, apart from this misguided image of their job, the fundamental reason managers are frequently reluctant to think a problem through before making a decision is that they have no clear model of how to do it.

As everyone knows who suffered under an impatient teacher, it is no help to be told to 'Get with it', 'Wake up' or 'Think again' if one does not know *how* to think about the particular kind of question that is being considered. No amount of thinking, for example, will help the average fifteen-year-old solve a quadratic equation if he was not listening when the teacher explained the procedure for dealing with such problems. Ultimately the student will have to admit ignorance and ask the teacher to put matters right.

Many managers, like an ill-prepared student, lack a precise understanding of how to think their way through to the best decision. And, like many an inattentive student, they often try to disguise their ignorance by resorting to bluff: 'It is all a matter of judgement, intuition or experience,' they will tell you, 'and there is no way these things can be rationalized or explained.' But the truth is that, though it would be foolish to underrate the importance of these subjective factors, they are only valuable as tools to be used in the service of thinking, not as substitutes for it.

Thinking itself must be methodical. There is a procedure to be followed whenever a decision of any importance is to be taken. With practice the four-stage decision-thinking process we are about to explore can become as automatic and instinctive a process as a pilot's pre-flight checklist. And it can be justified on very much the same grounds – at the very least it will serve as a control to ensure that nothing has been forgotten; and on occasion it may avert catastrophe.

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Naturally the time devoted to the decision-thinking process and the completeness with which each stage is carried out will vary enormously. It would be ludicrous to suggest that the sort of decisions which have hitherto come easily and painlessly must, in future, be the subject of some complex rigmarole. There are enough genuinely complex and baffling problems in our lives without any of us having to turn a simple question, such as whether to travel to a meeting by train or plane, into the decision-making equivalent of a three-ring circus.

But a moment's reflection will reveal that, whether or not we are conscious of it, our minds do flip through an elementary version of the decision-thinking process even when they are coping with trivial or routine matters. For the process itself is a natural one; it is neither mysterious nor difficult to understand. On the contrary, in most cases we run through it so naturally and automatically that we never pause to analyze it. As a result, when we are faced with a really tough decision – Should we pledge our assets to buy a business? Should we take our company into a new market? How, as politicians or government officials, can we cope with terrorism or unemployment? – we often flounder or panic rather than tackle the thinking challenge methodically. What we lack in such instances is a precise theoretical model of the mental process we need to follow, consciously, in order to arrive at a well-considered and effective decision.

'Theory' is a word which is much abused. When we say, 'That is certainly fine in *theory*' or '*Theoretically*, of course, you are quite right', we are saying, in effect, that theory is one thing and practice is another – that theoreticians may deal with things as

they ought to be, but that practitioners deal with them as they are.

Properly seen, however, theory is not the enemy of good practice; it is the very foundation upon which it is built. I doubt if any of us would relish the idea of working in an office block designed by an architect who had not mastered the theory of structural engineering. Why should we be any happier working for managers who make decisions without having any explicit theory of what they are doing or how they should set about it?

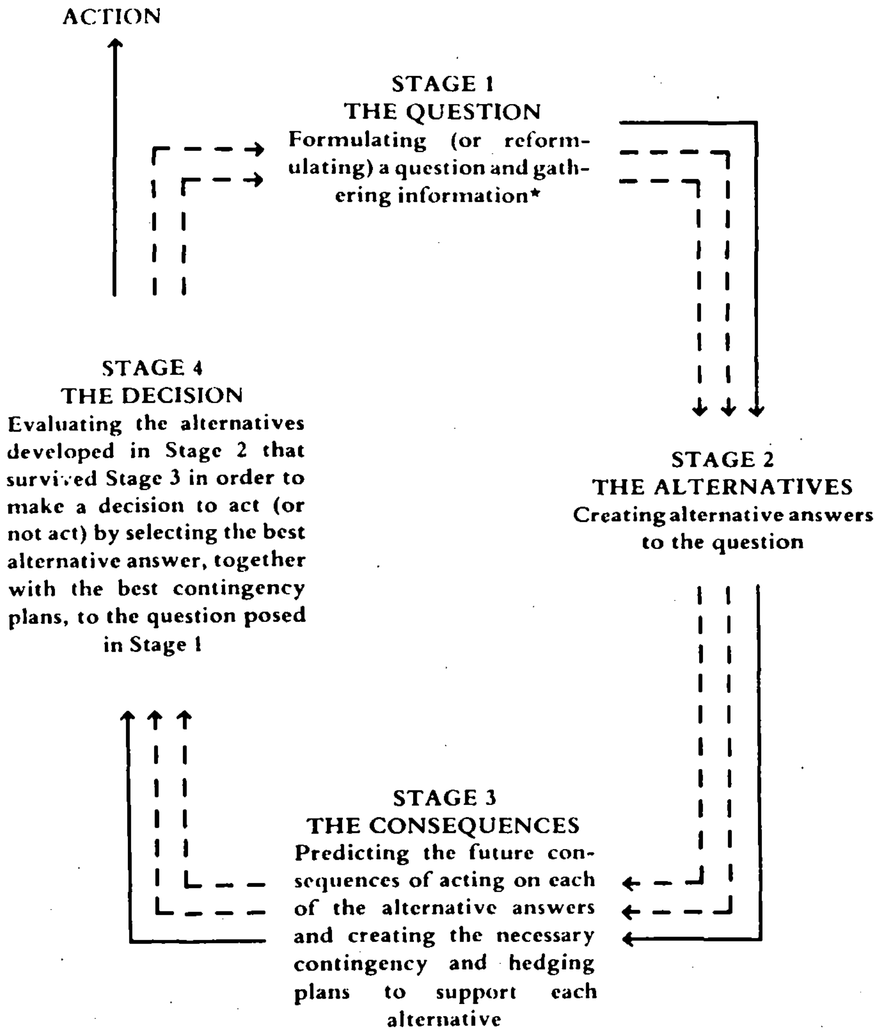
To look at another example of clear methodology, based upon sound theoretical foundations, let us consider what happens when we go to see our doctor. Having listened to our description of the symptoms, he will immediately embark upon a step-by-step process designed to lead to an accurate diagnosis. That mental process, inculcated by education and perfected by experience, is far more important to a doctor's professional performance than a stethoscope or a good bedside manner.

In decision-thinking, as in architecture or medicine, we must get the theory right before we can hope to improve what we do in practice. Only when the theory – and the rules for implementing it – are consciously understood, can we set about improving our performance. We must not only understand *what* to do, we must also understand *why* we do it. There is all the difference in the world between the amateur who proceeds by rule of thumb or trial and error and the professional who has mastered the theory as well as the practice.

The process which the doctor follows is directed towards a specific end: to diagnose the cause of the patient's problems. In decision-thinking the object of the exercise is equally clear: to determine a future course of action. The action may be one to be taken immediately – 'Fire him', 'Sell the division', 'Delay the offer' – or it may consist of a plan to be implemented over a period of several years.

In every case, however, the thinking can be divided into four main stages, which are combined in a single process, as is shown diagrammatically in the chart on p. 28. Each stage must be gone through, no matter whether the issue at stake is what to do about an immediate problem or the achievement of a medium- or long-term objective. The four stages are:

The Decision-Thinking Process



* Until the final decision is taken, the possibility of altering the original question and/or returning to Stages 2 and 3 always remains – hence the dashed lines. The solid line represents the path leading to the final decision and action.

Stage 1 The Question. *Formulating* a question that addresses the issue in the clearest possible way, without sacrificing any of its subtlety or complexity, and then gathering the information relevant to answering that question.

Stage 2 The Alternatives. *Creating* the most effective range of alternative answers to the question posed in Stage 1.

Stage 3 The Consequences. Evaluating each of the alternatives that emerges from Stage 2 by thinking through its implications and *predicting* the likely, as well as the possible, consequences. This is not only to provide the basis for making a choice in the next stage, but also to allow for hedging and contingency plans to be created in case that choice proves to be wholly or partially wrong.

Stage 4 The Decision. Here, finally, we come to the 'traditional' decision-making skills of weighing up the probabilities of succeeding with each alternative, measuring the balance between risk and reward offered by each alternative – and then using our *judgement* to decide upon which alternative to act.

Certainly, if applied to a complex problem, this process is time-consuming and exhausting, demanding the use of a wide range of thinking techniques and skills, none of which is easy. But it is this mental process, and *only* this process, that gives us the chance to think our way wisely into the future.

Nor is the process different in principle when we have a less complex or more immediate decision to take. In such cases the time that can be devoted to each stage must necessarily be shorter, and the exploration of alternatives and consequences limited, but the sequence of the process still needs to be rigorously followed.

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The next four chapters will analyze, in turn, each of the stages. Certain principles, however, apply to the process as a whole, and these, I think, are worth spelling out before we discuss each of the separate stages.

The *first* principle is that no one stage, not even the last, is more important or more worthy of the manager's attention than the others. Just as taking off, navigating a course to the correct destination and landing are all equally important parts of a flight, so each stage of the decision-thinking process is *equally* essential to its success. The manager who concentrates on the final decision-making stage at the expense of any one of the first three stages is as much a danger to his organization as a pilot who makes superb take-offs but has never learned to navigate or land would be to his passengers.

The *second* principle is that the decision-thinking process is not a linear process moving directly from the start of Stage 1 to the end of Stage 4. As indicated by the dashed lines in the diagram on p. 28, the entire process, or at least part of it, may have to be repeated several times before a satisfactory conclusion can be reached.

Perhaps the closest analogy is the design process, which has this same quality, known technically as 'iteration'. A designer's work can be divided into phases similar to the stages of decision-thinking. There is the initial drafting phase, followed by a phase in which the designer stands back to inspect his work, followed, normally, by a series of erasures and some redrafting. The whole process culminates in the specification of the dimensions, tolerances, etc., needed to complete a set of working drawings. Now obviously the sequence of drafting, inspection and redrafting may be repeated many times before the designer is satisfied. And while the stages certainly occur in a fixed order, the overall progress involves the cyclical iteration of a sequence of operations, not a simple progression from A to Z.

This non-linear aspect of decision-thinking means that the manager must stay in touch with the process at every stage, for it may be necessary at any point to go back to a prior stage. Unfortunately, many managers are tempted to concentrate on Stages 1 and 4. Having decided on the question that should be asked in Stage 1, they then delegate the thinking work involved in Stages 2 and 3 and get involved again only when it comes to selecting the best answer, at Stage 4.

This may appear, superficially, to be an attractive way of working. But what happens if, in the course of Stage 2 or Stage 3, it becomes clear that the wrong question has been asked; or if in the course of Stage 3 more alternatives are needed to provide more debate and choice?

The four stages cannot, therefore, be thought of as a set of stepping stones leading directly from the beginning of the decision-thinking process to its completion. They are, rather, bases, each of which may be touched – that is, reviewed and repeated – many times in the course of a single exercise. The process is therefore *cyclical*; it comes to an end only when the thinker or thinkers reach the decision-making stage, the home base as it were, for the last time.

This leads us to the *third* principle. Almost any serious piece of decision-thinking will demand the collective efforts of a number of individuals, and so, like any other organizational endeavor, it will to have to be *managed*. I shall be examining the management of the decision-thinking process within organizations in detail in Part II. But it is important to bear in mind, as you read the next four chapters, that the decision-thinking process is envisaged primarily as taking place in the context of an organization.

Only in unusual circumstances will decision-thinking be done by a thinker sitting in solitude, like Rodin's famous statue. Usually it will take place in meetings, formal and informal; during encounters in corridors; over lunch or drinks; in the course of phone conversations; in planes, trains and cars; and on the hundred and one other occasions when colleagues find an opportunity to share an idea, to pick holes in one another's arguments or to discuss a company's problems and prospects.

Thus, when I say that managers must be – and be seen to be – professional thinkers, I am not only urging that they should learn how best consciously to manage each one of the four stages in their own thinking. I am also urging that they must become conscious of how to manage each one of those stages when stimulating and coordinating the thinking efforts of colleagues and subordinates.

The skills involved go far beyond those traditionally required of managers. Getting the best decision-thinking out of an organization demands patience, sensitivity, the ability to guide and inspire thinking and, crucially, the capacity to empathize with people whose approach to thinking is unfamiliar or even antipathetic. Decision-thinking is a living, dynamic process; it cannot be treated merely as another bureaucratic procedure.

Successful decision-thinking is a product of individual minds working together – minds that may be diverse in their approach to a problem and quirky in their reactions to each other. Getting the best out of people's minds means treating those people as human beings who, amongst their other physical, social and psychological needs, also have *thinking* needs. It also means recognizing that thinking abilities cannot be switched on when a meeting begins and switched off when it ends. If people are going to have a good idea, it is as likely to come to them in the bath or during a telephone conversation as in the conference room.

The *fourth* and final principle to be remembered is that throughout the four-stage decision-thinking process – and not only at Stage 1 – the participants in the process will *continually* be asking and answering questions. In other words, once we have defined the main question we begin to pose and answer such sub-questions as: 'What are the alternative answers to the question?' 'What are the future consequences of each of those alternatives?' 'What is the best alternative to achieve our objectives?' 'How could that alternative go wrong?' 'If that is so, what contingency and hedging plans need to be made?'

The question-and-answer formula is thus applicable to each stage of the decision-thinking process. It is asking the *best question* that starts that process in motion; and it is a supply of the *best sub-questions* that keeps it moving and on course.

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The decision-thinking process which has been outlined above and which will now be discussed in detail, stage by stage, is intended to provide the theoretical structure we urgently need to apply openly to the management of our thinking. It is, therefore, essential that the manager, who must implement and manage the process, is able to see both the wood and the trees. He must become not only an expert in the rules that apply to each stage, but also have a firm grasp of the shape and purpose of the process as a whole.

Thus, the manager in charge of any important decision-thinking task needs to be continually aware: of what stage has been reached and of the management skills required by that stage; of how and when the process should be pushed forward or back; and of what has so far been accomplished and what still remains to be done.

Without a clear understanding and conscious application of the theoretical model of the decision-thinking process, it is fatally easy for a manager's thinking to lose its bearings and go off course. I would go farther, even, and argue that unless a manager can learn how deliberately to follow the model and to manage it consciously whenever he has an important decision to make, he will never become a professional decision-thinker.

Summary

The decision-thinker, like any other professional, must have a theoretical model of the thinking process that he manages.

The model of the decision-thinking process is built around four stages:

the question

the alternatives

18

Conclusion: Action This Day–Becoming a Professional Decision-Thinker

I know damn well that whatever brains I have are of the sort which can only count for anything in so far as they are constantly fed from my humanity.

Thornton Wilder

We know that government must be as well-managed as it is well-meaning.

Walter Mondale, July 20, 1984, in his acceptance speech to the Democratic Party's National Convention

Once we become adults, our society tells us that we are personally responsible for our decisions and actions. What it does not tell us so clearly is what are the *thinking* rules and practices that we need to employ to meet that responsibility. Nor does it tell us how we should go about mastering those rules and practices. The focus has been on our decisions and their consequences, not on the rest of the iceberg – the thinking that

precedes them. If this book plays some part in redressing this dangerous imbalance, it will have achieved its purpose.

For far too long we have taken decision-thinking for granted, and treated it as something like breathing and walking which everyone can do. But the truth is that decision-thinking is a particular use of thinking which must be studied in its own right, as a skill to be acquired – a skill quite separate from our other uses of thinking, such as scientific, mathematical or artistic.

In writing this book I have wished to open the way to a more profound, yet practical, analysis and understanding of the decision-thinking process. We must now learn quickly to appreciate the rules and attitudes that are required to operate that process for three main reasons:

first, so that we can strengthen and amplify our own individual decision-thinking capabilities and thereby improve our ability to make, and help others to make, better decisions;

secondly, so that we can learn how to manage, consciously and with true professionalism, the thinking capabilities of our organizations;

and thirdly, so that we can persuade our leaders in government, business and education to bring their urgent attention to bear upon the problem of how our future managers and citizens can be taught – and, if necessary, obliged – to meet their individual and collective decision-thinking responsibilities more effectively.

Our hopes of moving to the next stage of human evolution, without destroying ourselves or ruining our civilization, rests upon the quality of the decisions we will make and the intelligence with which we will implement those decisions. That is why producing more professional decision-thinkers must now become a national priority.

★

Over the past decade increasing numbers of Western managers have been making the pilgrimage to Tokyo in an effort to discover the secrets of Japan's astonishing economic success. At the conclusion of one such mission, when visitors were thanking their hosts for the readiness and frankness with which they had explained their methods, one of the Westerners asked a senior Japanese executive if he was not afraid that, by speaking so openly, he was giving aid to his competitors. The Japanese was undismayed. Western visitors were always full of admiration and enthusiasm, he explained, but they never seemed to do anything about it when they got back home.

The comment may be apocryphal, but it rings all too true to anyone who has ever tried to persuade conventional or self-satisfied managers that their organizations will only achieve improved performance if they are prepared to conduct a radical re-examination of their own thinking roles and thinking responsibilities. Normally the reaction to such a proposal is an all too familiar one: 'That is an absolutely intriguing concept. I *really would like to consider it very seriously* – when I can find the time. Now, about next week's cost-cutting exercise . . .' And then the head goes back in the sand.

If you have found the ideas in this book relevant to your life, and if you think that they offer something to your organization, then do not, I ask of you, be content with putting those ideas away in the back of your mind as you put this book back on the shelf. If you want to grasp the principles and rules of decision-thinking and start openly applying them to the problems which concern you and your organization, then the time to begin is now.

★

When Winston Churchill fired off one of his celebrated wartime memoranda, demanding 'action this day', he did not expect by so doing to win the war at a stroke. Nor was he seeking to override careful planning efforts. Rather, he was trying to overcome the almost universal human fault of procrastination. It

was a question of narrowing the gap between thought and action, not of dispensing with essential thinking processes.

How much you can achieve and how quickly you can achieve it will of course depend upon your circumstances. If you work for other people, then you are going to have to persuade them to take action, and that will require patience and tact. If you simply demand that your boss and your colleagues change their management style overnight, you are unlikely to find that your ideas get much of a welcome. But if you can quietly introduce them to the decision-thinking process, demonstrating perhaps how that process could be used systematically to clear an existing log jam in the organization's thinking, you may whet their appetite and stimulate their curiosity. And even if you cannot immediately see how to convert your colleagues and your boss to the concepts of professional decision-thinking, you can still make a start by applying them to your own thinking.

If, on the other hand, you are a manager, then you are in a position to inject these ideas and perceptions into your own organization without delay. But you will still need to start with yourself – that is, with getting to know your thinking self.

Whether you are head of an organization, the manager of a separate organizational unit or profit center, an entrepreneur in a one-man band or a member of an organization dedicated to working your way up to becoming a manager, it all begins with you. So, you will need first to evaluate yourself by using the questionnaire on pp. 167-9, and then to start working to build on your *thinking* strengths and to correct or compensate for your *thinking* weaknesses. You may not become a different person overnight, but you will find that the intelligent people you work with will respond favorably to positive changes in your thinking behavior.

For the improvement of decision-thinking along the lines recommended in this book is not a matter of simply changing organizational structures, introducing new office procedures and reassigning responsibilities. It depends above all else upon *changing attitudes*. And if you want to change other people's attitudes, you first have to change your own. Only when you are clear both about what are your own decision-thinking strengths and weaknesses and about how you intend to tackle your own decision-thinking responsibilities will you be in a position to start indicating to others what you expect of them.

★

When I speak of a need for changing attitudes, I mean something quite specific: the adoption of a new, more complete model of the relationship between a manager and the organization which he heads. In that new model thinking becomes the manager's most fundamental responsibility; the four-stage decision-thinking process is recognized as the disciplined framework (see chart on p. 28) within which all thinking meetings and managerial decisions should take place; and the proper management of that process becomes a manager's main professional concern for converting thought into action.

The summary which follows is intended to achieve two purposes. First, looking back, it brings together the main themes which have been explored in this book. Secondly, looking forward, it equips the reader who has decided to put the model and principles of decision-thinking into overt practice, with a checklist which summarizes the rules of the game that he is taking up.

Because the crucial factor is a change of attitude – that is, a change in the thinking models, perceptions and rules *consciously* employed by a manager – I have in each case contrasted the worst of the old with the best of the new. I emphasize the word consciously because many excellent managers are already applying most or all of the 'new' attitudes without recognizing that, taken together, they represent a significant change in the practice of management.

For the already outstanding manager, the task now is to move these attitudes from the dim realm of intuition to the daylight of conscious choice, from the vagueness of the implicit to the clarity of the explicit. For those managers, and aspiring managers, who want to become outstanding, the task is to introduce these new attitudes into their conscious management practices and to make them habitual.

Old

'The manager is primarily a doer – an achiever of objectives. He is responsible for making decisions and ensuring that they are implemented.'

New

'The manager is primarily a thinker and a manager of other thinkers. His first responsibility is to make sure that his organization is thinking about the right issues and thinking about them in the right way. How well he manages his thinking responsibilities will prove critical in determining how well he will manage his "doing" responsibilities.'

★

Old

'I have selected a good management team and given them clear objectives. They get done what I want them to get done.'

New

'Every manager has *two* kinds of teams to manage. One is for implementing decisions and administering policies and procedures; the other is for thinking about what decisions to make. The composition of the first is more or less fixed. The composition of the second can include all or several members of the first, but it will continually change, depending on the subject under consideration. Different rules and skills apply to the professional management of the two teams.'

★

Old

'There is no single "method" of arriving at a decision. It is a question of experience, intuition and judgement.'

New

'The four-stage decision-thinking process is a clear procedure which must be consciously followed and explicitly managed whenever an important decision is to be made if we want to improve our *chances* of making better decisions. It allows us to employ our experience, intuition and judgement to best avail. Its careful use also provides the best guarantee that the right question has been asked; that every conceivable and reasonable answer to that question has been created; that the consequences of each alternative answer have been imagined and thought through; that, where contingencies can be foreseen, they have been provided for; and, finally, that the decision is based upon clearly stated and intelligent calculations, of both the probabilities of success and the balance between risk and reward. Professionally managed decision-thinking helps shade the odds more in our favor.'

*

Old

'Imagination is an airy-fairy sort of business, best left to artists and advertising agencies. Good managers are down-to-earth people who exercise sound judgement and stick to what is practical.'

New

'Imagination is indispensable to all good decision-thinking. Every manager depends on it. Without imagination, we can never be truly innovative. Moreover seeing our way into the future and predicting the future consequences of any important decision also involves a sustained and disciplined exercise of the imagination.'

*

Old

'All questions have a single core; a good question therefore is brief and concise.'

New

'Many of the issues that confront a manager today are extraordinarily complex. There are normally many bottom lines to be considered. When we address an issue we must work to expose its complexities, not hide them. If we formulate too simple a question, we will prompt too simple an answer.'

*

Old

'We do not tolerate waste on the factory floor; why should it be tolerated in the executive suite? I have neither the time nor the patience to listen to a lot of speculative thinking and argument. We are not running a debating society around here; this is an efficient business and we all have work to do.'

New

'Of course we must meet our deadlines, but unless we look at and encourage the debate of as many alternative answers to a question as feasible, we may miss the one we need. This process will inevitably involve some "waste" – waste of time, of words, of energy. But before we make any important decision we must learn to create deliberately this so-called waste and to look upon it as unavoidable and vital to success. If we neglect this step of exploring for alternatives, we will often direct our energies to vain or ineffectual tasks. Today we need always to remind ourselves that something not worth doing is not worth doing well.'

★

Old

'There is no point in wasting time and money making detailed plans when the future is essentially unpredictable. Nor do I want my executives wasting time and money worrying about what may never happen. The best we can hope to do is to keep the shareholders and analysts happy by making sure that this year's sales and profits are ahead of last year's. And to do this I certainly don't need to have any "Chicken Littles" around here.'

New

'Every decision is in the last resort based upon a certain set of predictions about the future. We must accept that any prediction can never be guaranteed in advance to be accurate. But at the same time we must do everything possible to make sure that our own predictions, together with our acts of hedging and our contingency plans, are developed as carefully and thoroughly as possible. We need people around here who are prepared to think *and* worry about the future of this business. It is the only way we will be truly equipped to cope with the unexpected event and the uncertain future.'

★

Old

'Either you have what it takes to be a good manager or you haven't. Too much self-analysis is a waste of time. Anyway, qualities like leadership, decisiveness and determination are what matter.'

New

'Every manager needs to make a truthful appraisal of the strengths and weaknesses that characterize his own decision-thinking. Only with this knowledge will he be in a position to capitalize on his strengths, compensate for his weaknesses and surround himself with the necessary thinking talent to complement his own. For a manager, exercising the management qualities of a professional decision-thinker is today as important as exercising the qualities of leadership, decisiveness and determination – no less, no more.'

★

Old

'I am a strong leader; that is why people like working for me and carrying out my orders.'

New

'We need strong leadership in managing our organization's thinking efforts, just as much as we need strong leadership in managing our organization's working efforts.'

★

Old

'Since thinking is something each of us does most of the time in isolation or in small groups, it is meaningless to talk of the mind of the organization or of the need to manage it. Managers are there to make decisions; organizations are there to translate them into action.'

New

'A manager must conduct and manage the mind of his organization just as a professional orchestra leader must conduct his orchestra and a professional coach must manage his team. Without this ability he will not get the excellent thinking that is a prerequisite to excellent decision making. If, moreover, the decision-thinking process is so managed that the ultimate decision commands the support of the organization as a whole, the chances of effective implementation of that decision will be greatly improved.'

★

Old

'Managers should be given objectives, authority and responsibility and then left to get on with their jobs, reporting back only when necessary. Obviously it is far more important that a manager should be good at his job than that his thinking abilities should be complementary to those of his colleagues. If we talk of a management team around here, it is only in the sense that a military unit is a team in which each person knows what he has to do and does it.'

New

'Just as with decision implementing, effective decision-thinking requires a team effort. No one person can combine all the aptitudes – creativity, rigor, scepticism, patience, decisiveness and courage – which will be needed at the different stages of the decision-thinking process. The strength of any thinking team is greater than the sum of the skills and experience of its individual members. It is the ability of the team to think together as a team that will prove crucial. This means that the members of a thinking team must be picked not simply on the grounds of individual brilliance, but with the aim of building a brilliant team.'

★

Old

'A manager's life is far too busy for him to waste time listening to half-baked ideas. If someone wants to submit a new idea, I'll be glad to consider it. But they should know that I don't suffer fools gladly.'

New

'In order to manage a thinking team professionally it is necessary to perceive each member as a thinker in his own right, with a particular combination of strengths and weaknesses, and to make sure that his thinking skills are deployed to best advantage – while minimizing the damage that can be done by his weaknesses. This demands tact, courtesy and the recognition that people will only think well and give birth to their brainchildren if they feel that their mental efforts are being encouraged, taken seriously and appreciated. This applies just as much to those devil's advocates who have the perseverance to find the hidden snags in a proposal as it does to those innovators who regularly come up with a useful, new idea.'

★

Old

'Sound thinking is something I expect all my employees to do. If I do use an idea that works out to our benefit, that's fine; but I don't intend to pass out extra praise to people who are doing what they are paid to do.'

New

'Decision-thinking, if not properly managed – particularly at Stage 2 and Stage 3 of the process – can be a thankless task. Don't ever put your thinkers in a "can't win" – no praise, but easy to blame – situation; not if you want to benefit from their best thinking.'

★

Old

'I admit that new ideas or insights sometimes come to me and my colleagues out of the blue, but these happen fortuitously. It is a waste of time trying to cultivate such things. They either happen or they don't.'

New

'For all the emphasis we put upon careful, well-reasoned thought, we have to acknowledge that there is a subconscious element in our thinking – let us call it the Eureka Factor – which is a source of originality, innovation and sound judgement. We disregard the Eureka Factor at our peril, even if we cannot explain how it operates. Rather we should try to cultivate it by discovering and reproducing the conditions which favor its appearance. Whenever possible, we need to give it an opportunity to have its say before we arrive at any important decision.'

★

Old

'If someone lets the stresses of the job get on top of him, that is a problem for the individual concerned and his doctor – not for his boss. My job is to get things done around here, not worry about stress levels.'

New

'Our capacity to think well is directly related to the health and wellbeing of our body. Each of us should make sure that we are physically fit, and we should avoid tackling important thinking, as well as doing tasks, when we are feeling under the weather [illegible] our best. As professional managers we should also be acutely aware that our colleagues' health problems, whether or not they are job-related ones like stress or fatigue, may seriously affect their decision-thinking performance and therefore their decision-making performance. Their health problems are our problems.'

★

Old

'I recognize that if expenditure is to be controlled, it must be broken down into several categories. But while I insist on monitoring what we spend on raw materials, advertising, travel and entertainment and so forth, I see no point in trying to determine what we spend on thinking.'

New

'In the long run this organization will stand or fall by the quality of its thinking. I need therefore to know on a regular basis, in terms of dollars and cents, just what resources we are *investing* in decision-thinking. Our "thinking budget" needs to be large enough to cover the costs of thinking meetings, trips and conferences, as well as the fees of those people who are specifically hired to provide us with professional advice. It must also contribute to the cost of employing those individuals who play a major part in our organization's decision-thinking. It is my responsibility to ensure that this budget is truly adequate to our needs and that we get full value for the money which we invest in our thinking resources. Furthermore, I think the day will soon come when shareholders, bankers and employees will also want to see these "thinking" expenses clearly identified in a balance sheet.'

★

Old

'Of course I try to make sure that the organization keeps on top of its problems, both from day to day and in the medium- and long-term, but I know of no procedure which will ensure that we foresee every problem that is going to arise.'

New

'By insisting on a regular audit of our organization's decision-thinking practices, priorities, contingency plans and resources, we can possibly reduce the number of surprises that occur and also ensure that, if and when an unexpected crisis does arise, our organization is fully prepared mentally to respond to it. Again, such an audit will just hedge the odds more in our favor.'

★

Old

'The Japanese have been winning during the last twenty years because they *work* harder than we do.'

New

'The Japanese have been winning because they take decision-thinking more seriously than we do, and they therefore *think* harder than we do.'

★

Old

'Let's get cracking. We don't have time to waste contemplating our navels.'

New

'When we think, we think. When we decide to act, we act.'

*

Old

'It's not my fault things went wrong. I made the best decision at the time. I never believed our competition would outthink us.'

New

'The manager gets the decision-thinking he deserves.'

*

Most managers would certainly not associate themselves with all the 'old' attitudes expressed here; you may even feel that I have exaggerated some of them. But, in fact, they all represent management diktats or observations that I have overheard or read about during the last fifteen years.

What should nevertheless be clear is that the 'new' management attitudes are radically different from most of those which generally prevail. And I hope I have persuaded you that by consciously adopting them we can dramatically improve our per-

formance as managers and therefore our chances of solving the manifold and complex problems facing us.

Our civilization has been built over the centuries out of the thinking and the decisions of a multitude of individuals. Our ancestors also struggled to develop the basic moral values that we need to guide us into the future. What we must do now, more than ever before, is to align those values with the decision-thinking skills that will allow us to cope and to survive. Our values and our decision-thinking skills are inextricably entwined and therefore equally important. If one fails us, the other is doomed – and so are we.

It is said that the road to hell is paved with good intentions; but it is also paved with bad ones. The Nazis turned their backs on our civilization's values while running their country's military machine quite efficiently for several years, but in the end they brought their country to disgrace. On the other hand, certain of our leaders in America have espoused many of our finest values but, by the inadequate way in which they managed both their own mind and their decision-thinking responsibilities, have seriously weakened – hopefully just in the short-term – the one nation that can, today, ultimately defend those values.

In conclusion, *given* the help and guidance of our precious values, the only way we can deal with the daunting problems we and our organizations face is by thinking our way through them. To do so we shall need to improve quickly our decision-thinking skills and practices far beyond the level we have achieved in a few thousand years of civilization. In this book I have focused on a hard-nosed kind of thinking, concerned with survival in the face of inescapable realities, because if we do not at least survive all other bets are off.

I therefore hope, above all, that I have convinced you that you should transform yourself into a professional decision-thinker. If you do so, you will be far better able to contribute to the future of your organization and to your own welfare. In the long run that can only be good for you, for our country and for our civilization.

Studies in Development Management

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Public Affairs and Administration and
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Creating Opportunities for Change

Approaches to Managing Development Programs

Louise G. White

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2

Dimensions of Management

Programs provide important opportunities for managers to bring about developmental changes in a society. Programs also pose a number of questions about the role that managers play and the functions they perform. This chapter begins by discussing the scope of management and particularly how managers relate to the broader political process. Second, it reviews the characteristics of programs and sustainable development to identify relevant management functions. A final section considers how management and organization studies treat these five functions and notes that much of the traditional literature defines management in relatively static terms and overlooks a number of opportunities for promoting change.

The Scope of Management

Whereas the term *administrator* suggests people who carry out tasks designed by others, the term *manager* implies a broader range of activities and "carries overtones of initiative and flexibility" (Warwick, 1982, 41–42). Managers play two roles—fulfilling standard operational responsibilities and shaping program content and implementation strategies. Although management is frequently defined in terms of the former role, it constitutes only part of what managers do, and often not the most interesting part or the part that has most potential for development. Kiggundu draws a similar distinction between management roles, using the terms *or-*

ganizational and *strategic* tasks, and stresses that the latter are critical for development.

> Effective management of developing country organizations, like organizations elsewhere, depends on the extent to which *both* strategic management tasks and critical operating tasks are delineated and effectively managed. Strategic tasks, often associated with top management, concentrate on the long-term aspects of the organization, deal with the organization-environment relationships, and include strategic formulation and implementation, managing contextual interdependencies, and the development of a clear organizational philosophy and "nichemanship" (1986).[1]

Strategic tasks can be carried out by officials at a number of levels in an organization. Insofar as development programs are delivered through a network of organizations, middle level managers, and even those with responsibility for field level activities, may have substantial responsibility in designing and shaping programs.[2] For example, in a program designed to make credit available, managers marshal resources, explore designs for delivering credit, and evaluate and alter the program over time. These activities can be carried out at a number of levels—in the central agency and in the field—and can involve any who make strategic decisions, who decide how to orchestrate and coordinate activities, or who have discretion in applying decisions at any level.

In addition to playing a variety of roles, managers are active both within and outside their immediate organizational units. Bryant, for example, suggests that management should be more broadly conceived than it often is, and she observes that development managers can have influence at three levels—within an organization; between and among organizations; and within the larger policy environment. These managers are, in fact, in a better position than most to work at all three levels because programs give managers an even greater leverage over the policy environment and interorganizational relations than projects do (Bryant, 1985).[3]

It does not follow that managers always exercise this potential. Some define their roles very narrowly; others have little room for exercising discretion. Nevertheless, Saasa, based on his experiences in Zambia, concludes that managers contribute to policy discussions and play a broader role in Third World nations where public opinion is often very unformed than they typically do elsewhere. He remarks that this emphasis on an expanded role for managers goes against the grain of traditional systems theory, in which policy reflects inputs from the society and "the bureaucracy only executes the policies made by their political 'masters.'" Therefore, he concludes, we need new models that pay more attention to what managers actually do and to the broader role that they frequently carve out for themselves (Saasa, 1985, 311).

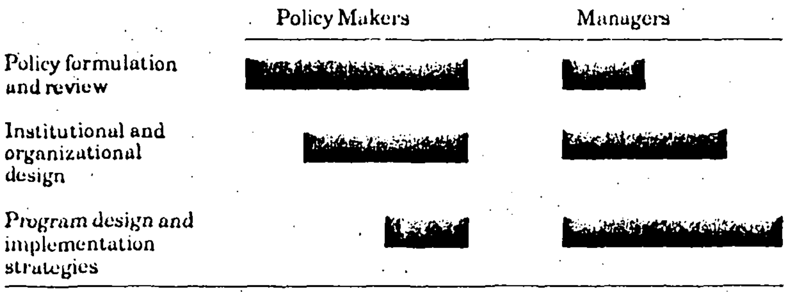
The scope of management varies with the autonomy managers have. Agricultural and health programs are typically highly visible activities located in centralized ministries that impose many constraints on a program agency. Programs associated with public utilities usually have more independence, although they operate within government regulations. Research programs are typically the most independent and most free to design their own procedures.[4]

Autonomy varies at two levels. First, there is the autonomy of the program agency within the government and vis-à-vis donors or international economic bodies.[5] Program agencies draw on several kinds of funds: (1) the agency budget expressed as recurrent costs; (2) special development funds provided by the government; and (3) external funds. The larger their budgets, and the greater their access to special funds, the more autonomy program agencies will have. Second, managers can have autonomy vis-à-vis top officials in the program agency. In his important study of program management, Paul identifies two types of relations between policy makers and managers. In one, policy elites make most of the decisions. They formulate general policy goals, translate them into programs, establish an implementing agency, and create the organization for carrying out these programs. Obviously in this model managers have limited responsibility for program design.

In the second and more common model, policy makers formulate general policy goals, decide where the relevant program should be housed, and then appoint managers to design strategies for carrying out the goals. Managers have the responsibility for translating the policy into a program, for designing the way it should be implemented, and for deciding what to delegate to the field or contract out (Paul, 1982, 234).[6] In part managers' autonomy depends on the discretion they have over funds. Even if funds are available, managers may lack the authority to spend them (Uphoff and Esman, 1984, 149).[7] Managerial autonomy also varies according to strategic and operational responsibilities. A supervising body may retain strategic control of policy, budget, and personnel but may assign operational controls to managers.[8]

Figure 2.1 depicts the overlapping responsibilities of policy makers and managers. Although the discussion has implied that managers want more autonomy, they may not and even may choose

FIGURE 2.1 Responsibilities of Policy Makers and Managers



not "to fully utilize the autonomy formally available to them either due to commitment to government norms, inertia, or risk aversion" (Paul, 1982, 120). Managers may or may not be interested in getting involved in a particular arena. Policy makers may or may not be responsive to managers' suggestions or even to according them a role, and there undoubtedly will be many tensions between political leaders and those in the civil service.[9] In fact there is considerable evidence that managers define their tasks fairly narrowly, sticking to what were earlier called operational tasks rather than exploring the potential for role expansion.[10] Montgomery suggests that managers are hesitant to take many risks precisely because the political system grants them a lot of autonomy and gives them little direction. "Managers are fairly free to take risks, but they seldom seem to do so in an adventurous way because there are few guidelines to help them identify the public values that they might be expected to advance by such actions" (Montgomery, 1986a, 412).

Five Functions of Program Management

As discussed previously there are two aspects of management—operational and strategic activities—and managing development activities involves both the traditional, operational tasks and more strategic and innovative activities. The management functions described in the following paragraphs were selected because they are particularly salient to program responsibilities and development tasks. Note that each is linked to sustainable development and that without this connection a function easily becomes an end in itself and may undermine development goals.

Contribute to Development Content of Program Design

The first function points to ways in which managers can shape and influence the content of policy and the programs they are called upon to manage. This function refers to a number of activities associated with decision making and the design and uses of analysis. Managers can use analysis to shape programs in two arenas. First, managers can try to influence other policy makers, either directly or by channeling information to them that documents the need for certain kinds of policies. Managers may be asked for this kind of information, or more often they will have to look for ways to communicate it. Policy makers often rely on such information to select and defend a policy and also to build coalitions of support (Cohen et al., 1985, 1217). In the Third World where political institutions are often weak, managers can have a relatively major influence on the content of policy.[11]

Second, managers have opportunities to shape policy as they translate it into program objectives and design strategies for implementing them. Program mandates are typically very general and vague and can be steered in a number of different directions. Consider an agricultural development activity planned in Zaire. Evaluators note that the policy mandate failed to clarify whether the goal was the relatively narrow one of increasing the production of maize or the broader one of achieving long-term rural development and increasing farmer income. Managers, the evaluators find, had considerable discretion for steering the program in one way or another (Rosenthal et al., 1986). This opportunity for influencing program content is even greater in those instances where programs consist of multiple activities to be carried out in a variety of settings.

This function, which is linked to the concept of sustainable development, requires managers to focus on the needs and priorities in communities and to be particularly concerned with activities that improve the quality of life within Third World societies. Note that without this qualifier this function can undermine development. Managers are naturally inclined to promote policies and program strategies that enhance their own agency, and they tend to selectively transmit information that places their efforts in the most favorable light. The emphasis is therefore on ways in which managers can shape program content to promote sustainable development.

Enhance the Development Capacity of Implementing Organizations

The second function refers to the need to enhance the structural and operational capacity of implementing units to carry out programs. Capacity is important in implementing and sustaining programs and involves central, regional, and local field units. A constant refrain in development studies is that such capacity is notoriously lacking. Heaver, to take only one example, notes that government agencies in Thailand are seldom able to expend more than 50 percent of the funds appropriated by donors for development projects in that country (1982, 1). The concept of capacity building forces managers to think in broader terms than simply producing services or carrying out a particular program and underscores that there is a basic underlying difference between development administration and service delivery. For development administration the objective does not end with goods and services; rather it requires an increase in local administrative capacity to sustain benefit flows after initial investments have ended (Honadle, 1982a, 176).[12]

Making a very similar point, an observer of recent achievements in India comments on the remarkable progress in that country. The most impressive indicator of development he finds was not

> having the surplus food thanks to the green revolution. Much more impressive was the creation of an infrastructure to take this food to the remotest village, and then not to hand it over as alms but to make it into wages for a developmental project of some sort or other—the building of a road or the sinking of a well (Akbar, 1986).

Akbar's comment captures the importance of organizational capacity. In this case capacity was represented by connections between central program units and field situations.

Program capacity also involves more effective procedures for running an organization. Capacity means expanding the ability of a unit to collect, analyze, and handle information about community needs, preferences, and program results.[13] Capacity building refers to procedures for recruiting and supervising personnel, and it means designing effective training activities and integrating these with program activities. Capacity building also means setting in place systems for monitoring finances and integrating these with program decisions and finding ways to coordinate the various participants in program design and implementation. Program agencies will often have procedures in place, but these may be ill suited to development tasks, and managers will need to work within and adapt these procedures.

Again the qualifier of development is important. The danger in carrying out this function is that managers will be tempted to develop an organizational capacity that is self-reinforcing and that easily becomes disconnected from the results it is designed to accomplish. Satia, of the Indian Institute of Management at Ahmedabad, reminds us how often a concern for results is breached in practice.

> Just as Health Department officials concern themselves with running Primary Health Centers rather than with the improvement of health, Education Department officials direct their attention to running schools—not to the educational levels of the population served. . . . [A concern for performance] would mean managing not against activities completed, but against changes in the characteristics of specified populations (1983, 78, 79).

Expand Program Resources and Political Support

The third management function refers to the need to develop additional resources and political support. Although program managers often can rely on regular budgetary authority, they undoubtedly will need to supplement regular funds and ensure that they continue during the life of the program. Managers will probably also need to find additional funds for maintaining services. The widespread scarcity of funds means that managers will have to be imaginative in acquiring additional resources, gaining the support of other organizations, or getting local organizations and beneficiaries to contribute. Managers may need to turn to donors to fund particular activities or try to take advantage of donor priorities and attempt to mesh them with ongoing program activities. Managers will need to explore opportunities to obtain additional resources from the community or to institute some cost recovery innovations.

Managers also need to look for less tangible resources, such as cultivating political support, developing alliances with political leaders, and promoting programs in local communities or among beneficiary groups. Some of the activities can be more subtle. Hirschman, for example, notes that even when resources are apparently scarce, there in fact may be some slack in the economy. In this case, development depends on "calling forth and enlisting for development purposes resources and abilities that are hidden, scattered or badly utilized" (1970, 12). As is true for the other functions, the search for resources and political support is linked to development goals. Otherwise, acquiring resources may become an end in itself, and contributors and supporters will be exploited.

Work with and Coordinate Multiple Organizations and Groups

A fourth function underscores the need for managers to spend much of their time working within an interorganizational setting. Often management studies indicate that managers need to deal with their environment. Instead of referring to this rather vague concept, this function focuses on particular parts of their environment, on the fact that a large part of program management—whether influencing policy content, implementing a program, or gathering resources—will be done with and through a number of other organizations. Some of these will be regional or local units of ministries, some will be groups of policy makers, some will be community organizations, and some will be international donors.[14]

As is true of the other functions, there is ample evidence that this characteristic of program management is difficult to carry out and is often neglected in practice.[15]

> Staff generally operate in water-tight compartments. The extension officer, the veterinary officer, and the marketing agent seldom coordinate their advice and their schedules because each is responsible to an official at a higher level who manages his specialized program independently of others according to rules established by his own professional hierarchy (Uphoff and Esman, 1984, 146).

To some extent the organizational network is a given for managers and consists of the set of organizations that are part of the program agency. In other circumstances managers will have considerable discretion in deciding how to organize an activity. They will need to ask (1) whether and how much authority to delegate to lower levels or other units; (2) how to provide needed services and support to the other units; and (3) how to manage relations among the different units. Even when managers turn activities over to other units, they will usually continue to play a number of related roles. Managers may consult and jointly plan with other units as

well as monitor the activities of other units, coordinate them, and provide linkages and support services.[16] The following description of relations among units responsible for rural development suggests some of these possible roles.

> Sometimes it was merely information sharing—assessing the convergence or divergence of policies, providing price data, or letting a manager know about an occurrence that affected implementation. Other times it was joint action—fielding multiagency teams, changing priorities to fit with common objectives, or synchronizing the sequence of field activities. A third type of behavior was resource sharing—a line agency making training facilities available to a project, a project office making vehicles available to a local government unit, or a PVO lending some of its people to a local group to help complete a particular task (Honadle and VanSant, 1984, 42).

Exercise Leadership

This function is based primarily on the complexity of developmental change and on the broad set of roles associated with program management. Because programs are related to established agencies and because development usually requires new procedures and routines, managers will need to exercise considerable leadership skills within their agencies to accomplish development goals.[17] Because development is carried out in a difficult environment and resources are scarce, managers need to rely on leadership to negotiate these constraints and marshal support. In addition, the fact that development usually involves changes in the ways in which people behave means that managers need to do more than carry out assigned tasks. They also need to exert leadership in the form of persuading people, communicating new ideas, and eliciting enthusiasm.[18] This leadership function needs to be linked to sustainable development goals lest managers become manipulative or attempt to exploit others.

Relevance of Management and Organization Literature

The general literature on management and organizations has been an important source for development management, and observers and practitioners have drawn from a number of different disciplines.[19] Frequently analysts ask whether this literature is really appropriate to the Third World or whether it is only germane to Western experiences. The broad conclusion is that this is an empirical question. Sometimes theories deal with behavior that is not culturally specific, while at other times, the environment has such a profound influence that Western-based models are problematic.[20]

This section poses a different question. Insofar as all five functions involve managers in promoting developmental changes, how useful is the literature in understanding processes of change and ways to promote change? The position that is argued here is that the literature on management is not particularly helpful in this respect. It emphasizes constraints on managers rather than opportunities for change, and says little about "how" questions, about the processes for bringing about change. Those parts of the literature that do talk about change interventions define their scope fairly narrowly and focus on how managers can change their organizations internally, rather than on how managers can influence those outside their organizations.

A recent study of famine in Africa underscores that assumptions about opportunities for change can make a critical difference. It argues that development specialists have missed opportunities precisely because they assume environmental conditions are not amenable to change. The study continues that in reality most of the conditions commonly cited as causing famine, such as drought, are not inevitable but have been brought about by shortsighted policies and practices that could be changed.

> For drought-stricken Africa, the cry that the climate is changing is ultimately a cop-out, an excuse for political inaction. We do not know if the climate in dryland Africa is really becoming drier, and we do not know how to reverse this change quickly even if it is occurring.
>
> But it is certain that bad land management is reducing the use that can be made of the rain that does fall, causing the moisture to evaporate or run off damaged soils rather than seep into the ground to be used by crops and vegetation. Plant roots depend on root-level microclimate rather than climatic averages, and misuse of the land is widespread, is increasing vulnerability to drought and is reversible. Rainfall patterns cannot at present be either modified or predicted, but human behavior can and must be changed (Timberlake, 1985, 31).

Although this example focuses on the broad backdrop of large-scale famine, the same question can be asked on a more micro scale.

Can managers trying to implement an innovative program within a ministry of agriculture change its normal way of doing business, or do they have to accept what are often very confining procedures? Can managers setting up field units in remote agricultural communities have an impact on the perceptions in that community, or are managers bound by the traditional patterns of agriculture and group relations? It is perhaps obvious that any answer to these questions is of a "both-and" nature, that managers potentially can influence their surroundings but that they are also partially constrained by them. As the preceding quotation suggests, however, assumptions are often made that limit how one thinks about change.

Three bodies of literature have been particularly important sources for development administration. One derives from systems theory. It recognizes the importance of a manager's setting but stresses how it limits managers, rather than how it provides opportunities for bringing about change. In effect this literature assumes that managers' activities are determined by external forces and that they need to design what they do contingent on their circumstances. Even in that version referred to as open-systems theory, being "open" means adjusting and adapting to the environment, rather than influencing and shaping it. The environment is something that managers need to take account of, adapt to, and design programs that "fit" it. The theory tells us more about how problems arise or why managers often fail, and less about how they can work within, shape, influence, and interact with their environments.[21]

Although the environment is a source of constraints in systems theory, it is also undifferentiated. Managers are counseled to take it into account, but the environment remains a residual and global concept, one that vaguely refers to "everything out there" that is unexplained or constraining. The very term *environment* implies that boundaries can be drawn around a manager's arena, that the organization (or system) is whatever managers can control, and that the environment is that which is beyond their control.[22] Managers are left to tinker with internal procedures and structures, consigning the environment to an "other" category, something to be absorbed or adjusted to rather than made the basis for interaction. Groups in the environment are outside of decision-making patterns and the implementation system, rather than potentially a part of it (Warwick, 1975, 190).[23]

According to a recent and influential review (Burrell and Morgan, 1979), this version of organization theory also encourages managers to focus on maintaining their organizations and responding to those in power. This reactive role, the authors contend, considerably narrows the opportunities for bringing about change. There is little room for interacting with those in the community to create alternative approaches to development or even for experimenting with different institutional forms. There is also no attention to the need for reorienting the agency. Leadership is adaptive and responsive to those in power, rather than to alternative forces in the society.

A second group of writings, often called generic management theory or management science, begins with a different emphasis. By nature prescriptive, this theory emphasizes how managers can exert influence by improving their ability to make rational decisions and implement them efficiently. The knowledge base is primarily studies of the private sector and Western experiences.[24] Because of the focus on management skills carried out within an organization, management science has a rather restricted view of the arena within which managers can exert influence and neglects many characteristics of managers' political and cultural environments. For example, this theory overlooks the ways in which the political context can severely constrain what is done inside an organization.[25] Therefore, on the one hand, management science exaggerates the ability of managers to control the internal life of their organizations, ignoring such constraints as the legal basis of public programs and the political setting. At the same time, management science pays less attention to forces operating in the environment, such as political forces, and hence ignores opportunities for managers to extend their influence beyond their organizations.

Studies based on project interventions, many of which have been written by and for consultants or change agents, have similar limitations. Although these studies do deal with how managers can make changes, interventionist-oriented studies operate at a very micro level. They emphasize those aspects of management that can be changed by short-term interventions and training. The range of skills these studies emphasize, however, are often relatively narrow. Interventionist-oriented studies, for all their immediate value, overlook structural factors such as government pricing policies and institutional capacity. Because these studies leave out contextual factors, they provide little guidance on how to cope with such factors and trivialize what managers do. Management consists of discrete tasks and specific skills rather than personal, institutional, or structural characteristics precisely because the former are easier to alter. Personal leadership and the uses of power are similarly discounted because it is hard to design an intervention to influence them. Yet these aspects of management may have the greatest potential for bringing about lasting and significant changes.[26]

A third body of literature comes from public administration and explores the relationship between administration and other political institutions. How do elected officials hold administrators accountable? How do the two groups interact? What influence does the bureaucracy have on public policy? Applied to development, the public administration literature focuses on the setting within which managers function, both inside and outside the organization, and emphasizes how this setting constrains what managers are able to accomplish.

Although the public administration literature has always taken the political setting into account, it has tended to emphasize how this setting constrains what managers can accomplish. As an example, a descriptive case study of efforts to reorganize the U.S. Department of State found that managers were very limited in their ability to make any changes because external pressures combined with groups inside to create hierarchies and complex rules and regulations that were difficult to change. There were strong political pressures to set up elaborate procedures for checking on external groups and reporting on them within the agency. The result was an enormous volume of information and considerable internal strain (Warwick, 1975, 193). In the face of such external pressures, the literature reminds us that managers may not have the freedom to use organization and systems theory to design organization structures to fit their environment. Nor do managers always have the political authority to do so (Uphoff and Esman, 1984).

Other studies within public administration fit within what is called public management theory and are essentially efforts to combine public administration and management science. A review of recent examples of these studies concludes that they remain heavily oriented to private sector criteria and concerns.[27] This means that like the generic management literature, these studies emphasize internal aspects of management and pay less attention to political influence and leadership. Because the political arena is difficult to influence, it is tempting and natural to focus on the internal life of an organization where presumably it is easier for managers to have an impact.

This chapter has used the earlier discussions of programs and development to propose five management functions. They define the opportunities of managers quite broadly, assigning managers a potential role in policy discussions and institutional design as well as in carrying out the operational tasks of a particular program. This means that the book will consider theories about ways in which managers participate in the policy process and in the political arena as well as how they function within their organizations. The next chapter incorporates these functions into a framework for examining and comparing several approaches to program management.

Finally, the chapter examined the dominant emphases in the literature on managers and organizations and considered how it dealt with the functions. Much of the literature, from the fields of both public administration and private management, emphasizes the constraints on managers, and the influences that determine what they do, and pays less attention to their opportunities for altering or influencing their situations. At first glance management studies seem to be an exception because they focus on ways in which managers can apply skills and techniques to make a difference. However, these studies usually do this by greatly narrowing the arena within which managers function. The political and institutional arenas are essentially givens within which managers apply skills to make marginal differences. There is less attention to how managers can use these skills to make substantial change or to influence what goes on outside their immediate context. One of the guiding questions that is addressed to each of the approaches in Part 2 is whether any of their recent applications have gone beyond these limitations and whether these writings point to increased opportunities for promoting developmental change.

Notes

1. Leonard (1986) distinguishes among four aspects of management: policy making, organizational leadership, internal administration, and monitoring routines (bureaucratic hygiene).

2. Heaver refers to the "important managerial role of middle and junior level staff, especially field staff, whom the literature on bureaucracy has tended to ignore" (1982, ii).

3. See also Brinkerhoff (1986); and D. Korten (1984).

4. It is usually assumed that the larger the program agency, the less autonomy or discretion a program unit will have because the larger an organization is, the more specialization there is, and the more the agency is inclined to standardize and regulate activities in order to control or coordinate it (Robey, 1982, 196–199; Blau and Schoenherr, 1971). On the other hand, a relatively small program located in a large agency may be given considerable latitude precisely because of their respective sizes.

5. Some treat resource dependency as a separate characteristic (Hannan and Freeman, 1977; Pfeffer, 1982), others as just another "strategic contingency to be managed" (McKelvey, 1984, 641).

6. A more elaborate classification lists five relations between political elites in an agency and program managers: (1) *classical technocracy*—policy makers formulate specific goals, and delegate technical authority; (2) *instructed delegation*—policy makers formulate specific goals but delegate administrative authority to design programs; (3) *bargaining*—policy makers formulate goals and then bargain with managers about the best way to accomplish them; (4) *discretionary experimentation*—policy makers support vague and undefined goals and delegate broad authority; (5) *bureaucratic entrepreneurship*—policy makers support the programs formulated by the program managers (adapted from Nakamura and Smallwood, 1980, 114–115).

7. The lack of authority may be compounded by the role of donors, as in the following example:

> The director of irrigation for the Northern Region (Ghana) had to forego a whole construction season because he could not get both the budget expenditure authorization from the Treasury and the foreign exchange approval from the Central Bank at the same time. . . . He had funds in his budget, but they were released on a quarterly basis, and by the time he could get Central Bank approval, his Treasury authorization had lapsed. Several million dollars worth of equipment consequently lay idle during the non-rainy months when they could have been used (Uphoff and Esman, 1984, 150).

8. Paul also distinguishes among legal, effective, and induced autonomy. Legal autonomy refers to an organization's formal powers; effective autonomy is the amount of authority the organization actually enjoys; induced authority refers to the permission a supervisory body gives to a unit to exceed its formal authority (Paul, 1982, 120).

9. Annemarie Walsh has helpfully stressed this point and notes that by and large the development administration literature has ignored these tensions (correspondence, 1986). The collection of essays in Grindle (1980) is probably the best source on this issue.

10. Montgomery finds that managers in southern Africa place relatively little emphasis on policy analysis skills (1985).

11. Several authors emphasize this point. See, for example, Grindle (1980, 15–16); Thomas (1985, 14); Cohen et al. (1985); Heaver (1982); Saasa (1985); and Montgomery (1979a, 58). Montgomery stresses that managers are often in a position to propose alternatives that were overlooked in the political process.

12. Rondinelli distinguishes among three aspects of capacity: "appropriate organizational structures," "efficient administrative processes," and "uses of appropriate human resources" (1986a). Mintzberg identifies five aspects of capacity building: allocating resources, handling disturbances, monitoring performance, disseminating information, and exercising leadership with personnel (Montgomery, 1986b). Montgomery, focusing specifically on development management, includes four sets of skills: motivating subordinates, managing resources, handling organizational relationships, and analyzing policy (1985).

13. According to a recent text on management, "Instead of describing management as decision-making, we could describe management as information gathering and be more descriptive of the actual emphasis of managers" (Pfeffer and Salancik, 1978, 266).

14. Although it is assumed here that development requires managers to function in an interorganizational setting, the evidence is somewhat ambiguous. Based on research on top level managers in African nations, Montgomery underscores that "few organizations can operate independently of the activities of other organizations" (1986b, 214). In another article using the same data base, he notes that in reality managers spend little of their time relating to other organizations (1986a).

15. Mintzberg reports research that managers spend almost half their time in liaison with other organizations. In spite of this, he observes, management theory usually ignores this aspect of the manager's role (1975).

16. Several authors note that coordination is a greatly overused word. According to Chambers we often recommend coordination to hide the fact that we really do not understand how an organization works (1974, 25). See also Honadle and VanSant (1984, 42).

17. Leonard observes that next to the policy environment, "organizational leadership" is the most critical aspect of management (1986).

18. Burns observes that leadership includes both the ability to make transactions and to transform others (1978). Another recent management study that emphasizes transforming leadership is Peters and Waterman (1982).

19. The relevant literature is vast. Sociology offers organization theory, systems theory, and group behavior. The psychological and social psychological fields offer motivation studies and small-group behavior. Political science and public administration offer theories about the nature of power, the theory of the state, and the role of citizens. Economics offers micro economic theory of behavior and the derivative field of operations research. Anthropology offers insight into the influence of culture on organizations. There are hybrid fields, such as implementation, organizational development, and policy analysis that draw from several disciplines. Clusters of literature have grown up around specific topics, such as community development, lower level bureaucrats, and citizen participation.

20. Those who argue that Western-based studies have limited relevance stress the importance of cultural differences (Hyden, 1983; Moris, 1981). Others find Western studies are more applicable than is often assumed, particularly when they deal with such generic issues as motivating personnel rather than coping with environmental pressures (Kiggundu et al., 1983; Leonard, 1977, 229–238).

21. One review found that the management literature deals with three kinds of variables—characteristics of individuals, descriptions of their behavior, and the results or outcomes of their behavior—but studied them independently of each other. "All three must be studied concurrently, and the effects and moderating influences of different organizational environments must be included as well" (Campbell et al., 1970, 12). Luthans and Davis (1982) review this literature.

22. See Gricar (1984, 3); and Smith, Lethem, and Thoolen (1980).

23. A new body of literature within organization theory, identified as the "population-ecology approach," leaves virtually no room for managers to exert influence beyond altering routine internal procedures. "Ecology" refers to the emphasis on the environment of organizations. "Population" is used because the theory looks at clusters of organizations. Managers can do little to adapt, any adjustments they make are inconsequential in the long run, and there are "structural inertias" in organizations that keep them from adapting (Hannan and Freeman, 1977). In the end what matters are an organization's resources, not how the organization is managed (Aldrich, 1979, 111).

24. Two recent studies that relate organization theory to the statutory nature of public policy and implementation are Gortner, Mahler, and Nicholson (1986); and Harmon and Mayer (1986). See also an earlier study by Sabatier and Mazmanian (1979).

25. See Warwick (1975); Sedgewick (1981); Stone (1980); Miller (1984); and Brown and Covey (1985).

26. Brown and Covey argue persuasively that this oversight also characterizes the organizational development literature where the level of analysis is at the individual, group, or organizational levels and ignores interactions with the environment (1985). Leonard notes that the management science literature discounts leadership (1986).

27. See Overman (1984). Hammergren makes the same observation in the context of reviewing development management studies (1983, 189).

3

Identifying Approaches

The definitions of programs, development, and management in the last two chapters proposed five specific management functions relevant to promoting developmental changes in a society. One way to proceed would be to review the literature and the evidence from specific experiences to summarize what has been learned about each of these functions. It would be quickly apparent, however, that observers and practitioners differ about which functions are most important and what they look like in practice. The framework needs another dimension, therefore, one that identifies the major theories about management that are particularly useful in the context of development programs. This will be the purpose of this chapter. To introduce the approaches and make them more concrete, Chapter 3 begins by briefly describing a specific agricultural development program. The chapter then uses the literature on the program to illustrate several approaches or ways to explain why the program was generally successful.

A Development Program: Masagana 99

The Masagana 99 program in the Philippines is one of the most ambitious and heavily documented development activities.[1]

Launched in 1973, in the wake of devastating floods throughout the nation, it has sought to bring about a massive increase in rice production in rural areas long devastated by poverty and low agricultural productivity. The term *masagana* means "bountiful," and the number 99 refers to the target amount of rice to be grown on each hectare, both very ambitious goals given the poor record of rice production at the time.

Even though Masagana 99 (M-99) began as a short-term project, it evolved into a much more elaborate activity, which fits the working definition of programs outlined in Chapter 1. M-99 is the responsibility of an established agency, the Ministry of Agriculture, particularly its Bureaus of Plant Industry and Agricultural Extension. M-99 has continued for a long period of time, has required additional resources, and has been altered and adapted. A number of institutions, in addition to the Ministry of Agriculture, have been involved in implementing the program, including banking and research institutions and local provincial units. M-99 consists of a number of different activities, such as providing seed, offering credit, and marketing the produce, and also has been applied in a number of different settings or provinces. Finally, M-99 is a public policy, assigned high priority by the Philippine government.

The program also fits the definitions of development and sustainability from Chapter 1. It is consistent with the nation's development goal of becoming self-sufficient in rice and has clearly attempted to expand the country's capacity to be more productive in agriculture and to improve the capacity of those organizations concerned with agriculture. The program's long-range goal is to improve the earning capacity of rural areas, essential to improvements in the quality of life throughout the nation. As suggested by the definition of development, program managers are working within a very difficult setting. There is severe poverty and maldistribution of income, and the institutions servicing rural areas and available resources are very limited. Consistent with the characteristics of sustainability, benefits have been continued for more than a decade and appear to address a felt need in the countryside for improved agricultural productivity. Managers have been successful in developing continuing resources and have emphasized the need for effective organizations and procedures. Finally, managers have worked to build support for the program within the broader political system.

The discussion in Chapter 2 proposed that in order to capitalize on the dimensions of the program and to successfully accomplish its development goals and ensure their sustainability, managers would need to contribute to shaping program content, develop the capacity of implementing organizations, gather additional resources, deal with multiple organizations, and exercise leadership.

In the Masagana case these functions were carried out by managers at two levels: at the national level, particularly those managing the program in the relevant bureaus and in the National Food and Agriculture Council (NFAC), a multiagency body; and at the provincial level.[2] Descriptions of M-99 illustrate the kinds of activities associated with each managerial function.

Contribute to Development Content of Program Design

Earlier efforts to increase rice production had failed. Part of the reason was that the problem had been defined too narrowly, and planners had focused only on production and not on supporting conditions such as credit and training. In the meantime high-yielding varieties of rice seed became available, but it became clear that new seed was not enough, that "the small farmer certainly did not have the means and capacity to procure the needed inputs and integrate them on his own" (Paul, 1982, 40). The program therefore had to do more than provide a new technology. Managers in the Bureau of Agricultural Extension designed a pilot project to explore ways to bring extension services and loans to the farmers. The results were adopted by the Ministry of Agriculture. In the course of implementing the program, managers responded to experiences and changed a number of practices. For example, they learned that it was important to consider incentives in the banking industry and find ways to leverage available funds.

Enhance the Development Capacity of Implementing Organizations

The capacity of several different organizations was improved, particularly the Ministry of Agriculture and the NFAC. Designers also considered the capacity of two other clusters of institutions: first, other national level agencies dealing with components of the program, such as the Central Bank, the University of the Philippines, and the International Rice Research Institute; and second, related organizations scattered throughout the rural areas such as small private rural banks and provincial offices that organized extension efforts. The major capacity-building innovation was a fairly elaborate management information system for collecting and reporting information on loans and crops. In another innovation managers set up barrio offices close to the farmers' fields that allowed the managers to monitor how the extension agents were performing and how successful the program was in training, monitoring, and supporting the agents.

Expand Program Resources and Political Support

Although the government had committed sizable funds to the program, managers found that much of the capital was being directed to large borrowers rather than to poorer farmers who would be risky to the banks. Tanco, the minister of agriculture, notes that "fortunately there were financial mechanisms available which would allow us to use a relatively small amount of money to leverage the funds of the banking system" (1983, 59). He also confirms the importance of gaining the support of others throughout the government and private sector whose contributions were needed.

Work with and Coordinate Multiple Organizations and Groups

National level managers had to gain the commitment of many people not under their immediate chain of command. They had to promote the program to provincial level bodies and help them set up a viable system for reaching farmers and dispensing supplies. Provincial level managers had to work with local organizations, with local banks, and with local representatives of a number of program agencies.

Exercise Leadership

Descriptions of M-99 contain numerous examples of innovative and creative leadership. Tanco, the minister of agriculture, was an exceptionally energetic and imaginative leader whose personal contributions played a major role in the program's success. Descriptions also attest to the creative leadership of a number of provincial level officials, such as those who set up the barrio offices mentioned earlier.

The studies of Masagana 99 also illustrate a number of different perspectives or theories about the nature of development and management. One approach examines the *goals of the program* and the best way to accomplish these. From this perspective the most important task for the M-99 managers is an analytic one—to define the problem, set goals, design strategies, and adjust and monitor these. This perspective looks for evidence of discussions

conducted among various participants, the kinds of questions they asked, and the ways in which they defined their objectives. The goal approach emphasizes the numerous conversations among different parties and the extensive management information system for targeting and monitoring the uses and repayment of the credit.

A second approach emphasizes the *unpredictability* of implementation. Those who take this perspective would not be particularly surprised at recent evidence that in spite of all the attention placed on extension workers, it is not at all clear that they made the difference claimed for them (K. Smith, 1986). This approach would look for evidence that those involved had a number of other concerns to deal with and would consider whether any of these presented opportunities to managers.

A third approach focuses on the *bureaucratic procedures* for delivering the credit and technology packages and the kinds of incentives offered to different parties to gain their support. From this perspective observers noted that local government officials were having a hard time fitting into the system, partly because agricultural field staff reported to ministry officials as well as local provincial officials. This arrangement made it more difficult for the latter to use their influence to promote the program. Those using this perspective would also be interested in how managers were monitoring the extension agents and would be particularly interested in efforts to organize the agents into small work groups.

A fourth approach emphasizes the need to develop appropriate *institutions* for carrying out M-99 and would look at how NFAC was organized and whether new institutions were needed to carry out the program goals. This approach would be particularly interested in a number of institutional innovations that were tried. For example, NFAC set up Provincial Action Committees (PACs) in each region, which brought together representatives of public and private sector organizations. NFAC also established a second set of organizations, Municipal Action Teams (MATs), composed of mayors and technicians at the village level. The fourth approach would look for evidence that these were more effective than traditional ministerial organizations, which had been tried and found wanting in prior efforts to increase rice production.

A fifth approach stresses the need to *involve the community* directly in the program, by working through local organizations and reorganizing the bureaucracy so that it can work effectively with these organizations. Those adopting this approach would look for evidence that managers were "concerned not only with increase in output, but also with welfare, equity and community self-reliance." They would be interested in one particular report that describes the response to an attack by army worms in one of the regions. To deal with the attack, the provincial manager decided to organize and work through the local leadership rather than go directly to the farmers. He

> refused to distribute his limited supply of pesticides to individual farmers or to dispatch his technicians to save individual farms. He insisted instead that the mayors organize the corn farmers in their municipalities to locate the areas of infestation and to prepare the farmers to carry out a coordinated spraying operation which his technicians could supervise (de Jesus, 1983, 74).

Yet a sixth approach emphasizes the *political dimensions* of the task, the need for managers to get the support of many different resources and to gain the commitment of people throughout the system. This approach is interested in evidence that managers negotiate with different parties and try to persuade others to participate. Apparently this did occur. Paul observes that "a great deal of negotiation as well as pressure were applied on the rural banks from the highest quarters to gain their support to the program" (Paul, 1982, 42). In addition the minister of agriculture gave a classic statement of political leadership in observing that "cooperation must be gained through desire rather than command. This requires making oneself invisible and giving credit to each of the participants in the process, focusing attention on those who are successful, quietly admonishing those not doing their jobs" (Tanco, 1983, 56).

M-99 is interesting because each of the approaches points to some important aspects of the actual program. These particular approaches were chosen because they seem relevant to the functions described in Chapter 2 and also because they reflect some of the more interesting debates and emphases in the development management literature. The approaches are not necessarily in conflict, although they may be in a particular case. However, they do emphasize different parts of the framework and different strategies for dealing with the functions in the framework. The rest of this chapter discusses the value of explicating a variety of approaches and proposes a framework for studying program management that relates the five functions described in Chapter 2 with the six approaches or theories described in this chapter.

Approaches in the Management Literature

For some, distinguishing among strategies and techniques is a convenience, a pragmatic way to organize what seems like an endless variety of recommendations. Others add that observers always view the world through particular viewpoints or lenses. They inevitably work from assumptions that determine what is emphasized, what features of a situation are examined, and what values are held. In Graham Allison's words, what each "judges to be important is a function not only of the evidence about what happened but also of the 'conceptual lenses' through which he looks at the evidence" (1969, 689). Each set of lenses raises certain questions and issues and neglects others. In this case the lens filters how one views the development task and the role of managers.[3]

Although approaches may appear to be academic constructs that complicate rather than clarify issues, they enable us to cluster and compare a wide variety of proposals. When the approach that is implicit in any management strategy or technique is clearly articulated and the assumptions are spelled out, it is possible to go beyond surface characteristics of the strategy and compare it with others. For example, one analysis of the Masagana 99 program proposes that managers could be more effective if they used the information system to closely monitor provincial offices (K. Smith, 1986). Another proposes that managers should place more emphasis on organizing local communities of farmers (de Jesus, 1983). Considered alone, each of these becomes one in a long series of more or less persuasive studies. Associating a recommendation with a particular approach in the literature, however, clarifies its assumptions and provides a basis for assessing its strengths and weaknesses.

The most widely cited models in the development literature distinguish between blueprint and learning organizations or between top-down and bottom-up management.[4] Blueprint models try to identify as many contingencies as possible ahead of time, then lay out a plan to cope with them and accomplish stated goals. Managers then apply this plan, use it to monitor what is done, and apply it as a criterion against which to evaluate results. A learning model, by contrast, assumes that knowledge and hence plans can only come out of the implementation process itself. It recommends organizational procedures that enable managers to collect information in order to design experiments and then learn from these and make adjustments. The two models are based on different assumptions about the development context and about implementation processes. The blueprint strategy assumes that managers can and should preplan activities and exert control, while the learning strategy assumes that preplanning and control lead to failed or ineffective projects.

Although the contrast between these two approaches is simplistic, it does capture a pervasive condition in the Third World. In many developing countries bureaucracies continue to be steeply shaped hierarchies in which decisions and plans are prescribed in detail and management consists of carrying out the plans, exerting as much control as necessary in the process. A blueprint approach also has been reinforced by donor funding procedures insofar as they require fairly elaborate initial designs in order to satisfy funding bodies.[5] Finally, a large literature uses the dichotomy to argue that blueprints are not suited to rapidly changing and unpredictable environments and that learning approaches that emphasize trial and error and adaptation are more useful.

The problem with this dichotomy is that many reject the blueprint strategy but still do not agree on the value of any particular learning strategy. Or they argue that there are different ways to learn and that a single strategy does not describe them adequately. Furthermore, the apparent rigidity of blueprint planning does not hold in the real world where negotiation and adaptation characterize most development efforts. In any case the distinction does not capture the range of debate within the development community and easily lapses into a caricature of some important and real differences.

The description of Masagana 99 introduced six approaches: the goal-directed analysis approach, the revisionist or anarchy approach, the bureaucratic process approach, the institutional analysis approach, the social learning approach, and the political influence approach. Each is based on a description of how managers function and contains prescriptions for improving the process (see Table 3.1).[6] The approaches have been selected very pragmatically—which deal with salient problems in managing development programs? Which capture the major debates in the field? Which have been most important in influencing particular practices and interventions? Each approach deals with the management functions described earlier from a different perspective. The perspective may be based on a particular normative definition of development or on an empirical proposition about the effects of

TABLE 3.1 Approaches to Program Management

Assumptions About Managers	Prescriptions for Managers
1. *Goal Directed:* Management is an effort to achieve program goals; it emphasizes the setting of appropriate objectives and monitoring results.	*Rational Analysis:* Improve decisions by making analysis and actions more rational.
2. *Management as Anarchy:* Managers have far less ability to anticipate or control what is done than many assume. Participants have many items competing for their attention.	*Control / Flexibility.* Strengthen and broaden reactive capabilities to maximize both control and flexibility and take advantage of opportunities.
3. *Bureaucratic Process:* Managers need to coordinate members and sub-units in their organizations and establish procedures and routines to do so.	*Incentives:* Provide sanctions and incentives to members and sub-units to cooperate.
4. *Institutional Analysis:* Use analysis to propose the set of institutions suitable for carrying out a program most efficiently and responsively.	*Economic efficiency:* Develop institutions that will lower the costs of decision making and make them more responsive.
5. *Social Learning:* Management is a process in which all stakeholders have a role. Involving others elicits their assistance, gives them a power base, and reorients organizations.	*Involvement:* Organize beneficiaries and involve them directly in design and implementation.
6. *Political Interests:* Managers work in an arena of many different interests; program objectives and strategies reflect patterns of influence.	*Influence:* Use influence to mobilize support; show leadership; broker interests; persuade and educate.

interventions. In some cases the approaches take opposing positions; at other times the approaches simply emphasize different functions.

Classifications of approaches usually rely on simplified descriptions that emphasize the differences among them. The blueprint/learning dichotomy illustrates this problem of oversimplification. Proponents of the learning approach tend to lump all strategies they define as "not learning" into a single category and define it as a "blueprint" approach. Although this is a useful way to clarify differences, it obscures any variations and developments within an approach. Even a cursory review of the development literature illustrates that proponents have refined and applied the approaches in a variety of innovative and interesting ways. The descriptions of the approaches in Part 2 will try to reflect this richness by presenting each approach from the perspective of its advocates and by taking into account a number of different statements of each approach.

A Framework for Studying Program Management

The functions described in Chapter 2 can be combined with the approaches or theories identified in this chapter into a single framework or matrix (see Table 3.2). The table indicates which

TABLE 3.2 A Framework for Studying Program Management

	Theories of Management					
	Goal Directed	Anarchy	Bureaucratic Process	Institutional Analysis	Social Learning	Political Influence
Management Functions						
Contribute to development content of program design	■	■		■	■	■
Enhance the development capacity of implementing organizations	■	■	■	■	■	
Expand program resources and political support					■	■
Work with and coordinate multiple organizations and groups			■	■	■	
Exercise Leadership	■	■				■

functions are emphasized by the respective approaches. The purpose of the rest of the study is to explore how each theory or approach defines and describes these functions. To return to the metaphor used earlier, the approaches serve as conceptual maps. They determine the contours of the territory that is examined and make assumptions about which functions are most important and how they should be pursued in practice. The present chapter concludes with a brief section illustrating how management studies make implicit assumptions that influence their analysis and prescriptions. It is optional, however, and readers may move directly to Part 2.

Illustration: Implicit Assumptions in Implementation Studies

It may not be self-evident that theoretical assumptions or approaches really do make a difference in viewing management functions. This section describes a particular management study in order to illustrate that management strategies are based on specific, and usually implicit, assumptions. Although observers may describe a given activity as though its characteristics were objectively true, they inevitably emphasize certain aspects of management and not others. These emphases, in turn, can be traced back to theories about the management process.

For example, consider the literature on implementation. Its major thesis is that policy mandates usually are sidetracked by those responsible for implementing them.[7] Given that policies are easily diverted by managers pursuing their own agendas, the studies conclude that policy elites need to find more effective ways to control managers and hold them accountable to the original goals. Note the assumptions on which these recommendations are based—first, the original goals can be adequately defined prior to implementing them; and second, if managers change program goals, they are doing so because they have their own interests. Note also that the studies discount the possibility that managers may be adapting the program goals to their situation, and the studies fail to ask whether managers are justified in redefining program goals.

A recent study of implementation illustrates how important these assumptions are. The authors propose that when a policy requires managers to change how they usually do business, managers will implement the policy only if two things are true: One, does the policy include adequate resources to absorb the expenses of a new program? Two, does the policy goal define what managers should accomplish fairly precisely, or does it state vague and general purposes such as "improved health"? Based on these two variables—adequacy of resources and specificity of goals—the authors develop a typology to predict whether or not managers will implement the policy mandate. Table 3.3 predicts when managers will implement a program goal that involves new routines and activities.

In Cell A the goals are vague, giving managers an opportunity to deflect the program to fit, rather than change their ongoing routines. At the same time the resources are adequate, meaning that the program does not compete with other activities, and hence managers are able to carry out the program if they wish. The predicted result is indeterminate. Managers will implement the program if they want to—otherwise they will not. In Cell C, however, one can predict that managers are least apt to carry out the program. On the one hand, they still have discretion, but now the resources are inadequate, and the new program has to compete with other activities. The theory therefore predicts that managers will continue to pursue their existing routines and goals, rather than advocate change. In Cell B managers are most likely to carry out the program. Here they have no discretion, and they also have adequate resources. Cell D conditions create tension because managers have discretion to adjust the program but do not have any additional resources. In this situation implementation is unlikely (Montjoy and O'Toole, 1979).

Accepting this set of predictions at face value, policy makers are advised to give managers little or no discretion; instead policy makers should make the goals very specific and should give managers adequate resources. Otherwise there is little expectation

TABLE 3.3 Predictions About Program Implementation

Adequacy of Resources	Nature of Program Goal	
	Vague	*Specific*
Adequate	A (indeterminate)	B (most likely)
Inadequate	C (least likely)	D (unlikely)

Source: Adapted from Montjoy and O'Toole (1979, 466).

that the policy will be translated into a program and successfully implemented. There are other perspectives, however, that argue for giving managers considerable discretion and claim that without such discretion they will be stymied from carrying out a program. The only way to understand the tradeoffs in withholding or granting discretion is to examine the underlying assumptions in the study.

Note the assumption that managers are bound by existing organizational routines and are reluctant to change unless pushed in that direction. From this perspective one can deduce that policy makers need to apply incentives, in this case resources, to encourage managers to do what they would not do otherwise. A second assumption is that managers are primarily technicians whose role is to translate policy into programs but who have no particular role in shaping or influencing program content. These two assumptions fit those of the bureaucratic process approach, which prescribes that managers have to establish routines and provide incentives to mesh the different parts of an organization. Further, managers focus only on program goals when these do not conflict with existing organizational procedures.

The assumptions in another approach, however, lead to different predictions. Based on the social learning approach, programs that fit the conditions of Cell A are likely to be sustained because they allow managers to adapt a program to local conditions. Similarly, programs that fit into Cell C are most apt to encourage middle level managers to turn to the community for contributions and insights. By this reasoning the lack of resources presents an opportunity, rather than a constraint.

Notes

1. The case to be described here draws from the following sources: Paul (1982); Tanco (1983); de Jesus (1983); and K. Smith (1986).

2. For an interesting analysis of the way in which one particularly innovative provincial program officer (PPO) managed the program in his province, see the study of Mario Corcolon by de Jesus (1983).

3. The notion that there are different approaches to managing programs fits with recent developments in social theory. Our theories of reality are actually "social constructions" that different people and groups create based on their values and situations. One purpose of analysis is to "unmask" these constructions by showing how they are grounded in particular world views and situations. Perrow refers to this as "deconstruct-

ing society." "For a couple of centuries we have been 'constructing' a world that we view as organized on rational principles. . . . All this is now being questioned, and we are thus beginning to 'deconstruct' this construction" (C. Perrow, 1986a, 137). Another important source for this approach is the work of Thomas Kuhn, who notes that we view the world through paradigms. Paradigms reflect different empirical theories about reality and are not merely different value positions (1970). The concept of an "approach" used in this study shares some of the characteristics of Kuhn's paradigms, but is a looser collection of theories and perspectives and not a formal theory or model. Harmon and Mayer pursue an analogous approach (1986, Ch. 4).

4. There is a considerable literature based on these two models: Landau and Stout (1979); and Stout (1980) present basic theoretical models of blueprint or control and learning. Others have applied these two models to the development arena: D. Korten (1980); Honadle and VanSant (1984); Sweet and Weisel (1979); Bryant and White (1982); Moris (1981); Rondinelli (1983); and Chambers (1985, 25).

5. See Tendler (1975). In the case of USAID it is important to acknowledge that Congress demands that it set operational goals and hold host countries accountable for predesigned activities.

6. Scott questions the common emphasis on what organizations do and suggests we should ask if they are doing the right thing (1981). This study assumes that we need to do both.

7. For example, see Bardach 1977); and Pressman and Wildavsky (1973) for studies based on Western experiences. Montgomery (1979a) and Ingle (1979) review implementation studies from a development perspective.

Part 2
Approaches to Managing Development Programs

The framework developed in the last chapter included a number of different theories or approaches to thinking about development management. Recall that they were identified on a largely pragmatic basis. They capture the major debates in the literature on development management and seem particularly germane to the problems and opportunities posed by managing development programs. Part 2 develops these approaches in more detail. Each of the next six chapters begins by stating the core assumptions in an approach and then indicates which of the functions it emphasizes and what kinds of questions it poses. Because some emphasize one function and some another, they are not always strictly comparable. Nor are they always mutually exclusive. Proponents of an approach could often say to those who apply another approach, "Yes, I agree what you say could be correct, but I don't think it is the most useful place to intervene."

Each chapter then discusses some of the problems associated with a given approach and goes on to describe a variety of ways in which an approach has been developed and applied in practice in order to compensate for these potential problems. The only way to understand and appreciate the approaches, in fact, is by looking at applications and by recognizing the considerable variation in the literature. For each of the approaches has become richer and more complex, taken more factors into account, and gone beyond earlier relatively one-dimensional statements. This emphasis on the elaborations and applications in each approach is an important theme of the book. The vast literature that distinguishes among ap-

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Organizational Change as a Development Strategy

Models & Tactics for Improving Third World Organizations

Jerald Hage and
Kurt Finsterbusch

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1

Organizational Change as a Strategy for Development

For more than three decades donor agencies such as the U.S. Agency for International Development (USAID), the World Bank, and La Cooperation, as well as government agencies in less developed countries (LDCs) in Asia, Africa, and Latin America, have intervened in organizations.[1] The interventions usually have been for short-term projects and any organizational changes were typically unplanned. With time, however, organizational interventions have become more intentional. Recently, donors and LDC governments have funded projects to add new outputs,[2] increase participation by beneficiaries,[3] create new organizations, decentralize decision making, or devolve administration.[4] At the same time, LDCs want to make their organizations more effective relative to long-term development goals. Given the current interest in improving organizations, now is a propitious time to review what has been learned about organizational change in LDCs and to begin constructing a program of research and training to make organizational change more effective.

Organizational change, whether in the developed or underdeveloped world, is extremely complex. There are dozens of variables that significantly affect organizational effectiveness, and perhaps hundreds which may be important in specific cases.[5] We handle this complexity by using a systems framework that relates strategies of organizational change to the desired ends, available means, and salient features of the context. By classifying variables as components of an organizational system and by analyzing how they contribute to the achievement of goals, we use a logical framework to analyze organizational change.

Change agents must know which performance or output of an organization they want to affect and what structural arrangements can improve that performance. *The basic assumption of this monograph is that high attainment on different performances requires different structures.*[6] No single organizational model, whether bureaucracy or "ad hocracy," centralized or participatory, can claim always to be the best. In organizational theory this view is called the contingency approach to the study of organizations and is the major perspective used throughout this monograph.

This first chapter describes what is known about the practice of organizational change in the developed world and provides a foundation for the analysis of cases in the following chapters. It has four sections. The first gives a definition of organizations which designates those social collectives to which organizational theory applies. The definition of organizations is followed by a discussion of the performance-and-output gap approach to producing change in an organization. All change is at least implicitly designed to affect some output or performance; change agents need to make this objective explicit. Two performances—efficiency and innovation—are especially important since they require organizations to be structured very differently.

The third section reviews three basic literatures of organizational change: (1) industrial psychology or human relations, (2) the sociology of organizations, and (3) management research. Each of these literatures has an explicit or implicit change strategy. In human relations the strategy is explicit and is called organizational development. In the sociology of organizations it is implicit and we call it organizational theory, the term most often used in business schools. In management science the change strategy is called organizational design and is explicit. All three begin by identifying performance and output gaps in order to build pressure for change, but each focuses on different factors to improve performance and increase outputs. They also frequently differ in the kinds of outputs or performances that they try to impact. We compare these three literatures using our system's framework which focuses on culture-strategy, internal processes-functions, structures, resources-inputs, performance-output gaps, and environmental context.

The final section relates the above material to the rest of the study. We employ a special methodology, which is reflected in the

monograph's arrangement and is described in this concluding section.

Definition of Organizations

All theories must define the unit(s) to which they apply. This monograph is based on a contingency theory of organizational change, so then we need to define an organization and compare it to other kinds of social collectives. Our definition must be precise in order to prevent inappropriate applications of organizational theory and organizational design. Although some principles of organizational theory can be applied to other social collectives, such as voluntary associations, groups, families, or nations, these collectives are guided by other principles and much of organizational theory does not apply.

To designate properly the social units which are appropriate for organizational theory we use a strict definition of an organization which includes seven elements:

1. At least five years in existence
2. Minimum size of ten members
3. Members are paid employees
4. Full-time annual workers
5. A division of labor with occupational skills
6. A single core technology or product/client group
7. Specific goals[7]

These seven elements define an organization as follows:

> a social collective which has existed for at least five years, including at least ten paid employees who work largely full time throughout the year, use essentially the same core technology, and are arranged in a variety of prescribed positions designed to achieve some specific collective output(s).

The first five characteristics can be made into continuums such as duration, size, extent of reliance on salary, and so forth. In most cases, however, we emphasize a specific turning point such as is found in a temperature scale when ice turns into water at zero degrees. In this sense the definition stresses the turning point rather than the continuum underlying it. This emphasis is useful because it tells us at what point along the continuum an organization materializes and organizational theory becomes applicable. It is apparent, however, that our turning points are not as precise as the temperature at which water freezes. A collective does not become magically an organization when the tenth member is added.

We recognize that organizations are commonly defined in sociology as social systems that are explicitly designed to achieve specific goals.[8] This definition, however, encompasses many social collectives that do not conform to a common set of organizational principles. For example, it includes instrumental voluntary associations and task groups, which are very different from organizations as we have defined them.

Some of the specific details of our narrow definition of organizations may seem to be quite arbitrary and yet they are essential. Research has shown that once the number of employees is less than ten, small-group dynamics take over and it is best to apply the principles of social psychology rather than organizational theory.[9] Concretely, what this means is that the mix or "chemistry" of personalities becomes very important for the success of the small group and small-group processes dominate. For this reason we will call social collectives with less than ten paid members, but with all the other characteristics, task or working groups. As the number of paid workers increases beyond ten, the organizational or formal characteristics tend to dominate.

The number of ten employees has many practical implications for development administration. Most of the businesses in Burkina Faso (Upper Volta), for example, have less than ten employees. Organizational theory change strategies, therefore, do not apply to most of these businesses nor to many other social institutions in Third World countries because they are based on small collectives and operate according to kinship or group principles. One would want to use other strategies to improve their performance; this problem is addressed in Chapter 5 and also in the Epilogue.

Size, of course, can be treated as a continuum. As organizations grow beyond ten, other changes occur which can be relevant for a change agent. One branch of organizational design has focused on the different kinds of crises or performance gaps which occur at different stages of growth in size. As size increases, the organization subdivides into departments and eventually into divisions, with new problems of coordination arising.

Duration, like size, is a continuum but differences in age are relatively unimportant past the formative period. The first few years of an organization are unique and often benefit from high motivation. As a result, pilot projects often succeed while the organization which follows their pattern fails. Organizational theory applies to relatively fixed organizational structures and routines and these require time to build. Permanence changes the nature of social collectives and produces certain kinds of problems in the process. As organizations become older, traditions or bureaucratic procedures become more and more institutionalized. The converse is that the organization becomes more and more difficult to change. Since organizational theory presumes a fair amount of stability, we will call any organization which has been in existence for less than five years an embryonic organization. Some theorems of organizational theory may apply to embryonic organizations, but they should be retested.

Not only do many social collectives in Third World countries have few paid employees, but often their workers are not full time or permanent, working intermittently instead. When this is a problem, their performance may be improved by transforming these task groups into organizations. For example, when a volunteer fire department provides inadequate service, a regular fire department could be formed.

Local social collectives that have been in existence for more than five years and are designed to achieve specific objectives, but have nonpaid members, are usually called instrumental voluntary associations. Because they do not have paid members they have a whole series of special problems which are uncommon in organizations. Participation and compliance of community members is problematic, leadership (and especially charismatic leadership) becomes more critical, and early success is practically required for their survival. In Chapters 2, 4, 5, and the Epilogue special attention is given to instrumental voluntary associations because they provide a number of opportunities for institution building in LDCs. Although they are not organizations in the technical sense of that term, some organizational principles do apply to them.

A division of labor with occupational skills is one of the most distinctive characteristics of organizations. While it is true that families have the positions or roles of husband and wife, father and mother, and peer groups have leaders, lieutenants, and followers, most organizations have a variety of positions or roles that usually have specific occupational skills. Family roles and roles in groups are not occupations, but roles in organizations are. Even relatively small organizations have a variety of occupations. A small print shop may have three or four printers, a manager-owner, several salespersons, a number of assemblers of print orders, and so forth. The number of job titles in a large organization may number in the hundreds. Admittedly, not all titles are occupations but the variety of titles does represent a division of labor. *It is this division of labor that gives organizations their productive advantage over work groups, primary groups, and even associations, especially when it comes to achieving complex goals.*

The next component of our definition is a single core technology or product/client group. These are complicated concepts and we discuss them at some length. These criteria are necessary to distinguish multiple organizations from single organizations. For example, some people mistakenly view the national government as one organization when it consists of many organizations which provide many different services. Chandler demonstrates in *Strategy and Structure* that producing paints and nylon requires two separate organizations because different technologies are used.[10] The two organizations may share the name, Du Pont, but they are separate organizations.

The term "technology-product group" is used because some technologies have only a few products—for example, bulk steel, rubber tire, and cement manufacturers; other technologies produce a wide variety of products within a product group—for example, drugs, certain chemical products, and certain electrical products.[11] The same distinctions apply in the area of general services. Hospitals handle a wide variety of diseases, and thus clients, within the same broad "technology" of medicine which includes surgery, obstetrics-gynecology, pediatrics, and the like. In contrast, mental hospitals tend to serve one basic type of client. In the area of manufacturing we use seven-digit standard industrial classification codes to distinguish technology-product groups. In the public sector, there are no easy classification schemes. *The reason for making a distinction between technology-product groups is that widely disparate technology-product groups have to be housed in different organizations.*

The rule of thumb for deciding if a social collective is a single or a multiple organization is whether a worker can do easily the work in both collectives, a manager can handle easily issues in both, and the customers or clients of both are quite similar on the relevant dimensions. If the answers to these three questions are no, then the researcher has distinguished separate technology-product groups

and thus separate organizations even if the pay source and chain of command are the same.

It is important to distinguish the category of technology-product groups from managerial functions or occupational categories. Only differences in the former require different organizations. For example, a hospital needs housekeepers, nurses, and lab technicians as well as the appropriate medical personnel. The hospital is a single organization with many occupations arranged in departments. The same is true in the industrial sector. Various manufacturers have many of the same managerial specialists but the specific *content* of marketing, purchasing, research, and the like is different because the product group or client group is different. Thus, a single organization has a division of labor organized around a single core technology and produces products or services in a common product/client group. When the range in the behaviors, skills, and knowledge in the technology/products is substantial, however, then separate organizations should be formed around the different technology-product groups. For example, the treatment of acute and chronic mentally ill patients is so different that they must be housed in separate organizations. They differ in the nature of their staffing ratios, the kinds of specific difficulties they encounter, and even the level of the qualifications of their employees. The occupations involved, however, are similar. It is not the mix of occupational skills or job titles but the specifics of what the personnel do that is the heart of the technology-client group distinction.

Normally, organizational elites learn the hard way what the limits of their managerial expertise are. McNamara's whiz kids, who did such an effective job with Ford, took on Philco and mismanaged it. Exxon has mismanaged most of the small, high-tech companies which it bought. Indeed, many of the conglomerates have not done well. Peters and Waterman observe that effective, large companies "stick close to their knitting," meaning that they stay close to their core technology.[12]

Why must different technology-product groups be housed and managed separately? The reason is that each kind of technology-product group has a whole series of specific skills which are not covered by general principles. In addition, there are limits to a person's cognition that prevent one from being a master of all trades. (Herbert Simon made this a cornerstone of his theory of administrative practice.)[13]

The last element of our definition is the specific outputs or goals of the organization. The specific goals are intrinsically linked to the organization's technology-product/client group. These are called instrumental goals or specific outputs because they are tangible and measurable, such as teaching, healing, making cars, making steel, and so on. When outputs are not clear or easily measured, success or failure is not demonstrable and performance tends to suffer. This is a problem for many public sector organizations.

In summary, our definition of an organization as one kind of social collective is complex and narrow, but this precision is absolutely necessary if organizational change strategies are to be applied properly. Making proper distinctions is a basic principle of science and we dishonor the organizational literature when we apply it to other kinds of social collectives. In fact, the literature on the sociology of organizations has a set of limits which we have tried to specify. As one moves farther and farther away from our definition, its applicability becomes less and less.

Performance and Output Gaps

A change effort must begin by specifying the change desired. Influential persons in the organization, or in a parent organization, must perceive a gap between the performances and outputs of the organization and acceptable levels of these performances and outputs. Otherwise, they will not change the organization. *A basic assumption of this monograph is that the motivation or pressure for change results from the identification of a performance or output gap that is valued by organizational decision makers.*[14] This assumption agrees with Leonard's remark: ". . . We know of no stronger impetus to administrative reform than clear, objective evidence of poor performance in a significant output area."[15]

No formula can be provided for identifying the performance or output gaps which will mobilize pressure for organizational change. The performances or outputs that are important to influentials vary with types of organizations and with cultural differences between societies. They even vary among organizations of the same type in the same society.[16] Nevertheless, change agents can begin their investigation by testing the assumption that the influentials are interested in increasing effectiveness, efficiency, and/or the volume of outputs, as long as other important interests or values are

not sacrificed in the process. This assumption holds in almost all of the cases reviewed in this book.

Most change agents focus on increasing the volume of output, e.g., number of letters delivered, number of bridges built, number of adults who are taught to read and write. It is important to increase outputs but it is often more important to improve performances, especially efficiency or innovation.

Efficiency can be defined as the cost of delivering those letters, building those bridges, or providing those literacy campaigns. Many of the interventions in developing countries are in public sector organizations, but, as we can see, efficiency can be measured in these as well.[17] Innovation creates new products and services or new methods and processes. Innovation would develop new types of mail delivery services, new methods for building bridges, or new programs for educating adults. Innovation is also the addition of new services to the same organization.

Organizations have official objectives and top management can develop clear and detailed goal satements in guided discussion groups,[18] but these may not be the important objectives for the people with influence in the organization. The change agent, therefore, must find out who the influentials are and what their goals are for the organization. One method for discovering the real goals of the organization is to arrange discussions in unstructured groups. Another method is to examine the transactions between the organization and its environment (customers, suppliers, government agencies, and the like) and deduce the values which best explain these interactions. It is important to pay close attention to what organizations actually do and what they accomplish. Often the change agent will have to collect data on accomplishments to make performance or output gaps clear, because often organizations believe they are performing adequately when they are not. For example, recently, high schools in the United States have found out that they are graduating a shockingly large number of illiterates.

It is widely understood that interests influence the choice of goals. Usually the goals of an organization are determined by the interests of the decision makers. It is easy to overlook, therefore, the influence of ideas and ideologies on goals unless they are the ideas and values of decision makers. We draw attention, therefore, to five sources of ideas and ideologies that can influence critically the organization's goals, i.e., the performances and outputs that an organization emphasizes. These sources are the vision of a dominant person, the perspective of an occupational group, the strategy of the organization, the political ideology of the society, and the values of the society's culture. We give examples of these influences below.

There are many famous stories of the role founders of large corporations, such as Ford, Rockefeller, Vanderbilt, and Hughes have played in piloting their organizations, for better or for worse. They were leaders of vision, but sometimes performance or output gaps are created because the top person pursues one objective too relentlessly—using his position to stay on course even in the face of a performance gap. Consider the example of Eddie Rickenbacher, head of Eastern Airlines from 1935 to 1959, who constantly tried to reduce costs. Coffee and cookies were served instead of breakfast, seating was five abreast rather than four, and male flight attendants were hired to avoid pregnancy leaves. As the American public demanded more and better service, Eastern Airlines lost customers and profits. Although Rickenbacher retired in 1959, he remained on Eastern's board and continued to influence corporate policy. The airline did not recover until Floyd Hall took over in 1973 and bought new planes, emphasized customer service, and worked to change the image of Eastern Airlines to one of quality service. By 1975 profits were restored.[19] Eastern Airlines was an example of an organization which failed to change, even when faced with a performance gap for an extended period of time, because of the ideas of a single man.

Certain occupational groups can also dominate an organization, in which case their values will determine what is most critical. In *On a Clear Day You Can See General Motors* DeLorean describes how finance specialists gained and maintained control of General Motors.[20] Just as with Eastern Airlines, the consequence was a lack of innovation and too much concern with efficiency, which eventually led to GM's loss of market share to Japanese manufacturers who were more innovative.

Another influence on the choice of performances and outputs is the organization's selection of a strategy of success. The Ralston Purina Company provides an example.[21] When its competition reduced their prices, Ralston did not respond; instead, its strategy was to protect profit margins even if it lost business in the process. This strategy reflected its goals—to protect profit margins rather than to maintain a share of the market. Given this strategy, change is not possible until profit margins fall.

The development strategies of political elites can also influence the preferred outputs and performances of the organization. A society such as Korea's, which has set very ambitious goals of rapid economic growth, puts enormous pressure on managers to achieve constant gains in productivity. Political leaders in Tanzania, on the other hand, have chosen equality as their definition of development, a choice which creates other kinds of pressures on managers.

Finally, the larger values of the society and its culture help determine the relative importance of the various performances, outputs, and objectives of the organization. Corruption is defined in the West as a performance gap in government, but in LDCs it may simply reflect the positive cultural values of tribal or kinship loyalty. Efficiency has been a dominant value in the United States, but it is not valued everywhere. Presthus studied a Turkish organization filled with engineers which was inefficient by American standards. He discovered that their goal was to absorb unemployed professionals, a practice which he labeled "welfare bureaucracy."[22] By this criterion, the organization did not necessarily have a performance gap.

Strategies of Organizational Change

There are no satisfactory schemes for classifying organizational change strategies. However, there are three major literatures about organizations which provide analytical tools and practical guidelines for change agents. Each of these comes out of a different academic discipline. They are: (1) human relations and/or organizational development, (2) the sociology of organizations and/or organizational theory, and (3) management or organizational design. We use these three literatures to classify change strategies, using an analytical framework to compare them in a systematic way. Increasingly, each strategy of organizational change is borrowing ideas and techniques from the other strategies but most change agents generally employ only one of the three strategies.

A Framework for Analyzing Change Strategies

We define a strategy of organizational change as a plan for achieving a purpose. At minimum, the plan needs to indicate what the change should accomplish (the performance or output deficiencies which are to be corrected) and the change points (the components of the system which should be changed to increase performance and output). In addition, the plan should specify the change process, including the intervention level, the change tactics, the methods of data collection, and the resources needed. In other words, the change strategy involves three questions: why should the organization be changed, what changes should be made, and how should the changes be made? The framework that we propose is organized around these three questions, presented in Figure 1.1, and discussed briefly in the following paragraphs.

This is easily one of the most elaborate frameworks provided in the literature. We think an elaborate framework is necessary since many change efforts in the past have failed due to underestimating the complexity of the task. Often change agents worked with only one model of a good organization or proposed only one kind of change intervention, and were not sensitive to a different model or a different type of intervention being more appropriate. Furthermore, they often changed too few elements for lasting effects and/or utilized too few levels of intervention, tactics, resources, or methods of data collection. In particular, they did not emphasize sufficiently methods of data collection for demonstrating performance gaps.

Earlier we noted that there are optimists and pessimists when it comes to the possibilities for development in many Third World countries. We agree with the pessimists that development is a difficult task, but we agree with the optimists that it can be accomplished. The solution to this contradiction is that difficult tasks can only be accomplished with a complex approach. It is in this spirit that we offer Figure 1.1.

The three change strategies focus on different kinds of performance or output gaps (different reasons for changing the organization). The organizational development literature focuses on individual morale and motivation, clarity of goals and roles as a requisite of individual effectiveness, and team building. It looks at performances and outputs of individuals and groups which contribute to organizational performance and output. The other two strategies focus directly on performances and outputs at the organizational level but tend to emphasize different performances. Organizational theory emphasizes innovation while organizational design emphasizes efficiency.

Once the reasons for changing an organization are identified, the change agent must determine what component of the organizational system should be changed. The organizational system has five basic components: the culture-strategy, internal processes including managerial functions, structures, an environment, and inputs or resources. The causes of performance and output gaps can be traced to one or more of these variables. The three organizational change strategies identify the same components of the organizational system, but differ in the components which their interventions modify. Organizational development changes internal processes and inputs; it does the latter by changing the skills and attitudes of the personnel. Organizational theory mainly changes structures although structural changes will often require concomitant changes of processes and personnel. Organizational design changes culture and strategy, structures and processes.

The next question is how to change the organization. The change agent must determine the appropriate intervention level, tactics, resources for change, and methods of data collection. Most interventions occur at the micro- or organizational levels depending upon the strategy employed. Organizational development intervenes at the microlevel and works with individuals and groups, even though it may apply its microinterventions widely in the organization. Both organizational theory and organizational design generally intervene at the organizational level, although organizational design may also intervene at the departmental level. None of the strategies intervenes often at the environmental level, but both organizational theory and organizational design offer theories and analyses which can provide some guidance for environment-level interventions. *It is our assumption that change agents must be concerned about multiple levels and therefore draw upon several of these disciplines.*

Different levels of intervention involve change agents in different kinds of collectives. Because organizational development is a microstrategy, it can be used with work groups, voluntary associations, and small or embryonic organizations. While not as effective with these kinds of collectives, organizational theory and organizational design are relevant to changing the entire organization. One of the reasons organizational development can be effective with small organizations, voluntary associations, and task groups is that many of its major concepts, such as leadership and motivation, reflect the kinds of problems these collectives have. If one wants to upgrade the voluntary associations and task groups into organizations, however, then the two other strategies are more appropriate.

Figure 1.1 Basic Questions for Development Change Agents When Designing an Organizational Change Strategy

1. **Why change?**
   What are the performance and output *gaps*?

   a. Inadequate output of goods and services
   b. Low performance as measured by efficiency, innovation, or adaptiveness
   c. Inadequate utilization, support or maintenance
   d. Low motivation or insufficient rewards for individuals (job dissatisfaction)

2. **What change?**
   Which *component* of the system needs to be changed?

   a. Culture or strategy
   b. Structures
   c. Internal processes
   d. Resources or inputs
   e. Environment

3. **How to change?**
   At what *level* should the intervention be instituted?

   a. Microlevel, e.g., individuals and work groups
   b. Organizational level
   c. Environmental level, e.g. interorganizational, community or region

4. **How to change?**
   Which *tactics of change* or ways to introduce change in an organization are appropriate?

   a. Decree approach: New directions come from the top and are passed down through the organization with "one-way" communications.
   b. Replacement approach: To bring about organizational changes one or more individuals, usually in high-level positions, are replaced by others with different views or skills.
   c. Structural approach: The structure of the organization and the required relationships of subordinates are modified.
   d. Group decision approach: Group members participate in the selection and implementation of alternatives specified by others. (Others identify the problem, and the group agrees on a course of action from available alternatives.)
   e. Data collection and discussion approach: Information is obtained about the organization and feedback is given to the members by an internal or external change agent. Organization members then develop their own analysis of the data to identify problems and suggest solutions.
   f. Group problem-solving approach: The group gathers information, identifies problems, and designs and implements solutions.
   g. T-group approach: The group is trained to understand the processes of individual and group behavior and to relate more openly. As a result, work relationships improve and performance increases.
   h. Experimental approach: Trial and error is used to determine which change works best; sometimes these experiments are called pilots.
   i. Training: Members acquire new skills, concepts, and behaviors.

Figure 1.1 (continued)

5. **How to change?**
   What *resources* are needed for achieving change and what resources are available?

   a. Finances
   b. Power
   c. Knowledge
   d. Personnel
   e. Time

6. **How to change?**
   What *methods of data collection* are useful?

   a. Informant interviews
   b. Surveys of individuals
   c. Surveys of organizations
   d. Documents
   e. Observation

We suggest, however, that it is often better to combine several of these analytical levels even when focusing on one particular kind of social collective.

The first seven tactics of change presented in Figure 1.1 are derived from a classification scheme developed by Greiner.[23] To Greiner's list we have added experimentation and training, which are important because they tend to reduce resistance and encourage organizational learning. Each of the three strategies uses several of these tactics but varies in their mix. Organizational development emphasizes the tactics which involve groups: group data discussion, group decision making, group problem solving, T-groups, and sensitivity training. Organizational theory emphasizes restructuring, decree, data collection, and group discussion. Organizational design emphasizes restructuring, decree, and group problem solving.

Resources are an element in any change plan. In addition to financial resources, knowledge, and number and kinds of personnel, change agents need to take into account the time it takes to implement change and the power that can be marshalled in support of the change. All five of these resources are to a certain extent interchangeable, although the last two are frequently overlooked. When there is not enough money to pay for the requisite personnel, one can share power with beneficiaries in order to generate voluntary labor. Conversely, without much power one can use time to build support from key individuals, groups, and even coalitions. Both organizational theory and organizational design tend to be more concerned with nonpersonnel resource problems than is organizational development.

The change process often involves data collection. This is a frequently ignored but important aspect of any change strategy. Many organizations use information-feedback systems to trigger changes.[24] *Change agents may also use data-collection techniques to determine the existence of performance and output gaps and their causes.* Although all three strategies employ data collection, they differ in the ways in which they tend to collect and use their data. The organizational design strategy employs management consultants who conduct in-depth interviews with key informants. Organizational development research frequently relies on surveys of staff attitudes; while organizational theory researchers conduct surveys of organizations, using the organization as the unit of analysis and utilizing documents where possible.

In our following discussion of the three change strategies, we use the elements identified in Figure 1.1 and add the strategies' major assumptions and concepts. Intervention level, tactics, resources, and data collection are covered under the nature of the approach. This is a complex framework for analyzing organizational change strategies, but it provides an inventory of useful questions for development change agents to use as a diagnostic. In subsequent chapters, we use it to analyze the success of interventions.

Organizational Development

The best-known organizational change strategy is organizational development, usually called O.D., which focuses on tools and techniques for introducing change. Much of O.D. grew out of the human-relations approach to organizations.[25] In the beginning its famous T-groups developed some notoriety. Over time it has developed a wide variety of behavioral science techniques for identifying and attacking problems in organizations. It is well-grounded in a solid literature variously called "industrial psychology" or "organizational behavior." Figure 1.2 contains the major highlights of the O.D. strategy of change.

Assumptions and concepts. Many of the crucial assumptions of O.D. involve motivation. O.D. change agents agree generally that most organizations stifle individual initiative and motivation.

Figure 1.2 Highlights of the Organizational Development Change Strategy

Fundamental Assumptions

1. Organizations should provide personal growth and development for its members.
2. Organizations should encourage openness and collaboration.
3. Organizations should encourage the expressions of feelings.
4. Organizations that improve human fulfillment also tend to be productive.

Major Concepts, Variables, and Ideas

1. Maslow's hierarchy of human needs
2. Skill variety, task significance, job autonomy, and feedback
3. Fiedler's contingency theory of leadership; Blake and Mouton's grid
4. Team building, laboratory training, and encounter groups
5. Groups, group problem solving, and risk taking
6. Intergroup relations, competition, and conflict
7. Climate and culture

Intervener Target: Closing Gaps in the Following Performances and Outputs

1. Clarity of goals and roles
2. Motivation and commitment
3. Collaboration and team building
4. Job satisfaction and employee attitudes

Change Points: Components of the System Usually Changed

1. Job design
2. Employees' attitudes
3. Group processes
4. Culture and climate
5. Role expectations

Nature of Approach

1. Usual intervention level: individuals and groups
2. Usual tactics of change: group decision making, T-group and sensitivity training, group problem solving, and data discussion groups
3. Usual method of data collection: surveys of individuals
4. Usual resources involved: low costs, influence rather than power, a few trainers in group processes, a few group facilitators, and short time frames

The basic thrust of the O.D. change strategy, therefore, is to improve motivation and morale, thereby increasing organizational productivity.[26] A major assumption of O.D. is that workers will be happier, harder working, and more productive if they are allowed to participate in group decisions and are given some authority.[27] The methods change agents use to increase motivation are improvements in job design, career opportunities, clarity of goals, and group processes, because problems in these areas are perceived to be the major causes of low morale and productivity. This approach has been very attractive to top management and O.D. change agents receive many requests to improve worker job satisfaction, motivation, and other work-related attitudes.

Unlike the other two strategies, O.D. does not assume that there is a rational order to the world or that people should be seen simply as rational calculators. In its variants of T-groups or encounter groups, O.D. places great emphasis on expressing feelings or increasing sensitivity, a concern not shared by the other two change literatures. It tries to deal with the whole person. For example, Beer and other O.D. change agents assume that workers desire personal growth and development. They urge organizations to encourage openness, collaboration, and the expression of feelings to motivate workers to work harder to achieve the goals of the organization.[28] The biases of social psychology and North American culture are evident in these assumptions. In our judgment the assumption about openness, collaboration, and expression of feelings may not fit many non-Western cultures, while that of the need for growth and development may.

Because it has grown out of an industrial and social psychology approach to the study of organizations, O.D. focuses on individual and group needs. There is a large literature on this subject, but we include in Figure 1.2 only a reference to the very influential theory of a hierarchy of needs developed by Maslow.[29]

One group of O.D. change agents is oriented to sociotechnical change and is guided by the research done at Travistock in England. Their purpose is to have the workers themselves, working in groups, redesign jobs so that they are more humane.[30] This approach makes a number of critical motivational assumptions. For example, it assumes that increasing skill variety, job autonomy, and job enrichment increases workers' happiness and motivation. Hackman and Suttle argue that skill variety plus task identity (i.e., the task makes an identifiable contribution) plus task significance times job autonomy and feedback on the results of one's work equals motivation potential.[31] These changes do not always increase productivity, but their goal is to pay for themselves in the long run by reducing turnover and absenteeism. A dramatic example of a successful use of this strategy is the redesign of the Volvo factory in Sweden around semiautonomous work groups. The rearrangement of the assembly line cost more, but the reduction in turnover paid for these costs.[32]

A major strength of the O.D. approach and, more generally, industrial psychology is the understanding of groups and how they function. A large body of research, usually entitled small-group research, has focused on the many advantages of groups over individuals working separately. Groups are better for working on complex, interdependent tasks which are too difficult for any one individual to perform, and for generating new ideas or creative solutions. They are also effective for creating liaisons and doing coordination, especially between departments which are different but interdependent.

Perhaps the most important asset of groups from our perspective is their ability to solve problems. Two famous examples of the use of groups for problem solving are quality work circles, used by the Japanese, and task forces as recommended in *In Search of Excellence*.[33] They are needed for problem solving in LDCs because development is a complex task requiring a great deal of creativity. For the same reasons they are usually needed for the critical function of implementing organizational change. Groups are also used effectively in some of the cases reported here in training, especially in new management technologies.

Intergroup relations are also a critical component of O.D. approaches to the study of organizations. A typical example of intergroup problems is the frequent conflict between sales and production. Beer reports the example of an intervention where the two groups were brought together in a motel to discuss their intergroup relations. Each group met separately, listed what bothered it, and listed what it thought bothered the other group. Reports were made to each other without opportunities to be defensive. The groups began to listen to each other's complaints and gradually better ways were found for resolving differences.[34]

The assumptions for the organizationwide version of O.D. are not uniform nor always clearly articulated. Frequently, O.D. change agents seem to view organizations as a collection of individual members (both organizational theory and organizational design strongly disagree with this view). Thus, when O.D. change agents attempt to improve the "climate" or "culture" of the organization, they clarify the goals and roles of individuals, usually through group discussion.[35]

Intervener targets: performance and output gaps. The major objectives of O.D. change agents are to clarify goals, make jobs more satisfying, improve motivation, build teams, and increase collaboration. The original T-group work started with the objective of increasing collaboration and was exemplified by an O.D. intervention in a company with bad union-management relations. The O.D. expert suggested that the union and management develop a new way of communicating with each other that stressed listening, constructive dialogue, and the expression of feelings. The new methods led to more trust and an improvement in labor-management relations.[36]

Usually, O.D. interventions address specific problems and directly involve only part of the organization. Occasionally, however, an O.D. intervention involves extensive changes. An interesting example of an intervention that changed the goals, roles, and culture of an organization was the attempt to transform the goals of a mental hospital from custodial to therapeutic.[37] This transformation required a fundamental shift in the values and behavior of all staff members. It was accomplished through extensive group discussions that built a consensus about the desirability of this change for improving the treatment of patients. There were extensive discussions among the staff about how to change their behavior to implement the new treatment successfully. In the process the power structure was altered from highly centralized to relatively decentralized.

Change points: components of the system usually changed. The major change point for O.D. is the internal process of the organization. This includes primarily group processes and job design. An example of a job redesign intervention occurred at the General Foods plant in Topeka, Kansas where O.D. change agents used the microstructural changes of job enlargement, job enrichment, and semiautonomous work groups to improve employee morale and productivity.[38]

Another change point in O.D. is role expectations. Social psychologists, such as Kahn, have demonstrated that conflicts in expectations lead to role conflict, role ambiguity, and role strain.[39] O.D. techniques, usually group discussions, have been developed to resolve such conflicts. One of these is the T-group which started as a way of improving communication between supervisor and subordinates. For example, a failing pajama plant was acquired by a competitor.[40] O.D. agents worked out a carefully sequenced organizational development plan. Supervisors were given sensitivity training to improve the collaboration of supervisors and subordinates; then they were taught to conduct problem-solving sessions

with subordinates. Outside resources were also invested in the plant. The results were striking. Operator productivity improved 43 percent; turnover declined 90 percent and absenteeism 50 percent; errors in manufacturing were reduced by 39 percent; and profits moved from a loss of 15 percent to a gain of 17 percent in three years.

Group formation is a frequent change point in O.D. strategies to change organizations. The group may be created to diagnose the state of the organization and to identify performance or output gaps or it may be used to build communication between two groups which were antagonistic, as we saw in Beer's example of manufacturing and sales described earlier. In many of our cases groups are created to solve problems and to implement change, and in others they are used as effective tools for training. Group formation is an important part of most of the interventions which we review in Chapter 3.

Occasionally, the change point for an O.D. intervention is the culture or climate of an organization. We have already cited the mental hospital case in which an entire culture or climate of an organization was changed when its goal was changed. Although interventions at this level are rare in O.D., they may become more common in the future because of the current concern about culture in organizations. This concern is evidenced by the success of the book *Theory Z* and by the interest in the culture of Japanese organizations.[41]

Nature of the approach. O.D. intervenes at two distinct levels. It usually intervenes at the microlevel, and changes individuals and groups. Sometimes it intervenes at the organizationwide level, and attempts to change the culture and climate of the organization by changing the values and beliefs of the members. O.D. tends to perceive inadequate organizational performances and outputs as due to inadequate individual efforts. O.D.'s solutions usually involve microchanges such as job redesign, training, or even group therapy.

Popular O.D. tactics are group decision making, T-groups, and problem-solving groups. Each has a slightly different objective. Group decision making or participation is used to build motivation, develop consensus on goals, clarify goals and roles, and modify the climate. T-groups and variations on them are used to create and improve communication and to build greater trust. The essense of T[illegible] is to heighten sensitivity. In contrast, problem-solving groups focus on solving problems rather than on morale and group relations. They attempt to determine the causes of certain difficulties and then work out solutions to them. For example, a small unionized plant had been losing money for two years. A new plant manager held a general meeting and presented data on the severity of the problem. Groups of managers and hourly employees were formed to discuss the causes of poor performance and thus to identify problems. Task forces were then formed by functional area to solve these problems. Solutions were recommended to the plant managers and the managers' decisions were communicated to the workers. Within three months the plant had reached a break-even point and commitment was very high.[42]

Generally, the resources needed for O.D. interventions are not large. O.D. change agents operate within a relatively short time frame because they usually work with only a part of the organization. One major exception is sociotechnical interventions which may extend over a considerable period of time and require a much larger investment of human and financial resources.

Surveys of individuals' attitudes are a very common technique for collecting data within the O.D. approach. They are used in studies of job design, job satisfaction, climate, motivation and to determine the extent of conflict in role expectations.

The above description of O.D. describes its major concerns in the past. Increasingly, however, O.D. is moving toward a systems perspective on organizations and trying to incorporate the concerns of organizational theory and organizational design.[43] Indeed, the term O.D. now covers such a variety of techniques that it has lost much of its previous distinctiveness. This expansion allows us to synthesize these three perspectives more easily into a comprehensive view of organizational change.

Organizational Theory

A second literature relevant to organizations is that of organizational theory (see Figure 1.3). The academic base for this change strategy is the sociology of organizations. While sociology identifies this field as "complex or formal organizations," business schools identify it as organizational theory (O.T.) Unlike O.D., there is no branch of O.T. that is expressly concerned with the applied issues of how to change organizations. One of its major re-

Figure 1.3 Highlights of the Organizational Theory Change Strategy

Fundamental Assumptions

1. How organizations are structured affects performances and outputs.
2. Values of dominant coalition also affect performances and outputs.
3. Environment sets limits on how organizations are structured.
4. People who lose status or power resist organizational changes.
5. The more exposure to change, the more acceptance of it.

Major Concepts, Variables, and Ideas

1. Division of labor, complexity, and concentration of specialists
2. Centralization, hierarchy of authority, and supervision
3. Communication and compliance
4. Technology, routineness, and task scope
5. Personnel size and budget size
6. Environmental complexity, uncertainty, and change
7. Environmental richness, leanness, and cooperation/competitiveness

Intervener Targets: Closing Gaps in the Following Performances and Outputs

1. Innovation in technology, services, or products
2. Effectiveness in terms of quantity and quality
3. Efficiency and productivity
4. Morale, absenteeism, and turnover

Change Points: Components of the System Usually Changed

1. Structure
2. Coordination/Control processes
3. Inputs
4. Environment

Nature of Approach

1. Usual intervention level: entire organization or environment including interorganizational relationships
2. Usual tactics of change: restructure, decree, data collection, and group discussion
3. Usual method of data collection: surveys of organizations rather than individuals, participant observation, and documents
4. Usual resources involved: personnel, money, and long time frame

search areas, however, is called "organizational change" and much of what follows is based on the organizational change literature.

Assumptions and concepts. Organizational theory can be traced back to Weber. He perceived that a rational-legal bureaucracy was efficient because it had characteristics such as hierarchy of authority, rules, clearly defined responsibilities, files, careers, and so on. These provided more order, discipline, and predictability than was found in traditional or charismatic organizations.[44] This assumption differs considerably from the assumptions in O.D., which emphasize people rather than structure, and feelings rather than order or predictability. Although O.D. change agents now recognize the importance of structure, its proponents virtually ignored structure in the beginning.

The bureaucratic form, according to Weber, was superior to other organizational forms in achieving its goals. This assumption was disproved finally by empirical studies which found a second type of organization, the organic model, flourishing under certain circumstances. The organic model was designed to be innovative rather than efficient. Burns and Stalker found that the organic model has very different structural characteristics than the bureaucratic model. These characteristics—a network of communication, authority, and control; an absence of rules; an emphasis on careers; and continual redefinition of jobs—facilitated innovation in organizations.[45] The Burns and Stalker model gave birth to contingency theory, which can be reduced to the simple but profound notion that different models or structural characteristics are appropriate for different tasks or goals. The theoretical work of Perrow, Woodward, Thompson, Blau and his students, and Hage has been concerned with how tasks and environmental contingencies affect structure.[46] This work is reviewed in Chapter 2.

The term "contingency theory" comes from the famous work of Lawrence and Lorsch, two advocates of organizational design, who identified the impacts of environmental constraints on organizational structure.[47] Environmental contingencies—variables such as demand for the organization's outputs, technological change, product-mix, and the like—set limits on how the organization should be structured to survive and operate effectively. In some environments it should be structured bureaucratically with well-defined routines for producing large quantities of identical goods or services. In other environments it should be organically structured with few routines and many highly skilled professionals producing high-quality and relatively unique goods and services.

Although contingency theory is the dominant perspective in O.T., it is not the only one. The second most prevalent perspective is the political perspective, which emphasizes the influence of the dominant coalition's values on the organization's performances and outputs.[48] Even individual leaders can have a decisive influence on the way organizations perform and the outputs they produce. For example, a new superintendent introduced a series of bureaucratic controls in a high school district in Chicago.[49] Although the district

had been one of the most innovative from 1959 to 1964, it became the least innovative after the introduction of PPBS (program, planning, and budget system). The new procedures not only caused a shift in goals from innovation to efficiency, but also a greater centralization of decision making. Teachers no longer had professional autonomy and the structure shifted from organic to mechanical (bureaucratic).

The motivational assumptions are fairly explicit in O.T. concerning organizational change. The most common assumption is that groups that have power, privilege, or pay are reluctant to share them—the vested interest argument. One demonstration of the power of vested interests is McCleery's study of the introduction of rehabilitation programs in a prison.[50] The guards resisted the change because it meant raising the power of the rehabilitators at the expense of that of the guards. The vested interest assumption is critical in organizational theory since structural changes usually upset the power arrangements.

Another assumption in O.T. is that experience with change develops a greater tolerance for change. It is a commonly observed fact that some organizations have a lot of change; clearly the members have developed coping mechanisms. In a study of a community hospital, Hage found that the doctors who were located in departments that had experienced a lot of change accepted a new program of medical education even when they lost power and status.[51] In contrast, doctors in stable departments resisted the change. The lesson for change agents is to introduce new programs first in a department or organization which has already experienced changes.

The major concepts in O.T. are listed in Figure 1.3. Complexity and centralization are perhaps the two most important structural properties of organizations in the O.T. literature. They are central to the organic and mechanical models and to discussions of innovation and size. Etzioni has established the importance of various compliance mechanisms for the structure and processes of organizations,[52] and communication patterns are central to the studies of innovation. Technology, size, and environmental factors define the contingencies in contingency theory and will be discussed throughout this monograph.

Intervener targets: performance and output gaps. Typically, O.T. focuses on the performance dimensions of effectiveness, efficiency, morale, and innovation. Effectiveness is central to both O.T.

and organizational design. Some analysts, such as Price, define it as the summation of efficiency, morale, and innovation.[53] Others, such as Daft, distinguish between effectiveness and efficiency by defining effectiveness as the "degree to which an organization realizes its goals" and efficiency as "the amount of resources used to produce a unit of output."[54] Still others, noting the lack of conceptual agreement, argue that the concept should be dropped.[55] Nevertheless, every text contains a discussion of effectiveness and we find Daft's definitions distinguishing between efficiency and effectiveness acceptable and we judge it to be a useful concept for change agents.

The concept of effectiveness is central to this manuscript because performance and output gaps are usually classified as ineffectiveness. We recognize that effectiveness may be difficult to measure in certain cases, so we present an illustration of effectiveness measurement from the O.T. literature for a public sector organization. Hall and Clark studied youth-related welfare agencies in twelve large cities.[56] The organizations included juvenile courts, adolescent mental health centers, juvenile detention divisions, and school social work activities. To assess effectiveness, the research team visited each organization. Members and employees were asked to list the five most important tasks of the organization. From these responses the team developed a long list of goals. Respondents then indicated which were the key goals for the organization, and the final list of goals was approved by the organization's top administrator. This procedure was quite effective for identifying operational goals. The operative goals for one organization, the juvenile court, are as follows:

1. Determine the best disposition for each child who appears before the court
2. Protect the civil and legal rights of minors
3. Protect the community from those youths who are dangerous
4. Hear and justly dispose of cases before the court
5. Cooperate with other agencies who deal with problem youths
6. Remove children from family situations that are damaging to their welfare
7. Foster acceptance of an individualized rehabilitative treatment philosophy by the general public and other system agencies
8. Develop more resources and better methods of helping problem youth

Effectiveness would be the achievement of each of these goals. Failure in reaching any one of them creates an output gap and pressure for change. Therefore, a change agent would seek a rough consensus on indicators of success, adequate performance, and failure for these dimensions, and then measure and evaluate performance.

Organizational theory finds that both innovation and efficiency can not be pursued effectively at the same time because they require different structures. Organizations, therefore, must decide on the relative emphasis to place on each performance and then structure the organization accordingly. For example, while all welfare agencies produce services, some emphasize efficiency by servicing many clients with few workers while others emphasize the quality of services (more varied and innovative) with fewer clients per worker. Once one knows the relative importance of each performance—efficiency versus innovation, quantity versus quality of services or products, morale versus productivity—the appropriate structure can be specified.

Change points: components of the system usually changed. The main change point for the O.T. strategy is the structure of the organization. The major contribution of O.T. to the craft of improving organizational performances and outputs is its understanding of the structural arrangements which are the most effective in various contexts. When organizations are failing, or environmental conditions are changing, the structure should be changed according to O.T. to improve performances. The appropriate direction of structural change for the four most typical environmental circumstances is spelled out by contingency theory which is reviewed in the next chapter.

The structural variables which are changed by the O.T. strategy are listed under Major Concepts in Figure 1.3. Their influence on innovation has been identified by Hage and Aiken who have conducted a seven-year program of research on public sector organizations, such as welfare agencies, mental hospitals, residential treatment agencies, and sheltered workshops. They found that increases in the complexity of the division of labor, decentralization of the power structure, job autonomy and professional activity of the professionals, and equality among them in terms of pay correlated with higher rates of establishing new programs and services.[57] They also found that the above variables were related to a network pattern of communication which provided a much higher volume of communication, especially of a horizontal nature, than would a more hierarchically organized communication system.

Another major area of O.T. research concerns the structural determinants of morale, turnover, and absenteeism, concerns which are shared with O.D. From the O.T perspective, formalization of job descriptions, surveillance, centralization of decision making, and low job autonomy lead to low morale.[58] Also, Price found that in general the lower the status of the occupation, the higher the absenteeism.[59] The implication for change agents is that improving these variables should improve morale and reduce absenteeism.

O.T. also studies the role of coordination and control mechanisms and processes. Coordination is defined as the integration of programs to achieve the goals of the organization, while control refers to the conformity of individuals to job descriptions. Many scholars have studied these variables,[60] but the best-known contribution is a typology developed by Etzioni. He classifies organizations as normative, remunerative and coercive, on the basis of their compliance mechanisms. Some organizations motivate participants to act as the organization dictates through normative rewards, some through economic rewards, and some through coercion. It should be noted that most organization theory has been developed by researching remunerative organizations, and, therefore, applies most aptly to them. Most organizations, however, do not use only one type of compliance mechanism. The organic economic organization is based on remuneration but also uses some normative compliance mechanisms as well while mechanical organizations even use some coercive mechanisms in addition to remuneration.

Many theorists in O.T. have tried to determine the major contingencies that influence the choice of structure and coordination/control processes. A large program of research, initiated by Blau and his many students, has focused on size as a critical contingency.[61] The research shows that an increase in size leads to a more complex division of labor, especially more job titles, more departments and hierarchical levels, and, perhaps surprisingly, more decentralization.

Another line of O.T. research has focused on the effects of technology on organizational structure. Woodward demonstrated that small batch and process technologies are associated with organic organizational structures, while mass production and assembly-line technologies are associated with mechanical organizational structures.[62] Hage and Aiken found that routine

technologies lead to greater centralization of power.[63] Technology and size, therefore, are input contingencies which affect the structure, control mechanisms, and performances of the organization.

Two new areas of research in O.T. are the environments of organizations[64] and interorganizational relationships.[65] An interesting line of research in the former area is on aspects of the environments that influence market interactions and the death rates of businesses. An example of the latter area is the work of Aiken *et al.*, which demonstrates how difficult it has been for change agents to construct interorganizational relationships in the area of mental retardation.[66]

Nature of the approach. Though few organizational theorists intervene in organizations, their ideas do constitute a strategy of organizational change. O.T. usually intervenes at the organizational level. More and more, however, O.T. analysts implicitly recommend intervening at the environmental level, but most environmental variables are difficult to manipulate.

O.T. change tactics emphasize structural changes, since so much of the theory deals with these variables. Nevertheless, O.T. is interested in other change tactics, especially decree and group decision making. In fact, one line of research compares the success of these two change tactics. The first style of organizational change which involves a broad participation via group decision making, is called "evolution" and the second style which involves decrees, is called "revolution."[67] Group decision making involves discussion and possibly also experimentation, resulting in slow and incremental changes. Decrees by top management usually produce structural changes resulting in quick and broad-ranging changes.

When is evolution or revolution the better tactic to use? The organizational change literature usually recommends evolution and widespread participation, but not always. The literature suggests that the greater the perceived crisis and the shorter the perceived time for change the more acceptable is change by decree. Also, if an organization is trying to emulate some other organization, then its members will accept decreed major changes.[68] The organizational change literature has also observed weaknesses in the evolutionary method. The major limitation of group decision making is that the change, especially if it is to be a structural one, will become emasculated by the group and only part of the needed change will become implemented.[69] The group will critique changes as being too costly, as [illegible] unnecessary, as being impractical and so forth. The more radical, and thus visionary, the change, the more likely this is to be the case. Change by decree, therefore, may be the most effective way in certain circumstances.

Organizational theorists do more research on organizations than interventions in organizations. They are expert, therefore, on data-collection methods. Their main research tool is a survey of a sample or population of organizations. The organizations are the units of analysis and are measured on structural, input, output, process, and environmental variables. The many indicators which they have developed are a major contribution of O.T. to the tool kit of change agents. O.T. research also uses participant observation and field studies of the process of implementing change.

Organizationwide changes tend to be expensive solutions to organizational problems, but they are likely to endure. The resources needed to make these kinds of changes are usually much greater than the microchanges of O.D. Also, organizationwide changes can provoke tremendous resistance if they are introduced in the wrong way. In dealing with resistance, O.T. tends to take a political science approach involving bargaining, cooptation, and mobilizing political support rather than a human relations or O.D. approach, but O.D. tactics can be very helpful.

In summary, O.T. has moved far beyond Weber to a contingency view of organizations. O.T. looks for contingencies in the inputs, nature of the task, and the environment, and identifies the structural patterns which are appropriate for these contingencies. O.T. is developing a more complex view of the organizational system, especially with its renewed interest in the role of elite values and strategies. In addition, O.T. is beginning to develop a contingency theory of change tactics. O.T. suggests that both decrees and group decision making have advantages and disadvantages depending on the situation.

Organizational Design

A third literature relevant to organizational change is called management science. One branch of management science is organizational behavior, which frequently overlaps with industrial psychology and organizational social psychology. Another branch is organizational design, outlined in Figure 1.4. Peters and Waterman's best-

Figure 1.4 Highlights of the Organizational Design Change Strategy

Fundamental Assumptions

1. How organizations are structured determines performances and outputs.
2. Strategy of dominant coalition also determines performances and outputs.
3. Environment sets limits on how organizations are structured.
4. The greater the differentiation, the more important is integration.

Major Concepts, Variables, and Ideas

1. Strategic planning, culture, and goals
2. Product, functional, and matrix departmentalization
3. Span of control and managerial roles
4. Conflict resolution techniques
5. Control technologies: budgets, inventories, MBO, and PERT
6. Environmental uncertainty, complexity, and volatility
7. Galbraith's work on information handling

Intervener Targets: Closing Gaps in the Following Performances and Outputs

1. Success and profits
2. Efficiency and productivity
3. Conflict reduction and integration
4. Morale, absenteeism, and turnover

Change Points: Components of the System Usually Changed

1. Divisional structure and departments
2. Lines of authority and responsibility
3. Managerial processes or functions and subsystems
4. Managerial technologies

Nature of Approach

1. Usual intervention level: organizationwide as in divisions and organizational departments
2. Usual tactics of change: decree, restructure, and group problem solving
3. Usual method of data collection: informant interviews and documents
4. Usual resources involved: personnel, money, and long time frame

selling *In Search of Excellence*, uses this approach to explore effective organizations.[70] Organizational design is beginning to converge with O.T. by incorporating more and more of the findings of O.T. into the organizational design literature. A major contribution to this convergence is Lawrence and Lorsch's contingency theory.[71] It connects the variables emphasized in O.T. to the more nuts-and-bolts issues of organizational design, such as where to locate a new department. It also sensitizes organizational designers to environmental constraints. Although organizational design and O.T. are converging, it should be noted that several key concepts have quite different meanings in the two literatures.[72]

Assumptions and concepts. Organizational design shares many of its assumptions with O.T. It adopts the rationalistic premise that the structure of the organization affects performances and outputs; however, the meaning of "structure" is quite different for organizational design than for O.T. The former views structure mainly as the arrangements of departments and divisions, while the latter views structure in terms of variables such as complexity or centralization. O.T. uses abstract variables which affect performances and outputs, while organizational design describes how concrete organizational components should be put together. The two literatures inform each other because O.T. develops the more basic science while organizational design develops the more applied science. With time, the differences between these perspectives have gradually diminished as management texts have assimilated much of organizational theory. (Organizational theory, however, has not assimilated organizational design as readily.)[73]

Structural models that have become popular in organizational design include federal decentralization, matrix structure, and functional structure. Essentially, these models pose the same question: What is the best arrangement of divisions, departments, and positions to achieve the objectives of the organization? Organizational design does not always make explicit its criteria for choosing one or another structural arrangement, but generally the source of the greatest variation determines the most appropriate model. For example, if the greatest variation is in the technology, then organizational design recommends a functional model with divisions based on technologies.

One of the founders of management science is Fayol who identified the five functions of management: planning, organizing, commanding, coordinating, and controlling.[74] He argues that the functions form a logical sequence, with planning guiding the other functions. From Fayol, therefore, derives a basic organizational design assumption that planning, or the new term "strategy," is a major factor in the effectiveness of an organization. As a result, organizational design now includes a variety of managerial techniques to facilitate managers in planning. These include break-even analysis, capital budgeting, linear programming, program evaluation and review technique (PERT), management by objectives (MBO), critical path method, and forecasting technologies.

Organizational design, like organizational development, assumes that employee motivation is crucial to organizational success.[75] Organizational design, however, places more emphasis on money as a motivating reward and less on self-expression and feelings. Organizational design, therefore, might institute bonus plans, piece rates, and profit sharing to increase the commitment and productivity of employees.

A distinctive assumption in organizational design, proposed by Lawrence and Lorsch, is that increasing differentiation creates disintegrative forces. Separate divisions or departments develop different orientations and goals which create frictions and make coordination between departments more difficult. Therefore, more effort must go into integration as differentiation increases in order to maintain effective performance. Organizational design has developed conflict-resolving techniques including confrontation, intermediaries or boundary spanners, group meetings, negotiation, separation, and intergroup training to reduce occupational conflict.[76] It also researches the conditions under which each technique is the most effective.

Organizational design deals with the full range of management issues so that it employs a wide variety of concepts, variables, and ideas, many of which are associated with special managerial techniques and practices. We have already noted the importance for organizational design of the concepts of planning and strategies, and the types of departmental structures. Organizational design is also concerned about the optimal span of control for various types of work situations. First-line supervisors in mass production factories can handle nearly fifty subordinates, but in other types of industries they usually only have from one to two dozen subordinates. At higher levels, the ratio is more often one to four.

Organizational design looks at the organization from the point of view of the manager and it constitutes a body of knowledge which helps managers manage more effectively. It therefore deals with leadership, supervisory style, and managerial roles. It studies leadership in terms of the dimensions of "concern for production" and "concern for people."[77] It discusses the pros and cons of authoritarian and democratic supervisory styles. It also identifies the many roles managers perform, from figurehead and leader to resource allocator and disturbance handler.[78] Managers play an important role in reducing conflict and controlling and coordinating behavior, and organizational design provides a battery of managerial technologies for performing these and other managerial roles.

When organizational design employs contingency theory, it examines the impacts of environmental complexity and uncertainty on organizational structure and performance, whereas O.T. considers the impacts of size and technology. Tosi and Carroll, in their organizational design management text, suggest that if both market and technology environments are certain or stable then a mechanical organization is the preferred model.[79] If both are uncertain or volatile, then an organic organization is preferred. When the certainty or uncertainty resides in technology but not in markets, mixed models are appropriate.

Organizational design includes Galbraith's strategies for handling information in organizations.[80] A major strategy for increasing information is to create teams and develop lateral relationships. This strategy is especially appropriate for organic organizations which have to process large amounts of information to handle the uncertainties. The structure which is generally proposed for this strategy is the matrix.

Intervener targets: performance and output gaps. Organizational design seeks to improve the performance of organizations and make them more successful. It is like O.T. in focusing on performance and utilizing contingency theory. It differs from O.T. in being much more concerned with success, profits, efficiency, and productivity, and much less concerned with innovation which may not be profitable in the short run. Organizational design's neglect of innovation is exemplified by Peters and Waterman's *In Search of Excellence*, which hardly mentions innovation.[81] The clientele for management science is usually top management; thus, organizational design's emphasis on profits and efficiency rather than innovation is understandable.

The major motivational assumption underlying organizational design is that performance gaps stimulate actions to close them. American businesses with their many accounting controls notice performance gaps quickly and, therefore, are prodded toward better designs and new technologies that improve efficiency and productivity. Organizations in trouble actively seek out management consultants to rectify some problem quickly. Detecting performance and output gaps is more complicated when performance measures and accounting controls do not exist, as is so often the case in the public sector. Performance measures can be created even in the public sector, however, as demonstrated by Philip Coulter who used several measures for effectiveness of fire departments,

including fire prevention, fire suppression, total revenues expended, and efficiency.[82]

One of the more distinctive contributions of the organizational design literature has been its recognition of integration and conflict resolution as important objectives. Unlike O.T., which has tended to ignore conflict, contingency theory within organizational design made it a central problem. Lawrence and Lorsch focused on tactics for reducing interoccupational or departmental conflict.[83] Some examples are the use of confrontation, intermediaries, middle departments, group meetings, and the like. Organizational design, however, has not been interested in vertical conflict, such as strikes.

Another target for an organizational design intervention is morale, absenteeism, and turnover. Industrial psychology, which has been strong in business schools for decades, has produced an extensive literature on these issues which feeds into organizational design as well as into organizational development.

Change points: components of the system usually changed. The major change points for organizational design are divisional and departmental structures, lines of authority and responsibility, managerial roles, and managerial technologies. Organizational design management consultants will often modify the divisional or departmental structure of the organization and rearrange positions in order to improve performance. An example of how restructuring the organization can close performance gaps is the restructuring of the failing Ray-O-Vac Corporation.[84] A new president took over and spent the first few months visiting all three hundred managers to learn why the company was failing. He decided the problem was a lack of innovation and that the causes lay in the design of the structure. He restructured the organization by eliminating a layer of corporate vice-presidents and creating four product divisions, each with its own research, product-development, and marketing responsibilities. This reorganization led to considerable improvement in innovation and eventually in profits.

Typically, organizations are organized into divisions on the basis of widely disparate technology product groups. In our discussion of the definition of an organization, we observed that the divisional structure generally evolved when the staff, especially managers or administrators, could not be transferred easily [illegible] the components of the organization. For example, Du Pont [illegible] number of chemical companies after World War I that put out a variety of products.[85] Du Pont ran each line of business from central headquarters but discovered that this design was reducing profits. When Du Pont decentralized operations so that each division had the autonomy to make marketing, production, purchasing, and other decisions, profits quickly returned. Many large corporations decentralized following the pioneering example of Du Pont.

Once the multiorganization is arranged into divisions, then departments are organized along functional or product lines. Functional subdivision is by occupations, as in a university. Subdivision by product lines is necessitated by the differences in customers and their service needs. For example, IBM has one division for main frames and one for minicomputers. Within these divisions, there are departments for specific managerial functions. As noted earlier, the greatest sources of either variation or uncertainty should have the greatest influence on design.

Management principles often do not translate readily to the public sector because they are based on market control and competition. Daft presents an unusual example of an attempt to apply private sector-design to a public sector organization, Bakerfield University.[86] It was reorganized into profit centers, except for central services, with each school and division operating as an autonomous unit. Profit centers are a new and somewhat radical method for dividing large units; they involve even greater decentralization than the Du Pont decentralization into relatively autonomous divisions. The Bakerfield arrangement worked very well; indeed, so well that the central administration decided to do the same with the Computer Science Department. The latter, however, increased the costs of its services to other departments and recycled the money for the faculty's own research. This was possible because the Computer Science Department was the only provider of services to the other colleges and thus had a monopoly position. (It is worth noting that the report does not indicate what happens to unpopular areas like classics or how the booms and busts of student fashion are contained.)

Another change point for organizational designers is the relationship between authority and responsibility. One of its maxims is that authority and responsibility must go hand in hand. Management consultants often intervene to correct the chain of command, moving the locus of authority to the appropriate level so that effective action can be taken. A sign that authority and responsibility

are not at the correct level can appear in excessive overhead costs. Too much centralization tends to produce an overly high administrative ratio.

The problem of incongruent lines of authority and responsibility is found in a study of Sears Roebuck.[87] The company has nine hundred stores, twelve thousand suppliers, and more than four hundred thousand employees. It is highly centralized with a swollen central headquarters which is symbolized by the largest building in the world, the Sears Tower of Chicago. Sears now needs a 50 percent markup to make a profit, while the average of the competitors need only 35 percent. More to the point, its overhead and administrative expenses absorb 30 percent of each sales dollar, whereas one competitor spends only 15.3 percent.

The growth of government and the creation of more and more levels in the bureaucracy are problems in many countries, but especially in Third World countries such as Egypt, and in developed countries such as Italy. As centralized governments grow in size, the government bureaucracy absorbs more and more of the resources in administration rather than services, and the lines of authority and responsibility become confused.

A third change point for organizational designers and a rapidly growing area of research is the appropriate role of managers for various contingencies. Mintzberg, a leader in this field, suggests that a manager performs many roles and he distinguishes three types of roles which subdivide into ten distinct roles. He distinguishes between interpersonal roles, such as figurehead, leader, and liaison; informational roles, such as monitor, disseminator, and spokesperson; and decisional roles, such as entrepreneur, disturbance handler, resource allocator, and negotiator.[88] He argues that contingencies determine which of these roles are to be emphasized by a manager at any one time.

A fourth change point for organizational designers is managerial practices. Many management texts present a vast array of managerial technologies that can be used to achieve each of the managerial functions.[89] For example, the techniques of forecasting, nominal groups, brainstorming, and delphi projections can be used in planning. Other managerial technologies deal with personnel practices and incentive systems that are supposed to make workers happier and more productive, an area that overlaps with O.D. We have already noted the tools and techniques for managing interdepartmental conflict, an area which is especially germane to development administrators. Generally, the contingencies which determine the appropriateness of these tools and techniques are not specified, but the selection of techniques is left to the judgment of managers.

The nature of the approach. Like O.T., organizational design tends to intervene at the organizational level, though sometimes an organizational design management consultant will simply introduce new management technologies to specific subunits of the organization. The standard organizational design intervention consists of interviews with key actors, followed by diagnosis and then a proposed solution. It is likely that the diagnosis and solution will be biased in the direction of those solutions which are the specialties of the consultant or management consulting firm such as matrix structures or a set of managerial technologies. Many of these solutions have the best results when changes are made at both micro- and organizationwide levels. Increasingly, contingency theories are integrating the two levels by specifying the types of organizational contexts in which specific managerial techniques are most useful. This integration is most notable in the work of Mintzberg.[90]

A prominent tactic of organizational design is structural change. Whether one departmentalizes by function or product, employs federal decentalization or matrix structure, or employs a narrow or wide span of control, the prescribed solution for a performance gap is to change the structure. Often these changes are instituted by decree, a change tactic which naturally appeals to top management and its organizational design advisors.

Another important tactic of organizational design is problem-solving groups. Although these groups are also associated with O.D., they have probably had the greatest influence among organizational design change agents. Two kinds of problem-solving groups have become important in American business—task forces and quality work circles—both of which have been made part of the permanent structure of many organizations. Peters and Waterman view task forces as the essence of the modern succesful company.[91] For example, General Motors used such groups to decide to downsize cars and is now using them to deal with a number of organizational problems.

Organizational designers also use the tactic of replacement. Typically, management consultants who design organizations make recommendations about the replacement of key personnel. Design, therefore, is not just a question of arranging parts; it also deals with the people who fill the parts.

When data collection is involved, management consultants rely heavily upon informant interviews and the use of documents to identify performance and output gaps. The interviews deal with lines of authority, responsibility, communication, conflicts, and the like. They explore how key informants perceive the problem and its probable causes.

Organizational design interventions usually require considerable resources. Changing the design of an organization frequently takes a year or more and a considerable infusion of time and effort. It requires support from the top and can substantially alter the situation and/or behavior of many employees.

In summary, organizational design lies halfway between O.D. and O.T. Its treatment of such problems as leadership, motivation, and group processes is like O.D., but it shares contingency theory with O.T. Also, it places much more emphasis on managerial technologies and on motivation by material rewards than does O.D., and it differs from O.T. in a number of its emphases. First, it stresses the importance of strategy and planning for organizational performance and has developed many technologies for these activities. Second, organizational design views structure in terms of departments, divisions, lines of authority, and lines of responsibility. Third, there are subtle differences in the way organizational design and O.T. conceptualize the environment, although many of these are disappearing with time. Traditionally the concept of uncertainty was more critical to organizational design; now it is being replaced with O.T. ideas such as complexity and rate of technological change.

Synthesizing the Three Change Literatures

The three literatures are complementary and can be used by development change agents in bits and pieces as they wish. The purpose of Figures 1.2, 1.3, and 1.4. is to indicate to change agents where they might search for ideas. Our recommendation, however, is that the three literatures be used in combination because organizational intervention usually is very complex and needs a multilevel approach.

psychologists emphasize leadership style. In the process group, these three literatures use, respectively, the terms "coordination systems," "managerial functions," and "behavioral processes." Similar differentiation occurs for the two other groups of variables.

This schematic presents a checklist with which to explore each concrete situation. The list also sensitizes the change agent to the potential necessity of having to change several parts of the system at once to have a significant impact. As Beer notes, changing people and behavioral processes but not structure usually does not give permanent results.[93] The changes will erode. The reverse is also true. Davis and Lawrence observe that introducing the matrix design in an organization requires considerable training and other O.D. tactics to achieve congruence between workers' values and behaviors and the new structure.[94] In summary, many organizational interventions require both micro- and organizational-level changes. In fact we suggest that the failure of many decentralization efforts by Third World governments is due to the neglect of microlevel changes.

Summary and Conclusion

This chapter has set forth the major strategies for changing organizations to make them more effective. When one changes an organization, it is important to recognize:

1. Not all social collectives are organizations and exemplify organizational theories.
2. The literature on organizations has three major segments: organizational development, organizational theory, and organizational design.
3. The main branch of organizational theory is contingency theory, but there are several other relevant perspectives including political theory. (In the next chapter we present a contingency theory of organizations that uses the many parts of Figure 1.5.)

Most organizational changes result from the perception of *performance or output gaps* by organizational decision makers. Then the strategy of change must identify what *component of the organizational system* is to be changed and *how* the change is to be implemented. The strategy must select the intervention level, tactics, data-collection methods, and the resources *required in implementing the change*. Figures 1.2, 1.3, and 1.4 provide a summary of the change strategies presented in each of these change literatures, and Figure 1.5 provides an overall summary. The framework for understanding organizational change presented in this chapter is employed in Chapters 3 and 4 in the analysis of a number of cases of organizational change in LDCs; but first we develop contingency theory more fully in Chapter 2.

Notes

1. For a review of the history of USAID policy relevant to administration, *see* Dennis Rondinelli, 1987, *Development Administration and U.S. Foreign Aid Policy* (Boulder, Colo.: Lynne Rienner).

2. David Korten and Norman T. Uphoff, 1986, "Bureaucratic Reorientation for Participatory Rural Development" (NASPAA Working Paper No. 1, Washington, D.C.); and Theodore Thomas, 1986, "Reorienting Bureaucratic Performance: A Social Learning Approach to Development Action" (NASPAA, Washington, D.C.)

3. *See* John Cohen, May Hebert, David Lewis, and Jon Swanson, 1981, "Development from Below: Local Development Association in the Yemen Arab Republic," *World Development*, vol. 9, no. 11/12, pp. 1039–1061.

4. Examples are found in Dennis Rondinelli, 1983, "Implementing Decentralization Programs in Asia: A Comparative Analysis," *Public Administration and Development*, vol. 3, pp. 181–207; and his 1981 "Government Decentralization: Theory and Practice in Developing Countries," *International Review of Administrative Sciences*, vol. 47, no. 2, pp. 133–145; and finally his 1981 "Administrative Decentralization and Economic Development: The Sudan's Experiment with Devolution," *Journal of Modern African Studies*, vol. 19, no. 4, pp. 595–624.

5. For examples of this complexity, *see* Michael Beer, 1980, *Organizational Change and Development: A Systems View* (Glenview, Ill.: Scott, Foresman), p. 38; and Koya Azumi and Jerald Hage (eds.), 1972, *Organizational Systems: A Text-Reader* (Lexington, Mass.: D. C. Heath), Chapter 6; Jerald Hage, 1980, *Theories of Organizations: Form, Process and Transformation* (New York: Wiley Interscience); Henry Mintzberg, 1979, *Structuring Organizations*

(Englewood Cliffs, N.J.: Prentice-Hall); and even popular paperbacks such as Thomas Peters and Robert Waterman, Jr., 1982, *In Search of Excellence: Lessons from America's Best-Run Companies* (New York: Warner).

6. Paul R. Lawrence and Jay W. Lorsch, 1967, *Organizations and Environments,* (Cambridge, Mass.: Harvard) is the first work to make this assumption explicit.

7. Some authors list properties of organizations. *See,* for example, Pradip N. Khandwalla, 1977, *The Design of Organizations* (New York: Harcourt Brace Jovanovich), pp. 2–7, who lists hierarchy of authority, roles, techniques, formality of communication, specialization of functions and division of labor, employment of skilled personnel, and specificity of persons. He also discusses how these properties vary among organizations, families, groups, and communities.

Since paid employment is one of our defining characteristics for organizations, our narrow definition is largely confined to "utilitarian organizations" in Etzioni's terms. *See* Amitai Etzioni, 1975, *A Comparative Analysis of Complex Organizations* (New York: Free Press). Most organizations defined by Etzioni as normative or coercive would be excluded by our definition of organizations.

Another concept that is close to our narrow definition of organizations is "formal organizations." Some formal organizations would not fit our definition, however, because they have few paid employees (e.g., a small church).

8. *See* Khandwalla, 1977, *op. cit.,* p. 5; and Richard L. Daft, 1983, *Organizational Theory and Design* (St. Paul, Minn.: West), p. 8. The bulk of these definitions rests on Talcott Parsons, 1960, *Structure and Processes in Modern Societies* (New York: Free Press), which contains the reprint of his 1956 article "Suggestions for a Sociological Approach to the Theory of Organizations," *Administrative Science Quarterly* (June), pp. 63–85.

9. *See* Hage, 1980, *op. cit.,* p. 68.

10. Alfred Chandler, Jr., 1962, *Strategy and Structure: Chapters in the History of Industrial Enterprise* (Cambridge, Mass.: M.I.T. Press).

11. A number of texts in both organizational theory and organizational design build their work around the issue of core technology; *see* James Thompson, 1967, *Organizations in Action* (New York: McGraw-Hill); Lawrence and Lorsch, 1967, *op. cit.;* Khandwalla, *op. cit.;* Hage, *op. cit.*

12. Peters and Waterman, 1982, *op. cit.*

13. *See* James March and Herbert Simon, 1958, *Organizations* (New York: Wiley).

14. Gerald Zaltman, Robert Duncan, and Jonny Holbek, 1973, *Innovations and Organizations* (New York: Wiley), pp. 55–58.

15. David K. Leonard, 1977, *Reaching the Peasant Farmer: Organization Theory and Practice in Kenya* (Chicago: University of Chicago Press), p. 22.

16. The classic example is of course Robert Presthus, 1961, "Weberian vs. Welfare Bureaucracy in Traditional Society," *Administrative Science Quarterly,* vol. 6 (June), pp. 1–24.

17. For discussions of how to measure efficiency in the public sector, *see* Richard Scott, 1979, "Measuring Outputs in Hospitals in National Research Council," *Measuring and Interpretation of Productivity* (Washington, D.C.: National Academy of Sciences), pp. 255–275; and Jerald Hage, 1983, "Organizational Theory and the Concept of Productivity," in Arthur Brief (ed.), *Productivity Research in the Behavioral and Social Sciences* (New York: Praeger), pp. 91–126.

18. For example, the Plankton School District in the Chicago Metropolitan area developed a list of eight goals, including developing intellectual curiosity and a positive attitude toward the structure and processes of the American Free Enterprise System. *See* Daft, 1983, *op. cit.,* p. 84.

19. *Ibid,* p. 90.

20. J. Patrick Wright, 1979, *On a Clear Day You Can See General Motors,* based on interviews with John Z. DeLorean (New York: Avon).

21. Daft, *op. cit.,* p. 80.

22. Presthus, 1961, *op. cit.*

23. Larry E. Greiner, 1967, "Patterns of Organizational Change," *Harvard Business Review,* vol. 45, no. 3, (May/June), pp. 119–130.

24. Jay Galbraith, 1973, *Designing Complex Organizations* (Reading, Mass.: Addison-Wesley); Hage, 1980, *op. cit.,* Chapter 7.

25. Galbraith, 1973, *op.cit.*

26. Beer, 1980, *op. cit.,* pp. 28–29; Huse, 1975, *op. cit.*

27. Beer, *op. cit,* p. 42; Huse, *op. cit.* p. 35.

28. Beer, *op. cit.,* pp. 28–31; Huse, *op. cit.*

29. Abraham H. Maslow, 1954, *Motivation and Personality* (New York: Harper and Row); and Frank L. Herzberg, 1966, *Work*

and the Nature of Man (Cleveland, Ill.: World).

30. E. J. Miller and A. K. Rise, 1963, *Systems in Organizations: The Control of Task and Sentiment Boundaries* (London: Travistock); Fred Emory and Einar Thorsrud, 1964, *Form and Content in Industrial Democracy* (Oslo: Oslo University) and their 1976 *Democracy at Work: The Report of the Norwegian Industrial Democracy Program* (Canberra: Australian National University, mimeograph). For an application in a Third World setting, *see* Lyman Ketcham, 1984, "Sociotechnical Design in a Third World Country: The Railway Maintenance Depot at Sennar in the Sudan," *Human Relations*, vol. 37, no. 2, pp. 135–154.

31. J. R. Hackman and J. L. Suttle, 1977, *Improving Life at Work: Behavioral Science Approaches to Organizational Change* (Santa Monica, Calif.: Goodyear), p. 13.

32. Pierre Morin, 1976, *Le Développement des organizations* (2nd ed.), (Paris: Dunod).

33. Peters and Waterman, *op. cit.*

34. Beer, *op. cit.*

35. *See Ibid.*, pp. 33–35 for a definition of "culture."

36. *Ibid.*, p. 51.

37. *See* Morris Greenblatt, R. H. York, and Esther Brown, 1955, *From Custodial to Therapeutic Patient Care in a Mental Hospital* (New York: Russell Sage).

38. Beer, *op. cit.*, p. 169.

39. Robert Kahn *et al.*, 1964, *Organizational Stress: Studies in Role Conflict and Ambiguity* (New York: Wiley).

40. Beer, *op. cit.*, p. 213.

41. William Ouchi, 1981, *Theory Z* (Reading, Mass.: Addison-Wesley); and also the September 1983 issue of the *Administrative Science Quarterly*, vol. 28.

42. Beer, *op. cit.*, p. 63.

43. *Ibid.*, pp. 245–264.

44. For a review *see* Hage, 1980, *op. cit.*, Chapter 2.

45. Thomas Burns and G. M. Stalker, 1961, *The Management of Innovation* (London: Travistock).

46. James Thompson, 1967, *Organizations in Action* (New York: McGraw-Hill); Charles Perrow, 1967, "A Framework for the Comparative Analysis of Organizations," *American Sociological Review*, vol. 32 (April), pp. 194–204; Peter Blau, 1970, "A Formal Theory of Differentiation in Organizations," *American Sociological Review*, vol. 35 (April), pp. 210–218; Joanne Woodward, 1965, *Industrial Organization* (London: Cambridge); Derek Pugh, David Hickson, and C. Robin Hennings, 1969, "An Empirical Taxonomy of Structures of Work Organizations," *Administrative Science Quarterly*, vol. 14 (March), pp. 115–126; and Hage, 1980, *op. cit.*, Chapters 12 and 13.

47. Lawrence and Lorsch, *op. cit.*

48. Jeffrey Pfeffer and Gerald Salancik, 1978, *The External Control of Organizations: A Resource Dependence Perspective* (New York: Harper & Row); Jerald Hage and Robert Dewar, 1973, "Elite Values Versus Organizational Structures in Predicting Innovation," *Administrative Science Quarterly*, vol. 18 (September), pp. 279–290; Lucien Karpick, 1972, "Les Politiques et les logics d'action de la grande entreprize industrielle," *Sociologie du Travail*, vol. 13 (April-June), pp. 82–105.

49. Daft, *op. cit.*, pp. 274, 275.

50. Richard McCleery, 1957, *Policy Change in Prison Management* (East Lansing: Government Research Bureau, Michigan State University).

51. Jerald Hage, 1974, *Communication and Organizational Control: A Cybernetics Perspective in Health and Welfare Systems* (New York: Wiley-Interscience), Part One.

52. Etzioni, *op. cit.*

53. The initial starting point was Parson's famous AGIL scheme, but it was made operational in the work of Hage. *See* Jerald Hage, 1965, "An Axiomatic Theory of Organizations," *Administrative Science Quarterly*, vol. 10 (December), pp. 289–320; James Price, 1968, *Organizational Effectiveness: An Inventory of Propositions* (Homewood, Ill.: Irwin); and Perrow, 1967, *op. cit.*

54. Daft, 1983, *op. cit.*, p. 92; *see also* Amitai Etzioni, 1964, *Modern Organizations* (Englewood Cliffs, N.J.: Prentice-Hall), p. 6.

55. *See* Paul S. Goodman and Johannes Pennings, 1977, "Toward a Workable Framework," in Goodman and Pennings (eds.), *New Perspectives on Organizational Effectiveness* (San Franciso: Jossey Bass), pp. 146–184.

56. Richard H. Hall and John P. Clark, 1980, "An Ineffective Effectiveness Study and Some Suggestions for Future Rsearch," *The Sociological Quaterly*, vol. 21, pp. 119–134.

57. Hage, 1980, *op. cit.*, Chapters 3, 6, and 9. This research has now been extended to the private sector; *see* Frank Hull and Jerald Hage, 1982, "Organizing for Innovation: Beyond Burns and Stalker," *Sociology*, vol. 16, no. 4, pp. 564–577.

58. Hage, *op. cit.*, Chapter 9.

59. James Price, 1977, *A Study of Organizational Turnover* (Ames, Iowa: University of Iowa).

60. Basil Georgopoulos and Floyd Mann, 1962, *The Community General Hospital* (New York: Macmillan); Thompson, 1967, *op. cit.*; Etzioni, 1975, *op. cit.*; Lawrence and Lorsch, *op. cit.*, Hage, 1974, *op. cit.*

61. Blau, 1970, *op. cit.*; Peter Blau and Richard Schoenherr, 1971, *The Structure of Organizations* (New York: Basic Books); Peter Blau, Wolf Hydebrand, and Robert Stauffer, 1966, "The Structure of Small Bureaucracies," *American Sociological Review*, vol. 31, (April), pp. 179–191; Peter Blau *et al.*, 1976, "Technology and Organization in Manufacturing," *Administrative Science Quarterly*, vol. 21 (March), pp. 20–40; Peter Blau, 1972, "Interdependence and Hierarchy in Organizations," *Social Science Research*, vol. 1 (April), pp. 1–24.

62. Woodward, 1965, *op. cit.*

63. Jerald Hage and Michael Aiken, 1969, "Routine Technology, Social Structure, and Organizational Goals," *Administrative Science Quarterly*, vol. 14 (September), pp. 366–377.

64. Howard Aldrich, 1979, *Organizations and Environments* (Englewood Cliffs, N.J.: Prentice-Hall).

65. *See* Richard Hall *et al.*, 1977, "Patterns of Interorganizational Relationships," *Administrative Science Quarterly*, vol. 22, no. 3 (September), pp. 457–474.

66. Michael Aiken *et al.*, 1975, *Coordinating Human Services* (San Francisco: Jossey-Bass).

67. Hage, 1980, *op. cit.*, Chapter 7.

68. *Ibid.*, Chapter 6.

69. Jerald Hage and Michael Aiken, 1970, *Social Change and Complex Organizations* (New York: Random House), Chapter 4.

70. Peters and Waterman, *op. cit.*

71. Lawrence and Lorsch, *op. cit.*

72. Even the concept of centralization means different things in the two literatures. For example, compare Hall, 1983, *op. cit.*, Chapter 6; or Hage, 1980, *op. cit.*, Chapter 4 with Pradip N. Khandwalla, 1977, *op. cit.*, pp. 508–510; and Martin Gannon, Jr., 1982, *Organizational Behavior* (Boston, Mass.: Little Brown and Co.) For an exception *see* Henry Mintzberg, 1979, *The Structure of Organizations: A Synthesis of the Research* (Englewood Cliffs, N.J.: Prentice-Hall), Chapter 11.

73. In particular, *see* Mintzberg, 1979, *op. cit.*; Khandwalla, 1977, *op. cit.*; and Jay Galbraith, 1973, *op. cit.* They tend to cite various organizational theorists such as Peter Blau, Jerald Hage, Charles Perrow, etc.; the reverse is less true. The best examples of contingent approaches are Galbraith, 1973, *op. cit.*; Khandwalla, 1977, *op. cit.*; Mintzberg, 1979, *op. cit.*; and Henry Tosi and Stephen Carroll, 1982, *Management* (2nd ed.), (New York: Wiley).

74. Fayol, 1916, *General Industrial Management*, translated by Constance Storrs (London: Pitman, 1949).

75. Daft, *op. cit.*, pp. 101–102.

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80. Galbraith, *op. cit.*

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82. Daft, *op. cit.*, pp. 80–81.

83. Lawrence and Lorsch, *op. cit; See also* Walton, Dutton, and Cafferty, 1969, *op. cit.*

84. Daft, *op. cit.*

85. Alfred Chandler, Jr., 1962, *Strategy and Structure: Chapters in the History of Industrial Enterprise* (Cambridge, Mass.: M.I.T. Press).

86. Daft, *op. cit.*

87. Daft, *op. cit.*, pp. 133–134.

88. Mintzberg, 1980, *op. cit.*
89. These managerial functions are a major gap in organizational theory.
90. *See* Mintzberg, 1979, *op. cit.*, and especially his concept of coordination as the way of seeing how different organizations are structured.
91. Peters and Waterman, *op. cit.*
92. This schematic of potential causes of performance gaps is very similar to the framework developed by Samuel Paul, 1982, *Managing Development Programs: The Lessons of Success* (Boulder, Colo.: Westview). He uses environment, strategy, structure, and implementation process. We add to his scheme the resource group, which has been very important in recent organizational theory. Resources, however, are implied in Paul's analysis.
93. Beer, *op. cit.*
94. Stanley M. Davis and Paul R. Lawrence, 1977, *Matrix* (Reading, Mass.: Addison-Wesley).

2
A Contingency Theory of Organizations

Organizations are changed because they are failing to perform at expected and desirable levels. Sometimes organizational leaders can figure out what changes will improve the deficient performance of the organization but sometimes they need guidance. In this chapter we provide guidelines on the direction of organizational change which is appropriate for different situations. We employ the contingency theory of organizations which identifies four organizational models that are effective in four different sets of contingencies. The change agent then can use the contingency theory to determine the type of change which is needed for improving the performance of specific organizations.

The four models of organizations presented in this chapter are: mechanical, organic, craft, and mechanical-organic. The first is the rational-legal bureaucracy, which we call the mechanical form; the second is the professional organization, which we call the organic form. The mechanical form is desirable when the production or provision system is standardized, most jobs require low levels of skill, and the demand for the product or service is sizable and constant. Since the human capital needs are low and frequently the technologies are easy to borrow, this model can be applied by development change agents in LDCs. The organic form is desirable when the production system is nonstandardized, many jobs require high levels of skill, and the demand is small and changing. In this model, human capital needs are large, which mitigates against its use in some LDCs. However, it is the form most able to create the new or

THE LEARNING PROCESS

WITH

EMPHASIS ON MANAGEMENT TRAINING AND EDUCATION

The following articles are designed to help participants look more critically at the training process as a strategy for improving managerial and organizational performance.

1. Helping Adults Apply What They Learn

2. Management Development in the 1980's: A Field in Transition

3. Management Education: Some Troublesome Realities and Possible Remedies

4. Nine Ways to Make Training Pay Off On The Job

5. Learning: the Use of Models

6. The HRD Effectiveness Model

7. The HRD Effectiveness Improvement Process: Putting the Whole Picture Together

Most of the titles are self descriptive and need no further explanation. The final two articles are from a recent book by Neal Chalofsky and Carlene Reinhart, Effective Human Resource Development, which reflects the movement toward human resource development as an overall strategy for personal management, including the training function.

Helping Adults Apply What They Learn

By Alan B. Knox

Helping adults learn new tasks or behaviors through training to improve performance is a well-understood bottom line. Helping adults learn to apply those learned tasks or behaviors and understanding application from their point of view is another issue for trainers.

Trainers can improve their understanding of application and increase learners' actual application by first using a practice audit to identify and develop mutually desirable changes and performance standards. The audit centers around some essential practices that can increase application: responding to learners' aspirations, clarifying performance standards, encouraging application, developing active learning methods, and evaluating progress. Each practice should continue after the training program has ended. Trainers should review this checklist periodically and ask themselves how many of the practices they typically use in their human resource development efforts and which they might adapt to existing programs.

The typical steps in the practice audit include:

- Select aspects of work performance that are important to the learner to improve and can be evaluated for progress.
- Analyze current proficiencies and relate them to desired proficiencies to identify discrepancies in educational objectives.
- Set essential standards for desired performance.
- Make sure participants accept the standards as desirable and feasible.
- Analyze progress toward standards—for example, by comparing the actual gains and losses with potential changes.

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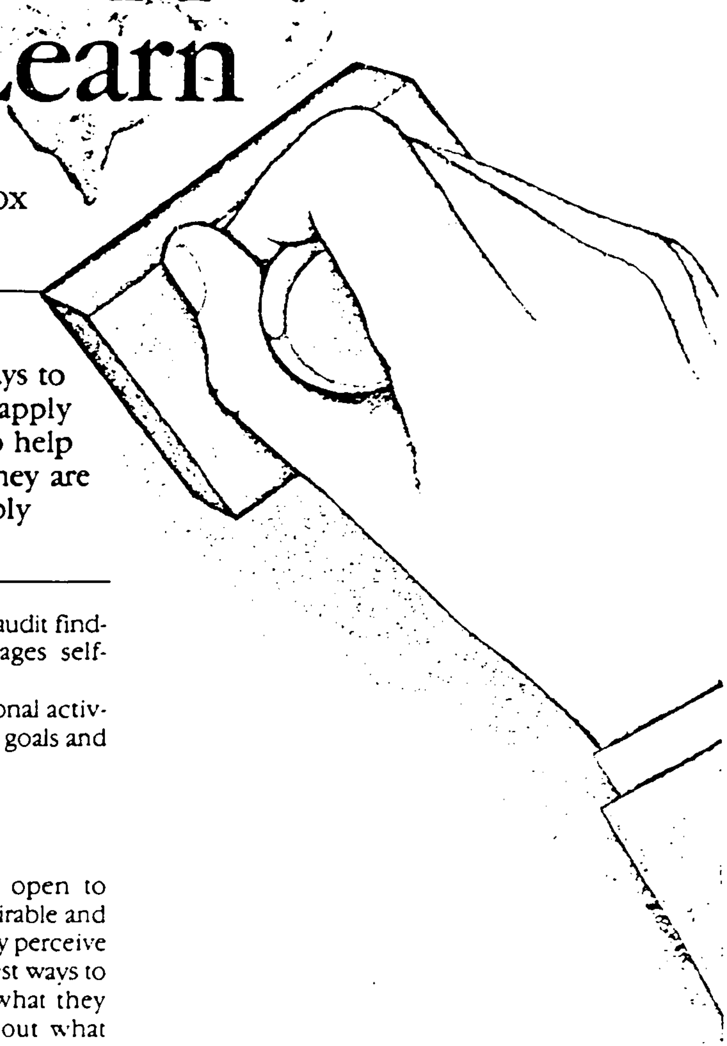

One of the best ways to encourage adults to apply what they learn is to help them find out what they are committed to apply

- Provide participants with audit findings in a way that encourages self-improvement.
- Develop ongoing educational activities designed to achieve new goals and new learning applications.

Respond to learners' aspirations

Adults tend to be more open to changes they perceive as desirable and more resistant to changes they perceive as undesirable. One of the best ways to encourage adults to apply what they learn is to help them find out what they're committed to apply. Gauge the intensity of people's feelings about themselves, other people, and aspects of their work setting by considering the strength and focus of the attitudes, beliefs, and values expressed through words and actions at work. Responding to and emphasizing improvements that participants want to pursue will make application more likely.

In most training programs, helping learners clarify educational needs related to desired performance improvement through encouragement and assistance is an essential part of instruction. Ultimately, however, application of training depends on individual initiative. Encourage participants early in the process to begin thinking about application and to discuss how they will use what they learn, including

Learning in Action

Administrators typically are selected to participate in action-learning programs because of their promise for top leadership positions. As participants, they often get "release time" from their own organization to attend action-learning practicums, particularly in organizations faced with serious management problems. Typically, each participant works with a different host organization. Because participants are away from the power structure of their own organization and don't become part of the power structure in their host organization, they function similarly to a consultant seeking to evolve a solution from the resources of the host organization.

During a brief introductory period with other practicum participants, each participant gauges what each host organization is trying to do and why, what seems to be interfering with progress toward those goals, and what might be done about the situation. Advisers assist small groups, each of which has completed selected reading materials designed to complement each member's background. The prior readings and the group discussions focus on topics such as information, risk taking, learning, values, decision making, organizational systems, and social change. Each adviser helps the small groups to become cohesive and to learn from one another and from resources, consultants, and people in their host organizations.

During an extended period in the host organization, each participant observes, reads, and interviews in an effort to analyze the situation and the problems and to evolve a solution in concert with members of the host organization. Periodically during this diagnostic period, small groups of participants meet, along with their advisers, to become familiar with one another's problem, the host setting, and real or potential progress. Advisers, experts, and employees from the various host organizations help participants discover management techniques, gain perspective on their organizational problems, and critique suggested solutions.

A short consultation period follows, away from the host organizations, during which participants, experts, and advisers are available to help refine intended solution strategies. Then comes an extended implementation period during which each participant works with others in the host organization who know and care about the problem and are likely to help with a solution. This implementation process includes gaining organizational support for a proposed course of action, followed by actions to achieve the best solution feasible. At the end of the practicum program, a review with the adviser and other participants evaluates the extent of success and lessons learned. In addition to assessing the organizational effectiveness of problem solutions, participants have time to reflect on their enhanced proficiencies in information seeking, problem solving, personal development, and learning how to learn.

This example of action learning in organizational settings is similar to self-directed experiential learning in any setting in which the learner approaches learning activities with a problem-solving rather than information-receiving mindset. In such instances, learner commitment to application is likely. The trainer's special contribution may be to place applied goals in a broader context for the participants, where they consider implications of their goals, alternative goals, criteria for assessing the desirability and feasibility of such goals, and implicit value judgments. The focus of learning then shifts to examining the desired learning outcomes and one's intended performance. This type of learning approach can be used in many programs.

learning activities with performance tasks.

Consulting with experts and analyzing the tasks at hand can help set bottom-line standards of desirable role performance and methods for achieving them. A task performance map, which is similar to a systems flow chart identifies subtasks and a desirable sequence for accomplishing them. Live or videotaped demonstrations of proficient performance also can clarify discrepancies in performance standards and give trainers an opportunity to suggest ways for improvement.

Another useful tool for clarifying performance discrepancies is a modified critical incident technique in which the trainer evaluates "incidents" or examples of effective performance and inadequate performance over time. The evaluation must be extensive enough for the trainer to discern the relationship between learners' intentions, performance, and the consequences of training. The trainer or a small group assesses current proficiencies and pinpoints specific action needed to achieve desired performance. The critical incident technique often increases participants' belief in and commitment to training.

To help learners develop more realistic strategies for personal application, allow them time to analyze factors that may influence their own efforts to apply what they learn through training. Similar assistance after the training program can help them periodically assess discrepancies between current and desired proficiencies and plan long-term personal change efforts.

Encourage application

Trainers can encourage application by providing incentives and by reducing resistance to improved performance. Incentives include benefits that are more likely as a result of training such as occupational advancement. Other incentives include positive feedback and reinforcement by a supervisor or mentor. Encouraging participants to apply what they learn from the program may seem straightforward when the goal is skill enhancement, but it's also desirable and feasible when the goal is more diffuse, such as management development.

Reducing resistance to improved performance or change means responding to possible inhibitors, such as poor work habits, competing time demands, or discouragement from work associates. Identifying and dealing with resistance to change can help trainers become more effective in helping adults learn.

Analyze the combination of facilitators and barriers that seem to be influencing efforts to change. Facilitators of change might include encouragement, available and accessible resources, opportunities to contribute to valued goals, and acknowledgement of the benefits of the proposed change by those affected, including the learner. Barriers to change might include forms of discouragement such as the lack of essential resources and support, concern about others who seem threatened by the proposed change, and penalties that might result from making the change, such as the loss of a friendship.

Understanding and analyzing these interacting forces, as well as ways to reduce the barriers and strengthen the facilitators, is valuable for both the trainer and the learner. Typically the challenge for the learner is to overcome resistance to a change in performance, to accomplish the change, and, through training, to achieve a new equilibrium so that the changed performance continues.

Develop active learning methods

Selecting the right instruction method is important to successful application. Traditional instruction methods, such as those used for acquiring knowledge, often are effective in training. Yet less passive methods such as internships, role playing, case analysis, and action-learning projects are far more effective for application, transfer, and other performance-oriented outcomes.

Assign pretraining tasks such as brief, topical readings or a case analysis to prepare participants to get the most out of the program. Try to involve them from the start in all program development decisions. Discussion with the trainer and other participants regarding the program objectives and intended benefits is another important contributor to application. Participants may find it helpful to talk with a supervisor or mentor who may make the learning activities more meaningful.

During the training program learning contracts can help participants plan and track specific ways to apply what they learn. Include a session at the end of the program addressing possible obstacles to application and effective strategies for dealing with them. Help participants form an informal support group or buddy system to encourage and assist with application of learning.

Always emphasize active learning, clarify objectives, and try to increase communication and commitment among participants and others who have stakes in the educational outcome. Such arrangements help participants

- become aware of situations where new proficiencies are used;
- relate learning activities to probable applications;
- practice active learning and planning for implementation in actual or simulated settings; and
- receive reinforcement, which is especially important during the early stages of implementation.

Evaluation and reinforcement

Even when learners know how to improve their practices, most require evaluation and reinforcement to do so consistently. Evaluation helps measure the degree of improvement in application and assesses how well the learner is achieving the established goals. Effective reinforcement includes substantive feedback, time to practice new learning, and access to periodic evaluation findings. To reinforce continued application after the training program, trainers should

- provide a timely follow-up evaluation;
- periodically send additional brief readings or suggestions for further learning activities;
- set up simulated practices of application strategies and offer feedback on performance as it related to the agreed-upon standards;
- request that progress reports be sent to trainers and others who care about the ongoing outcome of training;
- encourage persistence in implementation plans with incentives and recognition.

Such procedures encourage participants to use their enhanced proficiencies and act as rewards for achieving desired outcomes. They show management's commitment to training even after the program is over through arrangements that support application. Application will occur when management development programs focus on improved problem solving and decision making through training that combines learning and action. In turn, action learning will contribute to personal and professional development as participants learn through their experiences with actual problems.

This article is based on excerpts from Helping Adults Learn, *published by Jossey-Bass, 1985.*

Management Development in the 1980s: A Field in Transition

by
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Several positive trends are occurring in the important field of management development. Practitioners and researchers are now viewing international management development in a more realistic way; in particular, they are taking a situational approach here which calls for the organisation to look at cultural and job variables before training an individual for an overseas position. Review of the recent literature reveals a second trend, the effort to improve the design of management development programmes. Researchers are now addressing the influence of the organisational culture on the effectiveness of management development programmes; they are also considering how differences among individual trainees can affect the usefulness of any given training technique. In addition, researchers and practitioners are taking a more practical approach to the evaluation of management training. Specifically, they are discovering ways to conduct meaningful evaluation despite the constraints imposed by the typical organisational setting.

Historically the field of management development has been subject to considerable criticism in the personnel and management literature. In fact, recent complaints about the field can be found in academic as well as practitioner journals. For example, researchers cite evidence that most organisations still fail to thoroughly analyse their training needs or to determine the outcomes of the programmes they undertake[1]. Training professionals themselves admit that the lack of a systematic approach to developmental needs is one of the biggest problems facing their field today[2]. Among the shortcomings they note is the continued failure of practitioners to design programmes according to clearly-specified objectives.

Other critics of management development focus not so much on the shortcomings of practitioners as on the alleged failures of researchers within this field. For example, one recent review of the literature on personnel training reported a scarcity of research on management development techniques[3]. Even the newer approaches to management development, such as Double Loop Learning and Managerial Role Theory, are apparently not being tested by today's researchers, and a field as prone to fads as management development requires rigorous testing of new ideas and approaches.

In view of these criticisms, many of which are obviously quite recent, it seemed appropriate to determine exactly what was happening in the field of management development today. Are researchers and practitioners attempting to answer the charges of critics? Is any worthwhile research being conducted? Has management development changed in any useful way? To examine questions such as these, the present researcher reviewed the literature on management development since the end of 1981. On the one hand, the 80 sources uncovered by this review do indeed confirm the specific charge that little research has been done on developmental techniques. For example, no studies were found that had attempted to further refine the use of case study or role playing. On the other hand, this literature review did find certain major changes occurring in the field of management development. These changes reflect a redirection of the efforts of both practitioners and researchers within the field and, for the most part, bode well for the future.

The biggest change found in the literature since 1981 has been a trend towards management development in the international realm. Of the 80 sources 14 dealt with the training of managers for overseas assignments or the development of foreign nationals for managerial positions in their own country. A second major focus of the recent literature has been the improved design of management development programmes. Two critical areas addressed by this segment of the literature are the influence of individual differences on the success of training and the need to build-in provisions for the transfer of training. The final major trend found in the recent literature on management development is the attempt to improve the evaluation of management training programmes. Fortunately, the research here has moved beyond the earlier simplistic concerns for experimental design. Researchers are now searching for ways to perform valid training evaluations in an organisational world where experimental design is not always possible.

Management Development in the International Realm

The increased attention given to international management development might have been expected by a close follower of the organisational scene. First of all, managers and organisations have been facing an increasingly global business environment, and whether the management team running a foreign operation consists of headquarters personnel, foreign nationals, or third nation professionals, that team needs to be properly prepared for the challenging new environment it will face. Secondly, the managers-to-be who have recently graduated from US business schools have generally not been exposed to a curriculum focusing on international management[4]. The task of preparing these graduates for international positions therefore falls to their employing organisation. Yet a third reason for the growing interest in international management development has to do with the performance record of managers in foreign positions. In particular, that record shows quite clearly that a high proportion of expatriate managers, especially those from the US, do not adapt well to a different culture[5]. Appropriate training is one obvious solution to this problem.

The recent research on international management development has focused on two different approaches to staffing overseas positions. The first relates to the training and development of headquarters personnel for managerial positions in a foreign culture. The second, less-researched area concerns the preparation of foreign nationals for managerial responsibility in their own country.

Training of Headquarters Personnel for Foreign Positions

The recent research on the training and development of expatriate managers is a major improvement on earlier work in this area. Indeed, much of the early work merely attempted to list all the abilities and attitudes supposedly needed in a foreign management position[6]. The more recent research has recognised that the managerial qualities needed in a foreign position undoubtedly depend upon the situation to be faced by the expatriate manager. Consequently, researchers are now identifying the situational variables to be addressed in the preparation of an individual for a foreign assignment: the culture to which the manager will be sent, the nature of the position to be filled, and the types of developmental activities available.

Concerning the culture to be faced by the expatriate manager, the two key factors to be examined by the organisation are what have been called relational skills and cultural empathy[7]. The first of these refers to the ability of the manager to deal effectively with the "unique" clients he or she will find in a foreign culture — subordinates, peers, customers and suppliers, for example. A comparison of US, Japanese and European companies found the lack of relational skills to be the major reason for a manager's inability to adapt to an overseas assignment. Indeed, Japanese firms said it was the most important reason for expatriate failure, and US and European firms ranked relational skills of the manager second in importance. Oddly enough, the US and European companies said a lack of relational skills on the part of the manager's family was their biggest reason for failure. This category of skills is obviously important.

The second cultural factor, called cultural empathy, refers not to one's *ability* to deal with the clients of another culture, but rather to one's *willingness* to accept other cultures as a way of life[8]. Culturally empathic managers reserve judgement on what might seem to be unusual behaviours until they can better understand the reasons for those behaviours. Especially important features of cultural empathy are the knowledge and acceptance of the language of a foreign country. US multinationals have an especially poor track record here. For example, one survey found that fewer than half of 74 responding firms considered language facility important in a foreign assignment, and only 20 per cent actually require language skill in overseas positions[9].

The position to be filled is the second identified situational variable. Indeed, the nature of the position largely determines the level of technical (as opposed to cultural) skill needed by the expatriate manager[10]. For example, a top-level executive who oversees an entire operation obviously maintains considerable contact with important clients from the foreign culture. Cultural skills far outweigh technical skills in this type of assignment. At the other extreme is the trouble-shooter, who tends to focus on specific operational problems during a shorter assignment and may have little contact with foreign nationals. Technical training would seem to be paramount here. Between these two extremes is the functional department head, who requires considerable relational and cultural skills. The latter skills are needed here to maintain effective on-going relationships with internal personnel from the host culture.

Except for the trouble-shooter role, foreign management positions need to be viewed as long-term assignments, and the expatriate needs a support system back home[11]. Compared to their US counterparts, Japanese companies score well on both points here. The average duration of an overseas assignment for Japanese expatriates is almost five years, and the manager is not expected to be fully productive until the third year. US firms, which have been much less successful with foreign assignments, tend to take a "fast-track" approach with the assignment seldom lasting beyond two or three years. Regarding the support system required for an expatriate, Japanese managers are linked to a high-level mentor at headquarters and are allowed to travel home often in order to maintain critical contacts. They are also likely to have a support network of fellow Japanese expatriates involved in the foreign assignment with them. Because such steps are generally not taken by US companies, their overseas personnel often view a foreign assignment as a trip to oblivion.

The third issue of concern to organisations placing managers in foreign positions is the choice of developmental approach. Research shows that, of the six basic approaches taken by multinational companies today, actual field experience is the most rigorous[5 p. 65]. Here, the employee is actually sent to the country of assignment to gain exposure to the culture and its people. Two other fairly thorough approaches are language instruction and sensitivity training, the latter to develop appropriate attitudes toward the culture in question. Two less rigorous approaches are the culture assimilator, which exposes the trainee to a simulation of the foreign country, and cultural orientation, in which the trainee is provided with information about the cultural institutions and value systems there. The least rigorous approach, an environmental briefing, merely provides the expatriate manager with information about the country's geography, climate, and other physical features.

Selection of the appropriate approach to developing the expatriate manager depends, in large part, upon the cultural and job concerns described above. For example, the individual chosen for the top position in a foreign operation may need a combination of sensitivity training and actual field experience to prepare for the job. This combination would address both the cognitive and the affective learning needed to perform successfully in such a highly visible, long-term assignment. In contrast, a manager needed in a short-term trouble-shooting role may need only an environmental briefing to prepare for the assignment.

Development of Foreign Nationals

An alternative to the use of expatriate managers is the training of foreign nationals for managerial positions in their own countries. Once again, however, the culture of the country in which the assignment is being made is a key determinant of the success of the training. As an example, consider the experiences of one authority who has conducted management training in the Arabian Gulf[12]. His experience in a course on organisation and supervision revealed that these cultures call for a slower, less pressurised pace of work than would be found in most advanced nations. Although there was no outright refusal to work towards deadlines, the participants simply would not place great importance on them. Similarly, there was a disdain for long-range planning, partly due to a lack of experience in thinking conceptually; people from these cultures focus on what needs to be done *now.* The implication for the multinational firm doing such training is that foreign nationals must be trained within the context of their cultural constraints, and values, beliefs, and attitudes may be just as important as the managerial skills being taught.

US researchers uncovered cultural obstacles even in the training they conducted in South Africa — a country where one might expect English to be "the language of business"[13]. Indeed, the language problem here was substantial, since the groups of trainees included individuals who spoke Sotho, Zulu, Shangan and Afrikaans, as well as English. Although the presence of translators helped considerably in this situation, this solution will not work in many others. Often certain concepts from the headquarters country will not even exist in the host culture. For example, there is no word for "achievement" in certain African languages, and there is no direct translation for "management" in French. An alternative to translation is the use of trainers from the host culture, but they themselves may first have to learn the training material.

In one innovative approach to international management development, groups of host-country personnel are trained together at multinational headquarters to manage later as a team in their own country[14]. This group approach provides the support network identified earlier in Japanese companies. The members of the team can provide each other with emotional support in the training setting, and they can later reinforce one another's training in the job setting.

The previous discussion has identified major issues to be examined by an organisation planning to place managers in foreign positions. Of particular importance are the culture in which the manager will work, the nature of the position to which the manager will be assigned, and the type of training or development available for that individual. Examination of these issues requires that the organisation perform detailed research to identify the key cultural and job variables relevant to any given foreign assignment. Research sources which would prove useful here include government reports, research libraries, consultants and nationals from the country in question (some of whom may be working at headquarters already).

Design of Management Development Programmes

The management development literature since 1981 reveals two major trends in the design of management training programmes. The first concerns the importance of designing programmes to take into account the unique differences among individual trainees. The second is the design of programmes to provide for transfer of the training to the job setting.

The Importance of Individual Differences in Programme Design

Although training professionals have long recognised the need to treat trainees as individuals, research on the impact of individual differences in management development had received little attention even in the decade prior to 1980[15]. However, researchers are now addressing the importance of individual differences on the relative effectiveness of various training techniques. For example, one review of the literature on this topic examined the influence of cognitive style on the effectiveness of human relations training[16]. The specific individual variable looked at is called field-dependence-independence. Field-independent individuals tend to be analytic and task-orientated, while their field-dependent counterparts are more concerned about interpersonal relationships. Contrary to what might be expected, the task-orientated independents actually performed better in unstructured human relations training (e.g. t-groups) than did the people-orientated dependents. The independents, being less people-orientated, had more room for learning in this topic, and they seemed to enjoy the "task" of trying to be more emotionally open. The implication here goes beyond human relations training, however. What this review showed was that the assessment of individual training need has to identify the techniques to which the trainee will best respond.

A second review of the literature examined the influence of what is called "skill learnability" on the effectiveness of management training[17]. Simply put, this variable refers to the degree to which a particular managerial skill can be acquired or modified by means of training programmes. The researchers found that skills which are highly cognitive and specific in nature (e.g. marketing principles and decision science techniques) are more easily learned than those tied closely to one's values and emotions. The latter tend to be social-interactive in nature and include such skills as managing conflict, motivating subordinates, and using power effectively. The important conclusion of this study was that organisations should consider selecting for managerial positions those individuals who already have these types of skills. Attempts to train those who do not may be a waste of time and effort.

That the two studies described above are major reviews of the literature indicates the sizeable amount of work being done on individual differences in programme design. Although more research is needed on this issue, it does seem clear that successful training depends at least partly on selecting an approach congruent with the needs of the participants.

Designing for Transfer of Management Training

A major, continuing concern of training researchers is the failure of classroom learning to transfer back to the job setting. This problem is especially critical in management development since, as was just explained, many management skills are hard to learn. Fortunately, as the management development literature since 1981 reveals, training researchers and professionals are now addressing the transfer problem.

First of all, applications of behaviour modelling (a recent addition to the field of management development) generally design-in provisions for the transfer of training. One recent study illustrates how, and an important point is that the same transfer ideas can be used with most other management development techniques[18]. For example, the behaviours to be taught in behaviour modelling are often identified by the very supervisors to be trained. These individuals know best the problems they face on the job, and their involvement in the design of their training gains their commitment to the concepts later taught. A second way of gaining commitment, and therefore improving the transfer of learning, is to have the trainees' boss conduct the training. This practice shows that the boss is indeed behind the programme and is likely to understand how the training can be used on the job. Behaviour modelling also provides for what is called "skill generalisation" — the exploration of novel situations in which trainees might use their new skills. In short, they look beyond the specific applications covered in the course to other similar situations on the job. Some applications of behaviour modelling also have the trainees contract, in writing, to try their new skills on the job. In a later follow-up training session, they then discuss how to overcome the difficulties they have encountered. This "goal-setting" approach to transfer has been found to work well in other types of management training, too[19].

Perhaps the most studied variable on the topic of training transfer is the organisation culture. For example, one major study asked 60 managers from five companies to describe the circumstances under which they felt they had received the best management development[20]. The most important element they highlighted was not formal classroom training but the presence of a "developing culture" in their organisations. This culture was found to provide, among other things, novelty, action and encouragement of self-development. In particular, it encourages a manager to be concerned about his or her own development and frequently places the manager in new situations requiring problem-solving skills not used before.

Other research on organisational culture shows additional practices which can improve the transfer from management development. One major survey found that organisations with successful programmes assigned the primary responsibility for management development to line rather than staff personnel[21]. The feeling, apparently, is that the former have a better understanding of the real problems that the trainees face on the job. These more successful programmes also provide the opportunity for the developmental needs of managers to be openly discussed, and secret files of "winners" and "losers" are not maintained. Finally, individuals are promoted before they are fully qualified for a given managerial position so they can stretch and develop on the job.

A major conclusion of the study just decribed was that successful management development is based on an approach congruent with the characteristics of the organisation. Key characteristics identified were organisation structure, management style, and organisational size and growth rate. For example, smaller, less complex companies with informal cultures are likely to have success with informal, on-the-job management development.

Refinement of Evaluation Practices

A recent review of evaluation practices in management training found that these practices, historically quite weak, had not improved much from 1970 to 1980[15 p. 12]. Specifically, few evaluators had used a control group in their studies, and few had evaluated the effects of the training on actual job behaviour. Most, by far, had merely addressed trainee reactions and improvements in knowledge, as measured after a course. Training researchers also had disproportionately emphasised laboratory as opposed to field studies. Finally, and perhaps most disappointing, few researchers had attempted to measure the influence of the organisational culture on the transfer of training. Fortunately, the present review of the management development literature shows that evaluation practices in this important personnel activity have begun to improve.

The first indication of improvement is the finding that two-thirds of the studies of management training published since the end of 1981 have been field studies. More importantly, all of those studies examined improvements in managerial behaviour, changes in organisational performance, or both. The findings here must be interpreted with caution, however, for the sample of studies is small and published evaluations do not necessarily reflect organisational practice in general.

A second indication that management training evaluation is improving has to do with the creative approaches being tried and suggested by recent researchers. These creative approaches provide meaningful evaluation data, even though they are not pure experimental designs, and something less than an experimental approach is often needed in the field setting. For example, top management may insist that all subjects be trained as one group, thereby eliminating the opportunity to use a control group in evaluation.

One interesting approach to evaluation involved the use of self-reports in a time-series evaluation design[22]. This approach eliminated the need for a control group and avoided the need for trained observers. Monitoring by such trained observers would have required considerable time and effort; also, individuals being observed often do not behave as they normally would. Further, even trained observation does not necessarily gain a complete picture of supervisory behaviour, which can occur discontinuously. To effectively use self-reports, however, the evaluators had to ensure that subjects would record their behaviours on a thorough and consistent basis. The creative approach used here involved rewarding subjects for submitting their completed reports on a timely basis. Specifically, subjects who turned in completed data sheets on a weekly basis were rewarded with tokens worth $2.50. The important point, of course, is not the dollar amount of the reward but the creative approach taken in this evaluation effort. In particular, it is a cut above the simplistic questionnaires which have historically been used in training evaluation.

In another creative approach to evaluation of management training, the researchers went beyond the norm in targeting and evaluating supervisory skills most likely to affect employee performance[23]. Whereas most evaluators address rather global measures of supervisory job behaviour (e.g. listening, delegating), these researchers produced a list of the specific behaviours considered important by subordinates of the trainees. After first developing a list of 69 behaviours rated important by the management literature, the researchers reduced the number of key behaviours to 39 in a two-step effort directed at the employees. First, those employees were asked to indicate which of the 69 behaviours were most important to them. Then a smaller group of employees validated the resulting list by actually viewing supervisors who acted out the behaviours on videotape. In short, this approach tied evaluation directly to assessment of training need and yielded specific problem areas on which the training could focus.

Finally, training evaluators now seem willing to consider the impact of the surrounding organisational culture on the outcomes of management training. For example, one major study of a five-day general supervisory course highlighted quite clearly the variables back on the job which can affect the trainee's ability to use his new skills[24]. A key influencing variable here was, quite simply, the encouragement the trainee receives from both the boss and the immediate work group. This encouragement includes not only verbal support but also the resources, especially time, to try new ideas.

An Overview: The Keys to Success in Management Development

As was explained earlier, this review of the literature shows quite clearly that several positive trends are occurring in the field of management development. Perhaps just as important, an overview of the research cited here highlights what might be called the new keys to success in this personnel activity. Figure 1 summarises these keys to management development effectiveness.

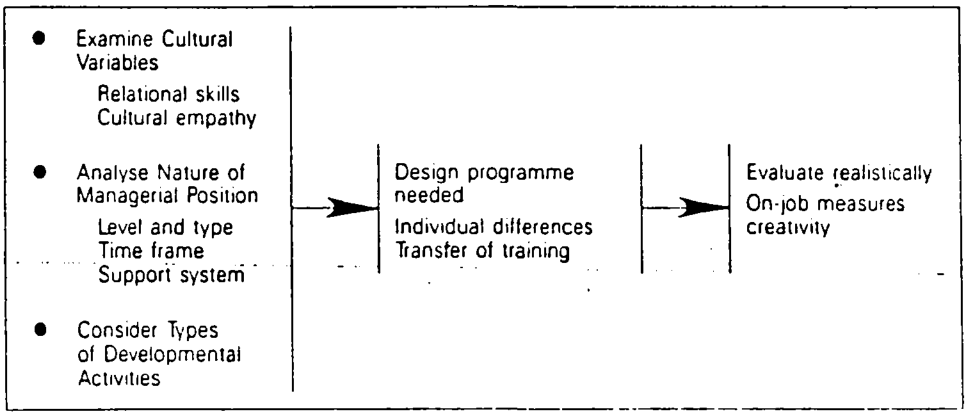

Figure 1. The Keys to Success in Management Development

First of all, any management development effort needs to consider the culture within which a newly-prepared manager will work. Of particular importance here is an examination of the relational skills and cultural empathy needed in the manager's new assignment. And even individuals with good interpersonal skills would need some training to prepare for the culture shock they may face in a new setting. The developmental effort required also depends partly on the nature of the position to be filled. Three major considerations here are the type and level of managerial assignment, how long the assignment will last, and the availability of human support systems. Within cultural and job considerations, the organisation also needs to decide, from the broad range of developmental activities available, which combination best prepares a manager for the new assignment. Although the best approaches may also be the most expensive, the outlay here should be viewed as an investment in better long-term managerial performance. For example, field experience and extensive language training may be the only ways to effectively prepare a manager for an assignment in another country.

Concerning the actual design of a management development programme, the research cited here shows that a consideration of individual differences and a provision for transfer of training are quite important. The evidence on individual differences indicates that programme designers need to consider carefully the types of training techniques to which trainees will best respond. Getting the participants involved in the design of a course may be a good approach here. With regard to the transfer of training, the major idea emanating from this review is that programme designers need to examine the organisation culture to which trainees will return after a programme. Of particular importance is the support their bosses will give to both them and their newly-learned behaviours.

The recent research on management development also shows the importance of evaluating the outcomes of training back on the job. Not only should managerial behaviour and performance be measured, but also expected results for the organisation should be investigated. For example, if the original intent of the programme was to improve organisational efficiency by teaching managers how to organise better, then both the organising ability of the managers and the efficiency of their departments should be measured. Also, because experimental designs are not always feasible, the wise evaluator will apply a liberal dose of creativity in such efforts.

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Management Education: Some Troublesome Realities and Possible Remedies*

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My interest in management education has a number of roots that have to be briefly reviewed in order to clarify my approach to this topic. Following my training as a social psychologist, I spent a number of years in the Army and had the opportunity to study indoctrination methods used by the Chinese and North Koreans during the Korean conflict and on the mainland of China. This research showed that a great deal of education is, in fact, socialisation and indoctrination, and that one must understand the dynamics of these processes in order to fully grasp the possible outcomes of an educational effort[1, 2].

The techniques of indoctrination used by the captors turned out not to be very mysterious. What I came to call "coercive persuasion" was really a complex and total control of the social environment, a systematic control of communications, and a clever manipulation of a group composition, incentives, rewards, and punishments. The same kinds of techniques are used for other ends in all kinds of institutions from the family to various kinds of schools.

It was not a very big leap, therefore, to begin my MIT research in the mid 1950's with the question of whether management education and development also relied on similar techniques of indoctrination[3]. A number of best sellers had made just such an argument in response to what seemed like a proud stance on the part of some companies that they were teaching their new employees the company philosophy. Whyte[4] chose to cast indoctrination in more negative terms, implying that it would produce a degree of conformity that would, at the minimum, be bad for the individual, and, in the end, be bad even for the company in that it would reduce the organisation's innovative capacity if everyone were taught the same beliefs and values. Companies responded to this social pressure by de-emphasising indoctrination and increasing their focus on management *education* instead.

Research on Education and Practice

My own research focused first on the effects of our own school on beliefs, attitudes, and values by studying three successive classes of regular masters, students and

* This article is based on an original Keynote Address to the Management Education Division of the Academy of Management.

Sloan Fellows when they first entered and again just before graduation. The changes in their attitudes were compared to the relatively more fixed positions on these same attitudes of the faculty and of senior executives who attended our programmes[5]. Not surprisingly, on those attitude areas where faculty and senior executives differed initially, the two student groups moved toward the faculty position and away from the position of their ultimate occupational reference group.

I could only presume that once these same people were out in various new organisations they would unlearn what they had learned at MIT and be socialised by the same techniques to the values of their employers. To study this process I launched three panels of students, 15 per year, to be measured before they graduated and again a year or more later.

One year out I found very little evidence of company indoctrination but a great deal of "reality shock", and adjustment difficulty to the realities of organisational life. When this group was approximately 10 years out of school, I reinterviewed them again and evidence for what I came to call "career anchors," stable self-images derived from successive organisational learning experiences that expressed themselves as the self-perceived skills, motives, and values of the individual, and that functioned as guides and constraints on career choices[6, 7].

Career anchors could not be identified when the person was still in graduate school. They were genuinely the product of what the person brought to the job situation and what actual experiences he or she had on the job. And the learning that led to stable self-images often took many years and many job experiences. Formal education was certainly an important foundation for the career, but actual developmental experiences played at least as big a role in determining career outcomes.

The Nature of Career Anchors

Career anchors also highlighted individual differences. People made consistent choices, and, among the original panellists, there were at least five different patterns of career development visible. More recent research has expanded this to eight patterns: (1) *Autonomous* careers; (2) *Security* oriented careers; (3) Careers built on specific *technical* or *functional* skills; (4) Careers built to achieve *general management* positions; (5) *Entrepreneurial* careers; (6) Careers devoted to some cause or in the *service* of important values; (7) Careers built on *pure challenge*; and (8) Careers designed to permit the person to achieve a real integration of work, family, and personal issues (a certain *life style*)[7].

It is from this paradoxical twin focus — indoctrination on the one hand, and individual stability and difference, on the other hand — that I want to comment on management education. I will argue that if one takes either the approach that the power is in the group and one can teach people anything one sets out to do, or that the power is in the individual and that one cannot really teach anyone anything that they are not already predisposed to learn, one will delude oneself. Only by keeping *both* perspectives in mind can one hope to understand the complexities and paradoxes of management education.

Some Troublesome Realities and Possible Remedies

Reality No. 1: The occupation of "management" for which we educate is, in fact, many different occupations involving different kinds of responsibilities, skills, and attitudes.

As the career anchor studies showed clearly, we have in organisational life different kinds of people whose entire career is devoted to different kinds of "goal jobs." There are those whose aim is to be: (1) individual contributors; (2) project or programme managers; (3) functional or staff managers; (4) general managers; (5) entrepreneurs; (6) self-employed businessmen or owners; (7) consultants; and/or (8) teachers of management.

The more one studies members of each of these groups the more different they appear to be, yet all of them have had some type of management education.

I find that most business school programmes and most of what I read about what a management education should be, absolutely ignores this reality, or attempts to deny it by vague claims that "management is management" wherever you find it. Or the more harmful evasion is to glorify some of these occupational roles, to make heroes out of the general manager or the entrepreneur, and to ignore the others as if they contributed less or were merely stepping stones to the heroic roles.

But the era where the general manager is the key resource may be passing. More and more companies are recognising how dependent they are on their functional managers, their individual contributors, and their technical staff. Yet little thinking has been devoted to the kind of education that would enhance those particular managerial occupations. In fact, we muddy the waters when we encourage our best technical talent to move into supervisory roles in order to get more money or a promotion, and when we keep our general manager potential candidates in functional "stove pipes" for too many years of their career.

We have no system for differentiating the educational process to meet the future needs of people who will, in fact, be in very different occupations partly because we do not really acknowledge in the first place the reality of those occupational differences.

Possible Remedy No. 1: Systematic alumni surveys to define more clearly the kind of work that different managerial occupations have to do.

Every business and management school should do systematic alumni surveys to find out what the full range of occupations is to which their alumni have gravitated. The goal should not be how *well* they are doing, but *what* they are doing.

One should also find out how managerial work will change in the future to reflect technological, economic, political, and socio-cultural realities. Only when we understand clearly the nature of different kinds of managerial work can we undertake a sensible examination of our curricula to determine whether we are educating appropriately or not.

Possible Remedy No. 2: Management committees to define more clearly what the future employers of our graduates need in the way of human resources.

Every school should create review committees consisting of some senior managers, entrepreneurs, and technical/functional staff members to analyse the changing nature of the business and managerial scene and to inform the school on the changing needs of the employers.

I would not trust the faculty judgement to second guess the future, though if some faculty members are particularly able in this area, I would put them on such committees. On the other hand, I have been impressed by how much bolder and far-seeing some of our alumni and members of our visiting committees have been than members of our own school.

Most faculty members I have met neither know nor care much about the vicissitudes of their students' careers and what the future needs of society may be. They tend to stay in touch with those few students who have become superstars in the faculty member's speciality, and then promote a curriculum that would produce more such superstars, never noticing that their favourite alumni might be a distinct minority in the total occupational picture. This reality suggests a third part of the remedy.

Possible Remedy No. 3: Invent mechanisms to systematically expose the faculty to the insights of the outside review committees and to the results of the occupational surveys.

It is not enough to generate new insights into what has happened to our alumni and what our committees may perceive to be happening in the future. We in our ivory towers have a remarkable capacity to ignore relevant data if it would make us uncomfortable. I have noticed, especially vis-a-vis senior managers, that many faculty members are inherently uncomfortable in their contacts with them, even to the point of feeling threatened. We therefore need to invent mechanisms that expose faculty not only to the information gathered by review committee but that create a genuine dialogue with such committees.

One mechanism would be to put faculty members on such review committees as part of their regular work assignments. Another mechanism would be to have strategy or planning reviews for departments or the whole school and to have presentations at such reviews by members of the outside review committees. A third mechanism would be to have alumni invite faculty members into their places of work to do seminars or to engage in discussions on the relevance of the faculty member's field to what is going on in organisations.

To summarise thus far, I have argued that the alumni of business and management schools enter a wide variety of occupations and that ways must be found to understand those occupations so that we can test whether our curricula are, in fact, relevant or not. This point is closely related to another assumption that leads to reality number two.

Reality Number 2: Management is not, has never been, and probably should not ever be a "profession" in the sociological sense of what a profession is.

Labelling oneself a profession brings status and prestige in society so there is a tendency for all occupations to aspire to be a profession or at least to claim to be one. But the study of the traditional professions of medicine, law, the ministry, and the many younger professions such as accounting, pharmacy, social work, etc, reveals that professions have a number of common characteristics that do not fit the general management model at all[2].

There are no formal educational requirements for entry into management, there is no system of accreditation or licensing for managers, managers do not have clearly defined clients in the way that most professions have (they have multiple client systems whose needs are in fact in conflict with each other, e.g. stockholders, customers, subordinates, supervisors, and the broader community), there is no clear code of ethics associated with the occupation and enforced by peer review, and there is no commonly agreed upon body of knowledge that is recognised as the essence of what is needed in order to be a manager[8, 2, 9].

In fact, it may well be the the *essence* of management is to do precisely what the professions cannot do, *to be the all-purpose integrating function in social systems*, to bring together the effort of various speciality interests into a coherent set of actions devoted to the achievement of some complex goal. This process of integration may well be as complex and varied as the myriad of tasks that face the myriad kinds of social systems and organisations that we find.

To put it another way, management may ultimately be the process of putting things together to achieve a goal within time, budget, and other kinds of constraints, a purposive "generalist" kind of process that uses any and all means available. Management is putting resources together, making things happen, achieving results, not the application of deep and esoteric knowledge on behalf of a client. Professions have clearly specified clients whereas management must balance and integrate the needs and aspirations of many stakeholders whose short-run interests are typically in conflict with each other.

If this is so, what does it tell us about how to prepare people for managerial roles? Can an educational process even do this, or must the real training for general management occur in the context of development throughout the early years of the career following school? For example, in the traditional professions it is often possible to simulate during school the essence of what the professional will be doing later. If accountability for goal achievement is an essential characteristic of management, can this be simulated during school? Can students be made to feel genuinely accountable for something, or does the fact that something is simulated take out of the experience its most essential attribute?

Management as an Art or Craft — What kind of metaphor should schools develop for the management process that would enable them to think clearly about educating future managers? I would suggest that to think of management as an "art" or a "craft" would be more accurate than to think of it as a profession. This is certainly more congruent with how senior level managers describe their own experiences, and if we think of what it takes to be a good artist or craftsman, we find that relevant models of the educational process can be identified.

First of all a good artist must have a highly developed *knowledge* related to his or her medium. The painter must know about colour and colour mixing and the technical properties of his paints, canvases, or papers. The potter must know about the chemistry of clay and glazes and the effects of different kinds of firing processes. The sculptor must know about wood, or stone, or clay, and so on. Good artists have a great deal of formal knowledge.

Second, the good artist must have extraordinary *technical skills* that come only with training and practice. Often such training occurs during long periods of apprenticeship during which more senior artists or talented teachers provide coaching, guidance, and feedback. The period of formal education can only help to identify talent. It typically cannot do much to develop the talent.

Third, the good artist must have *something to say.* We see this expressed today in the management and leadership literature under concepts such as "vision"[10], or being a corporate "pathfinder"[11]. We see it inside organisations in the employee's often stated lament that the boss does not send clear signals or does not really articulate the goals or mission of the organisation. Managers who are clear about what they want and where they are going are often viewed as "better" bosses.

One cannot overlook, of course, the limitation of the metaphor. The artist is often a lone creator, whereas the manager is by definition an organisation person tied to the mission and goals of the employing institution Nevertheless, within the broad framework of that mission, managers have a great deal of freedom and license to pursue the goals in their own way, and the artistry is often in the ability to innovate while still being part of the system. How can we educate for this "reality"?

Possible Remedy No. 1: Identify the kowledge base needed, the underlying technical core of all management processes, i.e. what every future manager will need to know regardless of which of the many occupations he may end up in.

I would propose that we re-examine the content core of our curricula and decide with the help of alumni and the outside committees suggested above, what the essential areas of knowledge are that *all* potential managers must have.

For example, I would hypothesise that (1) economics, finance, and accounting and (2) the psychology and sociology of organisations would be intrinsic to all of the occupations identified, but that marketing, production, strategy, quantitative methods, statistics, management information and control, and law would not be. Remember, I am not now asking our current faculties for their opinion. Each of them could convincingly justify their field. I am asking alumni and outside committees to provide this opinion based on their perspective from being in the relevant occupations.

In this regard, let me speculate on the future. If the trend toward the internationalisation of business continues and if the organisation of the future will either be a multi-cultural global organisation or will be involved in cross-cultural joint ventures, then knowledge of other languages may well become intrinsic to all management. We may well find that management students should not only learn another language, but, more importantly, should learn *how to learn* in the cross cultural context — how to pick up the essentials of another language and another culture quickly and efficiently.

Possible Remedy No. 2: Increase training for self-insight, pro-activity, and the taking of responsibility.

Having identified the knowledge base, one should next ask what the educational process can do to help people to acquire the technical skills and to come into contact with what they have to say. For this purpose they need self-insight, skills in self-analysis and self-study, and practice in exercising managerial functions. Even though one cannot simulate the essence of the managerial role, one can provide opportunities to practice the various skills needed and provide opportunities to become acquainted with one's own talents, motives and values.

To facilitate this kind of educational process we clearly need *experiential* methods that provide students with opportunities to take a stand, to exercise some responsibility, to put their neck on the line, to find out what makes them tick, how they feel about other people, about power, and about influence and manipulation[12, 13, 14].

Have we done all we can in our curricula to give our students opportunity to exercise real responsibility? I believe that we need to rethink the case method, group projects, and management games to determine whether they put the student into a position of really having to put him or herself on the line, where failure leads not merely to a lower grade but has some real personal consequences.

Students who have real responsibilities are the ones who edit the school's management journal, who run concessions for the school, who work on student/faculty committees, and who have to be representatives of other students on projects or in various governance functions. Can we provide such experiences to a broader base of students and can we invent other realistic tasks to give more students such opportunities? The difficulty of designing such experiences and the lack of consensus across different groups within the school on how to educate reflects the third reality.

Reality No. 3: We do not really understand the nature of learning and development. Ever since McGregor pointed out the difference between developmental models based on the "engineering" analogy, where we fashion, mould, and tool human raw material on our educational lathes, and "agricultural" models, where we sow the human seed, provide fertilizer, water, and sunshine, and then prune, shape and ultimately harvest the human product, there has been confusion both in the schools and in career development programmes about what education and development really are[15].

With these two models we revisit the dilemma I started with. Are we really talking about indoctrination, moulding people to fit the needs of organisations and occupations, or are we really talking about self-development, enabling people to fulfill their potential, whether or not this fits them for any given job or organisation? Or, at a deeper level, are we talking about nature or are we talking about nurture?

Obviously this issue can only be resolved by noting that effective educational processes take both models into account and seek to integrate them. The individual has a range of potential, but this potential will not become actual unless there are opportunities for it to develop, and those opportunities ultimately reflect the social and occupational priorities of any given society at any given time. If one wants to enhance such integration, how can an educational institution and organisations help?

Possible Remedy No. 1: Teach students how to learn about themselves.
One of the greatest sources of difficulty for people in their efforts to fulfill their potential is that they do not know themselves well enough to know what they could and should aspire to. Students generally do not know during their school years (even if they have been out a few years prior to returning to graduate school) what the shape of their managerial career will ultimately look like and what their own talents and aspirations really are. It will take them 5 to 10 years or more before it becomes clear to them what their career anchors really are.

But during their school years they can begin a process of self-study and self analysis that will be essential to continue once they are out in the world of work. In other words they need to learn how to learn about themselves. They need to learn theories about occupational and career development, theories of adult development, psychodynamic models, and the skills of self-observation and self-analysis.

For example, in my classes I typically ask each student to start a private diary focused on what he or she is feeling and observing, what the sources of anger, frustration and anxiety are, what causes elation and joy, what events arouse feelings of success or failure, what is a viable learning goal, what changes are desired, and so on. My goal is to get students to discover what their own patterns of thinking, feeling, and acting are, and to have records so that they can compare past patterns with present ones.

I also have students write short weekly papers about themselves, emphasising the process of learning to observe human behaviour, especially one's own behaviour in a dispassionate and scientific fashion. I want students to get in touch with their own perceptual filters, with their taken for granted assumptions, their stereotypes that bias perceptions, their automatic and unexamined emotional responses[14].

Possible Remedy No. 2: Provide the best possible teaching, regardless of particular teaching method or style.
Since we do not really know how people learn, and since it is likely that different people learn in different ways[13], we need not worry too much about identifying the "right" way to teach any given subject matter, but we do need to ensure that every faculty member is as good as he or she can be.

We asked students to identify teachers from whom they learned a great deal and then had them describe those teachers on a great many adjective dimensions. Factor analyses of these dimensions revealed what had been said[16], that good teachers come in several different modes. We found the self-centred, shamanistic charismatric teacher who was characterised best by the adjective "potency;" we found the brilliant, subject centered naturalists who were best characterised by "competence" and "knowledgeability;" and we found the student centred, friendly mystic best characterised by the adjective "supportive"[17].

Regardless of teaching style or method, the good teacher seems to come through, and the only consistent complaint we get from students is about "poor" teaching, not particular teaching styles. If we take this point seriously it leads to the next remedy.

Possible Remedy No. 3: Develop and run workshops on teaching for all faculty members.
My own experience with seminars and workshops on teaching is that they work, but that you cannot force people into them. They are intrinsically threatening. Only when the teacher gets feedback through the normal channels that he or she is not doing as well with students as they should be, or as they would like, is there a chance to motivate them to work on their teaching skill systematically.

The technology of such workshops is simple. The group discusses live samples of teaching by its own members, preferably audio or video taped, though that itself can be too threatening at the outset. The discussion focuses on shared reactions to different teaching behaviours, but lets the judgement of what is good and bad remain with the person who produced the teaching sample. Each participant must obtain self-insight, learn what kinds of things work for him or her, and what kinds of things do not work. The group is there to provide feedback and gentle coaching, not judgement or evaluation, so that each person can learn to build on his or her own strengths.

Reality No. 4: Though the world needs more leaders and entrepreneurs, we do not know how to identify or educate such people.
Everyone these days is calling for visionary leadership, for entrepreneurship, for creativity and innovation in organisations and society, but the truth is that we know next to nothing about how to identify and select people with such qualities, and we know even less about how to educate and develop such people.

Yet schools can show with pride what a high percentage of their alumni have achieved leadership positions, *implying* that they created such leaders. What is overlooked in this argument is that people with leadership potential know how to select the right schools that will give them the kind of education and credentials that they are seeking. In other words, schools do not select future leaders, but future leaders *do* select schools. What schools *can* do, is to become as attractive as possible to people with high leadership potential and to offer them an enriching curriculum.

If schools claim to teach people "leadership" or "enterpreneurship" they may be guilty of false advertising, but if they claim to enhance and enrich those people who already have the talent for such roles, they may be doing society a great service. How might this be implemented?

Possible Remedy No. 1: Develop broader, enriched curricula.
I propose that we deliberately enrich our curricula with more humanities and social sciences to attract and stimulate those students who have the motivation and the capacity to lead. Whether or not we call such courses "leadership development", matters less than the actual content which must be designed to enlarge the student's perspective and provide the raw materials from which visions are made. There is a special role for history courses, courses in philosophy and ethics, courses in economic and political development, courses in international relations, and, most important, courses in anthropology to get across the richness of cross-cultural understanding.

Many of our curricula are totally technocractic. They teach techniques to a fault, but teach the student nothing about when to use them, how to use them and/or, most important, whether or not to use them at all from an ethical/moral point of view. For example, very few students gain any appreciation of the fact that information and control systems have moral implications, and that the introduction of information technology via elaborate computerised systems permits senior executives to have access to all kinds of information that not only potentially makes operations more efficient but also may have secondary moral implications in exposing areas of work that may be regarded by subordinates as "private." What is the moral message implicit in a system in which there is no longer any private area of responsibility, and what, in fact, does such a system do to the fundamental concept of "sense of responsibility" that is so crucial in management? Leaders must understand these issues and make wise choices around them.

Possible Remedy No. 2: Revise classroom accounting schemes to permit students more choice of small seminars.

In order to enrich the curriculum, it is necessary to rethink the accounting logic that says that "classes that attract less than x number of students do not belong in the curriculum." If only five students sign up, but those five are the highest potential leaders in the school, should we cancel that seminar or should we be thrilled that good students want to take it? It seems to me one cannot have an enriched curriculum without an array of small seminars that attract the best students precisely because they are small and interesting.

Every faculty member should have the right and obligation to develop a small elective seminar to get into the interesting issues, and these should not be limited as they often have been to doctoral students where the research emphasis dominates. Some of the most exciting courses I have taught have been to 10 to 15 regular masters level students on topics such as "Influence, Persuasion, and Attitude Change", "Adult Socialisation and Career Development", "Planned Change and Organisation Development", and "Leadership" (a course taught entirely through the use of commercial films, involving a class project in which groups had to make brief training films of their own). The last mentioned course was co-taught with Warren Bennis and was not the least bit "cost effective," but the alumni of that course still speak of it as one of the most significant educational experiences of their entire two year programme.

In summary, what we need to do is to make our curricula more exciting and attractive. Instead of looking for cost effective standardisation, we need to supplement what we define as the essential core referred to above with an extensive cafeteria of courses, workshops, seminars, and other educational activities that would attract good students and stimulate faculty creativity. Education ultimately works best when teachers are excited about what they are doing. Can we put excitement back into management education?

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If the skills you teach in class don't get used on the job, maybe you've got one of these problems.

Nine Ways to Make Training Pay Off On the Job

By Ruth Colvin Clark

Ever observe a group of trainees a month or two after they emerged from your training program? Are the skills they learned in class being used on the job? Does your organization have a workable system for following up on its training efforts to see whether they result in better performance in the real world of the workplace?

Even after an excellent class, training frequently fails to pay off in behavioral changes on the job: Trainees go back to work and do it the way they've always done it instead of the way you taught them to do it. The phenomenon is called transfer failure. It happens because skills do not transfer automatically into job performance. In other words, the fact that you have learned how to do something a certain way doesn't necessarily mean you'll do it that way. Since the point of job-related training is to improve performance on the job, transfer failure obviously defeats the whole purpose.

Why does training—solid, effective training—fail to transfer? There are a number of reasons. Here are nine typical situations and some tips on how the problems could have been avoided.

1. Rocking the boat.

A supervisor in the documentation services department previewed a training program on structured writing techniques. The program taught an unusual method for formatting written material. The supervisor liked the approach and sent four of his writers to the course. They came back to work and designed a new policy manual using the techniques they had learned. When the department manager saw the result, she promptly vetoed it on grounds that its unique appearance would draw criticism from other managers in the organization. The supervisor pointed out the advantages of the new method, but the department head was adamant. "We haven't turned out anything like that before," she said. "Things have been going smoothly up to now. Let's not rock the boat."

Solution: The supervisor just discovered—too late—that his own department manager, as well as other managers and supervisors, should have previewed the course with him. Front-end consultation and approval by all interested parties would have prevented tail-end failure.

Management advisory committees can be formed to set policy and to help review training courses while they're still in the development stage—or before they are purchased. If a proposed program is scrapped due to lack of management commitment, better it should happen early, before a lot of dollars are invested.

2. Mismatching courses and needs.

The manager of a data processing center met a training vendor who demonstrated a very impressive course on prototyping. The DP manager asked the training department to send all employees to the course. However, the techniques applied only to about 25% of the employees who were building new applications. The other 75% were working on maintenance projects that did not require the use of prototyping techniques.

Solution: Match courses to needs systematically. Curricula that reflect the ideas of one or several line managers, working independently and sporadically, tend to be fragmented and counterproductive. Training should flow from two primary sources: 1) a validated analysis of current job tasks and the skills required to perform them and, 2) a model of the future technological directions of the organization, agreed upon by upper management.

To conduct a job analysis, first identify all major tasks and required skills. Then ask a sample of the employees currently in the job (and their supervisors) to rate the importance and complexity of each skill as well as their current proficiency in it. Concurrently, ask top managers to rate the same skills on the basis of their importance in meeting departmental objectives. Training priorities should be based on skills perceived as high in importance by managers and rated low in competency by employees and their supervisors.

This job analysis will only identify *current* skill needs. In any rapidly evolving technological environment you also will need to identify new technological applications to supplement the job analysis. Finally, the people in charge of training should have access to top management's strategic plans for the future so that appropriate training will be in place when needed.

3. Supervisory slipups.
The organization offers classes on time management and other generic skills. These programs are in heavy demand, and supervisors sign up their subordinates months ahead of time. When a given employee's turn finally arrives, the supervisor sometimes has forgotten why the individual was supposed to go to that particular class in the first place. Small wonder that supervisors rarely take the time to discuss the training with their people, either before or after the class. Supervisors are counting exclusively on the training department to improve their employees' skills.

Solution: Ultimately it is the supervisor who must be responsible for the work performance of his or her employees. Training is one tool supervisors have to improve that performance. They need to recognize that training only teaches people to do things they don't know how-to-do: There is no point in sending anybody to a training program unless he lacks a particular skill required by the job.

Instead of abdicating all responsibility to the training department, supervisors can increase the impact of training dramatically by: 1) conducting brief pre- and post-course discussions with employees where they agree on how the skills learned in the program will be applied on the job and, 2) making specific follow-up assignments after the employee returns to be sure that the skills are applied. This is especially important when employees are attending nontechnical training (time management, interpersonal skills, etc.), where the transfer challenge tends to be most difficult.

Busy supervisors will not do these things without a push.

Busy supervisors will not do these things without a push. The training department should help them by teaching them *how* to handle those pre- and post-course activities. In addition, second-level managers should be persuaded to include planning and implementation of employee training as part of the supervisors' formal job responsibility, to be evaluated in regular performance appraisals. In other words, supervisors must be taught how to play their crucial role in training and they must be held accountable for playing it.

4. Losing track of what training employees need.
In the data processing department, supervisors typically have responsibility for 10 to 20 employees at different job levels working on various project teams. In constructing their training plans, supervisors generally refer to the training catalog and use their best judgment to assign training to individuals based on their recent performance. But because the supervisors are dealing with a lot of employees who work on varied assignments that involve a large number of different skills, it's difficult to be consistent and accurate in determining each employee's training needs.

Solution: Help supervisors assess and track employees' skills by providing an automated records system. A variety of such systems are available to run on either micro or mainframe hardware. They can be programmed to list all job-related skills and provide for a competency rating agreed upon by employee and supervisor. When the individual competency ratings are matched against recommended competencies for the particular job, discrepancies are flagged and training options matched to the job skills are generated automatically. These computer programs help supervisors make systematic training plans based on both the requirements of the job and individual assessments of employee skills.

5. Lack of a "critical mass."

Employees of a sales and product-support division were sent to a course on conducting and participating in meetings. But their attendance was staggered over a one-year period. By the time the last of them had attended the class, 10 months had slipped by since the first students had gone. Division supervisors found it very difficult to implement the techniques in real meetings.

Solution: Train intact work groups. Peer group support is a major factor in determining whether newly learned skills will transfer to the job.

Train entire working groups at the same time.

People are much more likely to do things the new way if everybody in the work group (or at least almost everybody) is trying to do them that way at the same time. When you train only a few people at a time from any particular group, you never develop a "critical mass" of commitment to the new skills. Without that critical mass, the status quo tends to defeat change. Furthermore, if people aren't called upon to use new skills immediately after they learn them, the skills tend to atrophy.

Whenever possible, train entire working groups at the same time. If it isn't practical to train an entire team, try setting up interdepartmental or even intercompany support networks. User groups have been formed around various computer-software applications. Why not set up user groups for other types of training as well?

6. No help applying skills back on the job.

During the structured writing class mentioned earlier, most students did very well on the practice exercises they were given—but they had the instructor's help. When they returned to their jobs, the instructor wasn't there. Many had trouble applying the new techniques to actual work assignments. After a few attempts, some became discouraged and reverted to their previous writing styles.

Solution: Extend training beyond the classroom. If an intact work group is learning an important new skill, follow-up training is essential to transferring the skill. Require program graduates to work on a regular project assignment using the techniques they learned. The instructor or someone

Measure Your Training Transfer Quotient

Here is a generic survey you could adapt to your own training situation. Send the questionnaire to everyone who has completed a given course within the past six months. (Or, randomly select 100 employees who have completed the course.) Even a 50% response rate will give you a good indication of whether the training transferred to the job. Administer the survey anonymously to ensure honest feedback.

Scoring: Add up the number of responses of "3" or above to both question B and question C (i.e., one person who checks "3" to question C and "4" to question B counts as two responses). Divide by twice the total number of questionnaires returned, and multiply by 100. A score of 80% or better probably means that the skills you're teaching are transferring adequately to the workplace. A score of less than 70% suggests that you need to make some changes.

TRAINING FOLLOW-UP SURVEY

Course Title ______________ Dates Attended ______________

Company Division (please circle):

Sales Manufacturing Customer Service Data Processing Other ________

Course Objective ______________

(Section above completed by training department.)

A. At the end of this course, to what degree did you feel that you achieved the objective stated above?

VERY LITTLE		MODERATELY		VERY MUCH
1	2	3	4	5

IF YOU CIRCLED BELOW 3 ON QUESTION A, STOP HERE AND RETURN THE QUESTIONNAIRE. OTHERWISE, CONTINUE.

B. Since completing this course, how *often* have you used the skills you learned in class on your job assignments?

RARELY/ NEVER		OCCASIONALLY (MONTHLY)		FREQUENTLY (DAILY)
1	2	3	4	5

C. As a result of this course, how much improvement have you experienced in completing your job assignments?

LITTLE/NO IMPROVEMENT		SOME IMPROVEMENT		MAJOR IMPROVEMENT
1	2	3	4	5

IF YOU ANSWERED QUESTIONS B OR C WITH A 3 OR GREATER, THEN GO ON TO QUESTIONS D AND E. IF YOU ANSWERED QUESTIONS B OR C WITH LESS THAN A 3, THEN GO ON TO QUESTION F.

D. Describe at least three typical ways that you have used the skills you learned in class and how your job performance has improved as a result.

E. Place a check next to each reason below that might explain why you have applied the skills you learned to your job assignments:

______ My supervisor discussed with me how my new skills would be used on my job assignments.
______ My supervisor required me to use the new skills.
______ I received help from others in my work area.
______ I was given necessary time and/or tools to apply the skills.
______ I received training at the right time to provide me with the skills when I needed them on the job.
______ The skills I learned applied directly to my job assignment.
______ Other: Please list other factors that helped you apply these skills to your job assignments.

F. Place a check next to each reason below that could explain why you have not been successful in applying skills learned to your job assignments:

______ My supervisor did not require me to use the skills.
______ My supervisor did not agree with the skills I learned.
______ My supervisor was not aware of what skills I learned.
______ I was not given time/tools to implement the skills on the job.
______ There was no one to help me implement the skills in my work area.
______ The skills did not seem to apply to my job assignment.
______ My job assignment changed so these skills did not apply.
______ The training was not timed right for my job assignment.
______ Other: Please describe other reasons you did not apply the skills to your job assignments:

competent in the new skills should provide follow-up consultation, visiting the trainees and helping them apply the techniques to their unique job assignments. Or, as an alternative, give the graduates an assignment to work on for two weeks on the job. Then schedule transfer sessions where they meet as a group with the instructor, compare results and discuss problems.

7. The external instructor is gone.
That writing class was taught by an outside consultant, and it was not feasible to arrange for her to follow up after the class.

Solution: To ensure continuing consultation beyond the classroom, consider using internal instructors—or supplementing a consultant's classroom training with an internal expert who can serve the follow-up functions. This may mean asking the consultant to spend extra time with the person who will serve as your internal expert.

8. Training as a "day off."
The training department teaches a variety of courses on supervisory effectiveness. Trainees are required to show up for class, but they aren't evaluated on their performance in the course or back on the job. Practice exercises are voluntary and many trainees choose to skip them. Most of the supervisors listen politely in class. Some ask a few questions. But rarely does anyone invest much effort in acquiring the new skills. A day in training is generally regarded as an opportunity to kick back and drink coffee.

Solution: Build accountability into your training. Competency-based training is built on specific, job-related objectives. Learners must be held accountable for reaching these objectives. Instructors should send a summary of course objectives and the trainee's performance in class to the trainee's supervisor. The organization should demand that all training courses be instructionally valid, i.e., each course should prove that people who take it and invest reasonable effort will attain the objectives.

If the course is just plain ineffective, the issue of transfer to the workplace becomes irrelevant. Likewise, if learners are not held responsible for investing effort in their own training, even the best instruction will not generate maximum benefits. Accountability in training should address both of these problems.

9. Training is not available when needed.
Many organizations rely heavily on classroom training, scheduling courses on some fixed timetable (e.g., quarterly) or when there is sufficient enrollment to justify teaching the class. This means that people may be on waiting lists for several months. Knowing this, supervisors will send employees to courses as the classes become available, even though the employees will not be needing the skills in the near future.

Solution: Consider self-instructional training. When live classes are scheduled on a body-count basis, there is often a lack of coordination between the timing of the training and the opportunity to apply the skills on the job. Self-instructional courses delivered by workbooks, video or computer-based training provide access to information when it's needed.

The drawback to self-instructional courses is that even when they're well-designed (and a lot of them aren't), they demand a high degree of motivation from the learner. There is no instructor to answer to; learners often start the courses but fail to complete them. An obvious alternative is to build or buy self-instructional courses and supplement them with live tutors to help trainees, give them regular feedback, and measure and report their progress.

All of these "solutions" demand a greater investment of time and resources—both finite quantities—on the part of the training department. You may want to consider offering fewer courses, but investing more effort to enhance transfer. Rather than offering six new courses next year, concentrate on one or two critical programs but build in the pre-course planning and post-course follow up that will help ensure transfer to the job.

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1

Learning—The Use of Models

This book is concerned with learning, or more specifically, with the design of learning experiences provided by organizations, usually employers. Various names are given to this activity and I prefer Human Resource Development (HRD) as I have stated elsewhere [1]. It is also called training, education, development, training and development, adult education in business and industry, and so on. Although there is no general agreement on the label, there is considerable agreement about the activity and on the fact that employers spend large sums of money for this activity.

Within the HRD field, there are many different kinds of people who are called upon to make decisions about learning programs or to actually design learning programs. Although the major focus of the book is on the actual design of learning programs, it will also be helpful to any other people who are even peripherally involved.

LEARNING

As learning is the core of this book, let us take some time to discuss what is and what is not learning, as the term will be used in this book. A more detailed discussion of learning theories will be found in a later chapter when we get into "Build Curriculum." For now, let us take a look at the general area of learning.

Learning is the acquisition of new skills, attitudes, and knowledge. (The learning psychologist refers to these as *domains*.) This definition, purposely, does not tell us anything about how the learning is acquired or whether the learner can actually use the new learning outside of the learning situation. Both of these are major areas of consideration that we will have to explore in depth as we move through the design process.

Some people would include behavior in this category. I contend that you do not learn behavior. Rather, behavior is one possible result of learning. There are many reasons why we do not use (that is, behave) all we have learned. This does not mean that learning has not taken place, but it does tell us something about the constraints placed upon behavior. It also suggests that we should avoid having people learn things that they cannot possibly use, unless the goal is just to learn with no intent to use.

Incidental and Intentional Learning

We learn through two different modes. One is *incidental*, and is happening to us all the time. We watch television for entertainment, read books for pleasure. Newspapers and magazines are read in most households. We engage in discussions, sometimes heated ones, with friends and neighbors about a wide variety of issues. As described here, these things are not done for the purpose of learning. This does not mean that we do not learn from them, but the learning is not planned, and we would not try to evaluate it.

For our purposes, we are concerned with *intentional* learning, that is, an experience wherein the individual expects to be a learner, where there are identified objectives, where time is devoted to the learning, and some kind of evaluation is planned. In organizations, this means that there must be an appropriate allocation of resources if intentional learning is to take place.

Generally, large organizations tend to allocate the physical and financial resources needed to facilitate learning. In small organizations that contend they cannot afford it, learning does take place anyway. The major difference is that the large organization provides intentional learning and reaps the benefits of this activity. The small organization forces its people to resort to incidental learning, and pays the price for employees possibly learning the wrong things.

A pervasive example is in the orientation of new employees [2]. If the organization does not have a good orientation program, one that goes beyond merely filling out appropriate forms, the new employee is forced to learn by the incidental mode. Therefore the employer has little idea of what the new employee is really learning and may be surprised by unusual behavior.

There are times when incidental and intentional learning are in conflict within an organization. The grapevine provides information (incidental learning), which rapidly becomes learned, about a new process or procedure. Employee behavior changes before any intentional learning has taken place. This forces an intentional learning program to deal with unlearning, which is frequently more difficult than learning.

Incidental learning should not be ruled out as being negative or undesirable. As it happens all the time, we should be alert to the serendipitous possibilities of integrating incidental learning into intentional learning.

This book will focus on intentional learning and therefore will drop the qualifier "intentional" and write only of learning from now on.

Teaching and Learning

Two words which we tend to use interchangeably, but which have much different meanings are:

Teaching—what we do to others.

Learning—what we do to ourselves.

Teaching is the general process of enabling the learner to acquire the learning. Teaching can range from the "stand-up classroom presenter" to fully machine-mediated instruction with no live instructor in sight. (Some refer to this as the use of high technology.) Teaching can use a facilitator who does little more than help the learner find the appropriate resources for the learning. Teaching, obviously, covers a wide range of behaviors, using both people and machines.

Even machine-mediated (for example, computer-managed) instruction uses a teacher, though the teacher and learner may never see each other and only have contact through the machine. This does not mean that a teacher is not used, but only that the teacher is not present when the learning takes place. Teaching tells us what is offered, what is presented, and what is available.

Learning cannot take place without a teacher, Designer, or some kind of facilitator. Both teacher and learner are essential to the process. It is even possible, in some carefully designed situations, to reverse their roles for the benefit of both.

The cliche "you can't learn nobody nothing" may be ungrammatical, but it communicates. Even the best teacher is useless if the learner will not, or cannot, learn. There used to be the saying that "if the learner hasn't learned, the teacher hasn't taught." The fallacy of this is that it makes the situation one-sided. Learning is a transaction which requires both parties, actively engaged, even though they are not in an interface situation.

For good teaching to take place, the teacher must have the benefit of prior preparation and the learning program must be previously designed. There are those unique individuals who can talk instantaneously, are amusing, and perhaps even instructive. In only isolated cases will this produce any real learning. Most of us must rely on the more pedestrian approach of carefully designing the learning experience to achieve the maximum return for the use of time and resources.

If we agree that teaching/learning is a partnership transaction, the learner must also be prepared. There are various ways to do this. In the model presented in this book, some of this is accomplished by involving the learner in the design process.

Learning and Performance

Learning does not necessarily produce a change in performance. We will have to deal with this dilemma in much more detail throughout the entire book. Employers, who pay the HRD bills, are not generally interested in the learning aspect. They are interested in results. In some cases the results are observable and sometimes even measurable. Results are in the application of the learning to performance in the work situation.

We should not exclude those rare and wonderful situations where employers do provide learning without seeming to be concerned with the results. Indeed we may find more of these occurring as employers become more concerned with social values, improving the quality of work life, and other activities which are not directly related to performance.

In this book, the emphasis will be on learning for performance. This is not a value judgment on my part, but an attempt to be specific about a particular kind of learning. I still believe that other kinds of learning are important, but they are beyond the scope of this book.

MODELS AND DESIGNING TRAINING PROGRAMS

Individual creativity is wonderful—it should be encouraged and rewarded. Despite this, Designers of learning programs should first explore existing models before starting to design. The unfortunate circumstance is that too many Designers start their work without realizing that models already exist and that such models can be extremely helpful.

A Designer need not take a model and apply it without some prior exploration. We will discuss some of the variables to be considered when selecting a design model, but first let us discuss models generally.

The Uses of Models

Models are not in themselves reality, but they represent the reality of those who have developed them. Developing a model is not a unique experience reserved for the privileged few. All of us are constantly "designing models" as we try to make sense out of the everyday world around us. Without those models, it is doubtful if we could solve the problems that are a constant part of daily life.

Take a simple but common experience. You want to drive from New York City to Chicago. Before you start out on your trip, you do some planning, and a significant part of that would be to consult a road map. Through the use of the map you can identify the roads to take and the major cities or other discernible points you will pass. You can even make some estimates about time and cost. You could start your journey without the road map, but you know that it will be easier if you do some planning. Your process of planning is actually using a model. The road map is the basic part of your model. You know that it shows the roads, but they are not the actual roads. You could not put your car on the road map and achieve any part of your purpose. The road map is merely a representation of what you can expect to find when you get on the real road. If you have chosen the correct map (the appropriate model), you have a much greater chance of having a successful trip than if you just started out or if you had the wrong map.

Choosing the correct road map is fairly easy. You would not look for an airline map or a railroad map. Each of these has its appropriate use, but not if you are going to drive a car.

This discussion identifies some of the questions you must consider when choosing a model for learning. What is its purpose? For which kinds of learning (that is, travel mode) is it most appropriate? Does it tell me what to look for? Does it help me anticipate what I will find? Does it provide alternatives?

There are many kinds of models, and a typology can be found in Gordon Lippitt's *Visualizing Change* [3]. Lippitt notes that "any model is valuable when it improves our understanding." In other words, the model does not do the work for us, but it enables us to understand the process or situation with which we are concerned.

A good model can help the user to understand what is essentially a complicated process. Underlying a good model is some theory, and both are interrelated. Von Bertalanffy has stated that conceptual models are basic in any attempt at theory. Conceptual models represent reality in a simplified and therefore comprehensible form [4]. This is not to say that all models must be simple, but that just because a model appears to be simple is no reason to reject it. Rather, the potential user should ascertain the theoretical base from which the model has sprung.

Models have many benefits for the user, and the 1980 *Handbook for Group Facilitators* [5] lists several, among which are:

- Explain various aspects of human behavior and interaction.
- Integrate what is known through research and observation.
- Simplify complex human processes.
- Guide observation.

More cautiously, it has been stated that "a model is something to be copied. It is intended to be close to the perfect or ideal form of something, or at least an acceptable satisfactory version" [6]. In other words, it is not necessary to look for absolute perfection in a model. It should not be confused with reality, for it is only a representation. As with any attempt to take a complex process and reduce it to a one-dimensional representation, something can be lost. The utility of the model depends upon your own understanding of the reality for which you are designing. Within this limitation, the understanding and use of models are extremely helpful.

Some people feel that using a model makes them appear dependent. They think that their organization or client might doubt their professional competence if they have to rely on a model. As in the travel example just discussed, if you rely on a map are you considered any less a good driver? Quite the contrary. Have you been a passenger in a vehicle and felt insecure because the driver hesitates when faced with unknown alternatives, such as which road to take? A map could have made the trip much more successful. The same can be said of a carefully selected model.

Open and Closed Models

There are various ways to build models, but let us focus on two kinds. The terms open and closed are used to differentiate between some model types and the philosophies expressed by each.

A *open model* is one that considers that outside factors exist which can have an impact on the design process. In creating an open model, the model builder is specifically accepting the fact that some outside forces may be beyond the scope of the model, but they should still be considered in the design process.

An open model is a working hypothesis. It provides the Designer with possible courses of action and anticipations of outcomes. The open model is descriptive, as it endeavors to describe what will happen if the model is followed. It makes no guarantees as to outcomes, therefore the design process must be carefully watched as the design process unfolds.

An open model tends to be a verbal model, as contrasted with a closed model, which is mathematical. This diminishes it in the eyes of some. Even as knowledgeable a model builder as von Bertalanffy begrudgingly acknowledges that verbal models have contributed to our understanding of human behavior and therefore should not be shunned in favor of only mathematical models.

In an open model, feedback is not automatic, and this is one of the weaknesses of many open models. The assumption is made that the user will recognize the need for feedback, but it is not built in as part of the model. There is, however, nothing to restrict an open model from having a feedback component.

A *closed model* is based on the assumption that all inputs can be identified. Closed models [7] endeavor to build all the possible variables into the model. If there is anything that can possibly have an impact on the design process, it should have been previously identified and integrated into the model.

When using a closed model, the Designer is being assured that the conclusions and outcomes are predetermined. That is, if the Designer uses the model as indicated by the model-builder, the learning program will evolve exactly as promised by the model. The Designer has fewer options, for if he strays from the closed model, it has not been used for the purpose for which it was developed. The closed model is predictive, for it is based on the model being used exactly as designed, and therefore the outcome is predictable.

As stated earlier, closed models tend to be mathematical, at least in concept. This is noted by the use of algorithms or "yes-no" choices. The movement through the model tends to be linear. The engineering/mathematical influence is quite apparent in closed models.

The contrast between open and closed models can be seen in Figure 1-1. In this, I have tried to be fair in presenting each side, but perhaps my bias has slipped through. Obviously I am generally in favor of open models, but there are times and situations when a closed model does have its advantages.

Open	*Closed*
Outside factors exist which cannot be identified at the outset	All factors can be identified or accounted for in the model
A working hypothesis	Outcomes predetermined
Descriptive	Predictive
Verbal	Mathematical

Fig. 1.1 Contrasting open and closed models.

Variables for Selecting a Model

In selecting a model, a Designer should consider some of the variables which are discussed in the following. The list is not complete—it probably never can be, to serve the needs of every Designer. However, it provides an indication of some of the factors to be considered when making a choice about the model to be used.

Training, education, or development?

There are various reasons for learning related to work situations. The taxonomy I have used makes a distinction among the three major types of learning programs. They are:

- Training—learning related to the present job of the individual.
- Education—learning related to a future but defined job for which the individual is being prepared.
- Development—learning for the general growth of the individual and/or the organization.

Although all three are concerned with learning, there are different models which would be most appropriate for each.

If training is the focus, the model must be related to the job as it is actually being done by the individual. Present performance on the job is an essential part of such a model.

For education, the model would have to focus on the future job which the individual is being prepared to do as a result of the learning program. It is not possible, then, to focus on present job performance, as the result of the learning is intended to result in job performance on a different job. As we will see, this strongly influences needs assessment and evaluation. Also, there is a time lag between the termination of the learning program and the use of the learning by the participant. Therefore, a model designed for education (as different from training) should contain specific activities which reinforce the learning between the end of the program and the placement of the learner on the new job.

Development models can be more general, for there is no intent for direct use on the present job or an identified future job. This should not be seen as suggesting that development is any less significant than training or education—it is different.

It is possible to modify models (for example, use a training model for education) and this is more possible with an open model than with a closed model. In either situation, the Designer should be careful to explore the implications of any changes. In an open model, changes would alter the descriptive elements of the model. For a closed model, changes could destroy the predictive elements of the model.

Skills, attitude, and knowledge.

The mix of the three different areas of learning suggests which model is most appropriate for a particular learning experience. If the emphasis is on skills and there is only one way for performance to take place, a closed model might be more appropriate. If there is a skill component but there are allowances for some individual differences in performance, an open model might just as readily be used.

For knowledge, it is somewhat the same. If there is some exact learning to take place, not based on previous experience and learning, a closed model might be more appropriate. This is one reason why some of the closed models are linked so closely with programmed instruction, computer-assisted instruction, and similar models that are useful where the knowledge to be acquired is exactly predictable. This does not mean that an open model would not be as useful, but the difference could be in how the program is designed rather than in how it is delivered.

For attitude, there are those who contend that there is little we can do about attitudes, and learning should only be concerned with behavior. Such people generally favor closed models. People who prefer open models tend to be more humanistic and consider attitudes as an area of learning. Indeed, in using an open model, the inclusion of the learner early in the process is a key element and reflects an opinion about the attitudes exhibited by the potential learner.

The learner.

Consideration should be given to the learner and his role in the learning situation. If the Designer believes that the learner should be involved, a model should be selected that provides for this in the design process. If the Designer believes that the learner need not be part of the process, (and there are those who do believe that), he should choose a model accordingly.

The previous experience of the learner, as a learner, is also important. Those who have had extensive experience in learning situations (for example, school beyond high school, out-of-school learning experiences) could have a different role in the design process than those who lack this experience. Depending upon the goals of the organization, and the Designer, an appropriate model should be selected to reflect this.

Physical distance—geography—must also be considered. Suppose you select a model that requires the learner to be involved. However, if the learner is some distance from you (the Designer) and it is too costly or logistically impossible to communicate directly, you will have to choose a different model.

Although distance can be a problem, there are alternatives. With the availability of electronic media you might choose to communicate by computer, telephone, electronic facsimile transfer, two-way television, and other ways of shrinking distance. The technology is even present so the Designer can sit miles away and observe job performance. The possibility exists, but the technology may still be too expensive or not readily available. The model selected should be carefully scrutinized for its geographical requirements.

The instructor.

The model chosen should reflect the relationship of the instructor to the design and to the instructional process. In some instances, the Designer and instructor are the same person. This is most common when the instructor is a university professor, or where the organization has the same person doing designing and instruction (either internally or externally).

In many situations, the people doing the designing are different from the people doing the instruction. Once a learning program has started, the Designer is usually out of the picture. If the instructor is to be allowed to make changes, without consulting the Designer, the model chosen should reflect this possibility. In large organizations, the physical distance and organizational placement may prevent any continuing communication between the Designer and the instructor.

The level of the learner in the organization is another factor. That is, higher level employees tend to be assigned different instructors than lower level. This can be argued, or it can be justified, but for our purposes here it should be recognized. The higher the level of the instructor (even if only in the self-image of the instructor), the more likely that he will be permitted to modify the previously designed program.

The experience of the instructor should be considered. When the instructor is relatively inexperienced (as in peer-mediated instruction), it is important that the Designer produce a program which can be conducted by a person at that level. Experienced instructors tend to want to put their own professional fingerprints on any design, and the Designer should be aware of this and select an appropriate model.

Culture of the organization.

Culture is always difficult to deal with. There are many definitions, but one can be quite sure that culture is a factor when a speaker starts a sentence with "Everybody knows . . ." It is more likely that the only people who do know are part of that cultural or micro-cultural group [8].

The culture of an organization decrees the type of model that can be selected. If there is a high degree of interaction among all levels of the organization, the model selected should reflect that aspect of organizational culture. If the culture of the organization is such that people are expected to have specific jobs, get assignments, and get the job done, the model selected should reflect that. If the culture is based on participative management or a matrix organization, that should be considered in selecting a model.

I would not want to leave the impression that identifying organizational culture is an easy task. Much work is still to be done on this important dimension of organizational behavior. The work of Fritz Steele [9] is very helpful in this area though there are those who criticize the book as being too frivolous. His analogy to the climate may oversimplified, but it is a readily usable approach to a very difficult topic.

In some organizations, certain names will trigger specific responses. I do not dare list the names and responses here but that is not for legal reasons. Rather, I would not want to trap any of my colleagues into a particular reference or defense. I have seen Organization A which would never consider a model associated with Mr. X, while Organization B thinks that Mr. X is the most outstanding person in the field of learning design. Rather, you should listen for these statements in an organization as you prepare to select a model:

- Learning is a waste of time.
- If you want them to learn, you tell them.

- The only true learning takes place when the learner is involved.
- If you can't measure it, you can't learn it.
- Anybody can learn anything.
- Give an intelligent person a job to do, and he will do it.
- No learning can take place without some risk.

You could go on and add many more. Those are all reflections of various kinds of organizational culture which will influence the kind of model you choose if you design for that organization.

Your likes and dislikes.

What do you like to do as a Designer? Do you prefer to work alone, with a small group, or with the total organization? Are you comfortable and competent in doing a job analysis, or do you function more globally? How do you want to be seen by the organization? If you go around asking questions, will you be perceived as a help or a hindrance? How do you want to spend your time?

These questions, and many more like them, must be answered by you as you choose models for designing learning programs. If you are not comfortable with a model, you will probably not be successful using it. You might have to "try on" several models before you find those that are best for *you*. You might find a model that can handle most of your design needs, with some modifications. This is why I am presenting a particular model in this book. It is one with which I have had success, that my students have found useful, and that my clients have been able to relate to—so I offer it as one model. It is not the only model, but it has served me admirably since 1965, with some changes, so it is the one I like and the one I will share with you.

THE CRITICAL EVENTS MODEL (CEM)

We now turn to the main topic of this book, the presentation and discussion of a specific model: the Critical Events Model (CEM).

What is the CEM? Figure 1-2 presents the model. How can you use it? That is the remainder of this book. Before proceeding to the specifics, some general observations are in order.

An Open Model

It is apparent from the earlier discussion of models that the CEM is an open model. Recognizing that organizations and individuals are very complex, I believe it is not possible to identify and determine all the variables when a program is being designed. Indeed the actual work of designing the program will probably

THE CRITICAL EVENTS MODEL

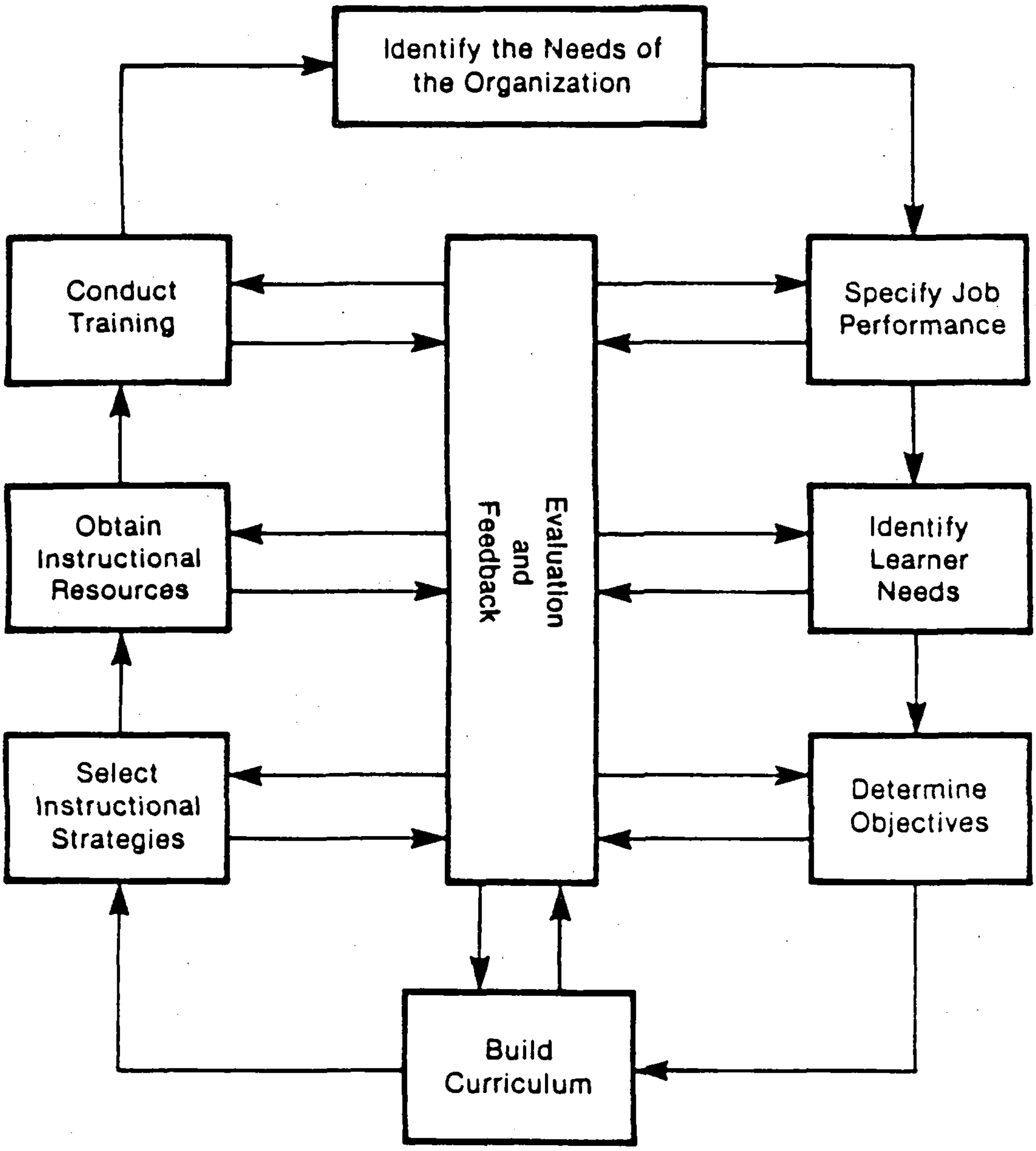

Figure 1.2

bring to light practices and policies that have either been forgotten, overlooked, or are in the organization culture category. The open model allows the design process to be halted when something other than a learning response is more appropriate.

The CEM depicts what may happen but cannot be used for predictions. After using the CEM several times, you will find that you can anticipate the responses you will get from various levels of the organization as you involve them in the design process. It still cannot predict the exact final product, but it does describe what is happening.

Designing a training program takes time. There is no exact formula that can tell us how much design time is needed for each hour of learning, though there are those people who have anxiously and eagerly searched for such a formula. As time passes, during the design process, things change. There is nothing startling in that statement except to recognize that what you start designing for may no longer be the need by the time you finish. The organization, and the problem, do not freeze just because the Designer has started the design process. Therefore the open model is more useful, particularly with organizations and industries where rapid change is the norm.

Evaluation and Feedback

There will be a whole chapter on "Evaluation and Feedback," as an event in the CEM. For now, just be alerted to the importance of this particular event.

Many models wait to do evaluation (of the design, as well as the learning) until the end. It is more helpful and extremely important to stop at each event and purposely evaluate in terms of the previous events in the CEM. I receive constant feedback from my students and clients about the CEM. The one consistent observation is that the evaluation and feedback, built into each event, has avoided wasted time and effort and contributed to a better learning program design.

The CEM and Education

The CEM is essentially useful for training—for learning programs related to the job the individual now has. This will become evident within the first few chapters.

This does not mean that it cannot also be used for education—learning for a future job. It would require, however, modification. I will comment under specific events indicating how the CEM would have to be altered to be useful for education learning programs. The major focus, however, will be on training. I might also urge you, if you are concerned with education rather than training, to search out other models which might have more direct relevance to that specific kind of learning. The difficulty is that not enough of those who write about models make the distinction among the three types of learning. They force the user to make these distinctions and therefore lessen the utility of their models.

What about development—non-job-oriented learning? The CEM is of no real use for such programs. The focus of the CEM is on the job, and if the learning is not job-related, other models would be more useful. If you are concerned about development, look for models that have come out of "adult education" which tend to be less job-related. Now, let us proceed.

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1. I have discussed these distinctions in many articles and workshops. In addition, they can be found in *Developing Human Resources*, second edition, (San Diego: Learning Concepts, 1979). Also in *Corporate Human Resources Development* (New York: Van Nostrand, 1980). On tape, I have discussed these on *Leonard Nadler: An In-depth Interview with Steve Becker on Human Resource Development* (Learncom, 1980).

2. There are too few books on orientation, despite its importance in the world of work. A recent noteworthy book in that area is *The New Employee: Developing A Productive Human Resource* by Gordon Shea (Reading, Mass.: Addison-Wesley, 1981).

3. Gordon Lippitt has brought together different kinds of models in *Visualizing Change: Model Building and the Change Process* (San Diego: Learning Resources Corporation, 1973). Although the focus of the book is on change in general, the model building parts are directly related to the discussion in this book.

4. A fundamental book on systems theory is Ludwig von Bertalanffy's readable book *General System Theory* (New York: George Braziller, 1968). He discusses models and systems and indicates how they can be helpful in conceptualizing and understanding even complex behavior.

5. A longer list can be found on page 171 of the *1980 Handbook for Group Facilitators* (San Diego: University Associates, 1980).

6. Although focusing on the health fields, the following book presents a model which would be just as helpful in other areas. Ascher J. Segall, Hannelore Vanderschmidt, Ruanne Burglass, and Thomas Frostman. *Systematic Course Design for the Health Fields* (New York: John Wiley & Sons, 1975).

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8. One way of looking at culture, or micro-culture, within an organization can be found in "The Organization as a Micro-Culture" in Chip Bell and Leonard Nadler (editors), *The Client-Consultant Handbook* (Houston: Gulf Publishing, 1979).

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4

The HRD Effectiveness Model

> A vision articulates a view of a realistic, credible, attractive future for the organization, a condition that is better in some important ways than what now exists . . . *a vision is a target that beckons.*
>
> —Warren Bennis and Burt Nanus, *Leaders,* 1985

One of the criticisms of HRD research often heard in our field is that research findings and conclusions are presented in ways that are not really useful to practitioners. One of the criticisms often heard about practitioners is that they are looking for instant tools and fast answers to make their jobs easier. Since we feel both criticisms are often valid, we wanted to take what we hope is a balanced approach and present our findings in a way that is consistent with the purpose of this book, which is to provide a practical and useful tool developed from the research findings: the HRD Effectiveness Model. It combines the findings from the Delphi study and the organization survey in a framework that will help you evaluate your own HRD function.

As we began to develop a useful model from the research findings, the first question we faced was whether the results of the organization survey validated the results of the Delphi study. Did the practitioners agree with the experts? Our conclusion was a resounding "yes and no." A majority of respondents (except in one case, where the response was a significant minority of 47 percent) validated the ten Delphi elements. While we perceived the ten elements as the end product, the organization survey respondents saw them as a means to an end. Their "end" became the four major conclusions: responsive resource, close relationships, highly professional staff, and track record.

We started to build our model from this premise—four goals and numerous objectives (the ten Delphi elements plus the groups of survey statements from which the four goals were derived). But when we tried to cluster the objectives under the four goals, there was too much overlap. The more we tried to force fit the objectives with the goals, the more frustrated we became. Finally, we stepped back and discussed what we were trying to achieve. We reminded ourselves that we wanted to use the findings to help HRD functions evaluate their performance. When we acknowledged this, we were able to conclude that we needed to use a performance-oriented framework. We then identified the overriding *goal* of the effective HRD function:

Goal

Build a Responsive Resource

We saw this goal as capturing the essence of all the findings. It evoked a vision of a thoroughly competent, professional HRD team constantly building and maintaining a track record of high-quality products and services through close relationships with line and staff management and now enjoying (in all senses of that word) the credibility it deserves. This is our vision of what HRD effectiveness is all about.

The foundation for this vision is the three criteria that must be achieved to make the vision reality:

Criteria

1. A highly professional HRD staff.
2. Close relationships with line and staff management.
3. A track record of high-quality products and services.

The way to achieve these criteria and fulfill the vision is to meet the following standards:

Standards

1. The HRD function has ability to diagnose problems and anticipate needs.
2. The HRD function is supported by a corporate HRD mission statement or organizational culture.
3. The HRD function has a commitment to strategic planning and supporting organizational change.
4. The roles and responsibilities of the HRD staff are clearly defined.
5. The HRD function has a commitment to front-end analysis and evaluation.
6. The function has a strong commitment to its own staff development.
7. The HRD function is perceived as an internal consultant to management.
8. The HRD function has a strong marketing and public relations capability.
9. The members of the HRD staff are perceived as experts.
10. There is a high level of HRD staff teamwork, creativity, and flexibility.
11. There is a high level of ethical conduct by the HRD staff.
12. The HRD function is perceived as "part of the business."
13. There is a high level of congruence between HRD function and organizational goals and objectives.
14. The HRD function is perceived as conducting reality-based programs.
15. There is a high level of networking for all levels of management.

We found that all the standards apply to some extent to each of the three criteria. We structured the model as a matrix based on this conclusion and developed questions for each box in the matrix (see Figure 4). With this format, you can choose the questions that are appropriate for your organization and then develop answers that meet your needs.

The matrix is a guide to help you accomplish what is required to build, develop, or establish an effective HRD function. The next three chapters will give you insight into how others have actually accomplished some of these standards—you don't have to start from scratch.

Before we move on, though, we want you to think about one underlying dilemma: what comes first—HRD credibility or top management support? It is a classic chicken and egg dilemma, one for which we found no easy answers. What we did find is the logical answer: if you do not have top management support, you are going to have to build your credibility to get it. If you do have top management support, great! But you are still going to have to prove yourself and ensure that your credibility meets management's expectations. Either way, achieving effectiveness is hard work. Please consider this as you read the next three chapters.

Figure 4. HRD Effectiveness Model.

	Goal: Building a Responsive Resource		
Standards	*Criteria*		
	Close relationship with line and staff management	*Highly professional HRD staff*	*Track record of high-quality products and services*
1. HRD function has ability to diagnose problems and anticipate needs.	What are methods for gaining the close relationship that will allow access to organizational data? How can trust be achieved to allow the HRD function into the larger organization to collect necessary data?	What kind of expertise is needed? (For example, ability to diagnose organizational and individual problems and recommend appropriate solutions.) How is needed competence achieved?	How can HRD functions make recommendations and deliver appropriate solutions to diagnosed problems? What is at stake when needs are diagnosed correctly, but are not what the organization wants to hear?
2. HRD function is supported by corporate HRD mission statement or organizational culture.	How can HRD function ensure that its mission statement and an understanding of HRD purpose are clearly understood at all levels and across all subunits of the organization?	How can HRD professional staff facilitate the development of an HRD mission statement? Can the HRD staff influence organizational culture?	What needs to be done to ensure that HRD function's output is congruent with mission statement? Are some public relations efforts better than others?
3. HRD function has commitment to strategic planning and supporting organizational change.	How can HRD staff first get involved in strategic planning? What can they do to stay involved?	How can professional staff be better prepared to support strategic planning and organizational change?	What can HRD staff produce to demonstrate commitment to strategic planning and organizational change?

4. Roles and responsibilities of the HRD staff are clearly defined.	How can HRD staff best model the role and responsibility definition process for the larger organization?	What techniques and resources are available to facilitate this process?	What are some of the ways to demonstrate payoff of clear role and responsibility definition to the larger organization?
5. HRD function has commitment to front-end analysis (FEA) and evaluation.	How can line and staff management be involved in front-end analysis? How can they be involved in ongoing evaluations?	What specific competencies and skills are required in today's organizations to conduct front-end analyses and evaluations? How can the HRD function develop these skills and competencies in staff? Are valid instructional design principles and processes used and understood by all personnel?	How can time spent in FEA and evaluation be depicted to the larger organization as producing a valid return on time invested in the effort? Can the HRD function correlate a financial return on investment to FEA? To evaluation?
6. Function has strong commitment to HRD staff development.	What role does management play in HRD staff development? Is staff development integrated into performance evaluations? If it is, how is this done?	Do effective HRD functions "make" or "buy" professionalism? How is staff development managed for maximum efficiency and effectiveness? How are personal and organizational goals aligned in effective HRD organizations?	How can HRD function show direct connection between professional products developed by staff and ongoing professional development?

Figure 4. HRD Effectiveness Model, Cont'd.

	Goal: Building a Responsive Resource		
Standards	*Criteria*		
	Close relationship with line and staff management	*Highly professional HRD staff*	*Track record of high-quality products and services*
7. HRD function is perceived as internal consultant to management.	What kinds of legitimate "networking" activities can HRD staff perform with line and staff management to institutionalize the function as viable internal consultants?	What types of professional development activities prepare HRD staff to function as internal consultants to management? How can the internal consulting capability best be communicated to management?	How can the HRD function capitalize on its track records to establish itself as an internal consultant?
8. Function has a strong marketing and public relations capability.	Should the HRD function market to line and staff management?	Are there ethical limits to marketing professional staff? How can marketing and PR capabilities be developed?	Is a track record dependent on PR? Can an HRD function establish a track record without marketing and PR activities? If so, how can this be done?
9. Members of the HRD staff are perceived as experts.	What role does the relationship between the HRD function and line and staff management play in the organization's perception of the HRD function as expert?	Can this be done without a highly professional staff?	Can a track record be established if the HRD function is *not* perceived as a group of experts by the larger organization?

10. There is a high level of HRD staff teamwork, creativity, and flexibility.	Can teamwork, creativity, and flexibility occur in HRD functions when these elements are not present in the larger organization? How can close HRD function relationships with line and staff management help line and staff to be more creative and flexible?	Are creativity, teamwork, and flexibility a result of professionalism? Do effective HRD functions spend time developing teamwork, creativity, and flexibility?	Do factors such as teamwork, creativity, and flexibility contribute to high-quality products and services in effective HRD organizations?
11. There is a high level of HRD staff ethical conduct.	Where should HRD staff loyalties lie—to the profession or the organization?	Is there a relationship between professionalism and ethical conduct; is either necessary to the other?	Is it possible to produce high-quality products and services *without* a high level of ethical conduct?
12. The HRD function is perceived as "part of the business."	What is the balance in effective HRD functions between being perceived by line and staff as professional, and being perceived by staff as "field relevant" or "part of the business"?	What types of professional development activities for HRD staff are required to ensure that the function is perceived as "part of the business"?	In effective HRD functions, how are quality products and services best produced as "part of the business"?
13. There is a high level of congruence between HRD function and organizational goals and objectives.	Is the congruence a direct result of the close relationship of line and staff management to the HRD function?	In effective HRD functions, is the congruence a direct result of HRD professional development?	What is the relationship between congruence and high-quality products and services?

Figure 4. HRD Effectiveness Model, Cont'd.

Standards	*Goal: Building a Responsive Resource* — *Criteria*: *Close relationship with line and staff management*	*Highly professional HRD staff*	*Track record of high-quality products and services*
14. The function is perceived as conducting reality-based programs.	What is the relationship between the function being perceived as conducting reality-based programs and the degree of HRD functional relationship with line and staff management?	Is this dependent on an HRD professional staff, or can reality-based programs be bought "off the shelf"?	Can a track record be established with anything other than reality-based programs?
15. There is a high level of networking with all levels of management.	How can a new HRD function develop these "network relationships"?	Do professional practitioners network more easily with other professionals than with management?	How does "networking with all levels of management" contribute to the production of high-quality products and services?

9

The HRD Effectiveness Improvement Process: Putting the Whole Picture Together

I love it when a plan comes together!
—Hannibal Smith,
"The A Team," 1985

The degree of effectiveness of the HRD function primarily depends on the degree to which it becomes a responsive resource. The level of responsiveness will be determined by the quality of its staff (and management), its programs, and its organizational relationships. The quality of these criteria will be driven by the thoroughness of the planning and will be judged by the evaluation of its impact on the organization. In other words, what you put into HRD is what you will get out of it.

You may have noticed the statement elsewhere in this book that achieving HRD effectiveness is hard work. Effective HRD functions are made, not born. Less than fully effective functions *can* be improved. Figure 5 presents a process map that depicts how to actually implement the standards and criteria of the HRD Effectiveness Model. This flow chart literally walks you through three phases of this process: planning, managing, and evaluating effectiveness. In each phase you will see how the elements of the process can and should be applied.

Figure 5. The HRD Effectiveness Improvement Process.

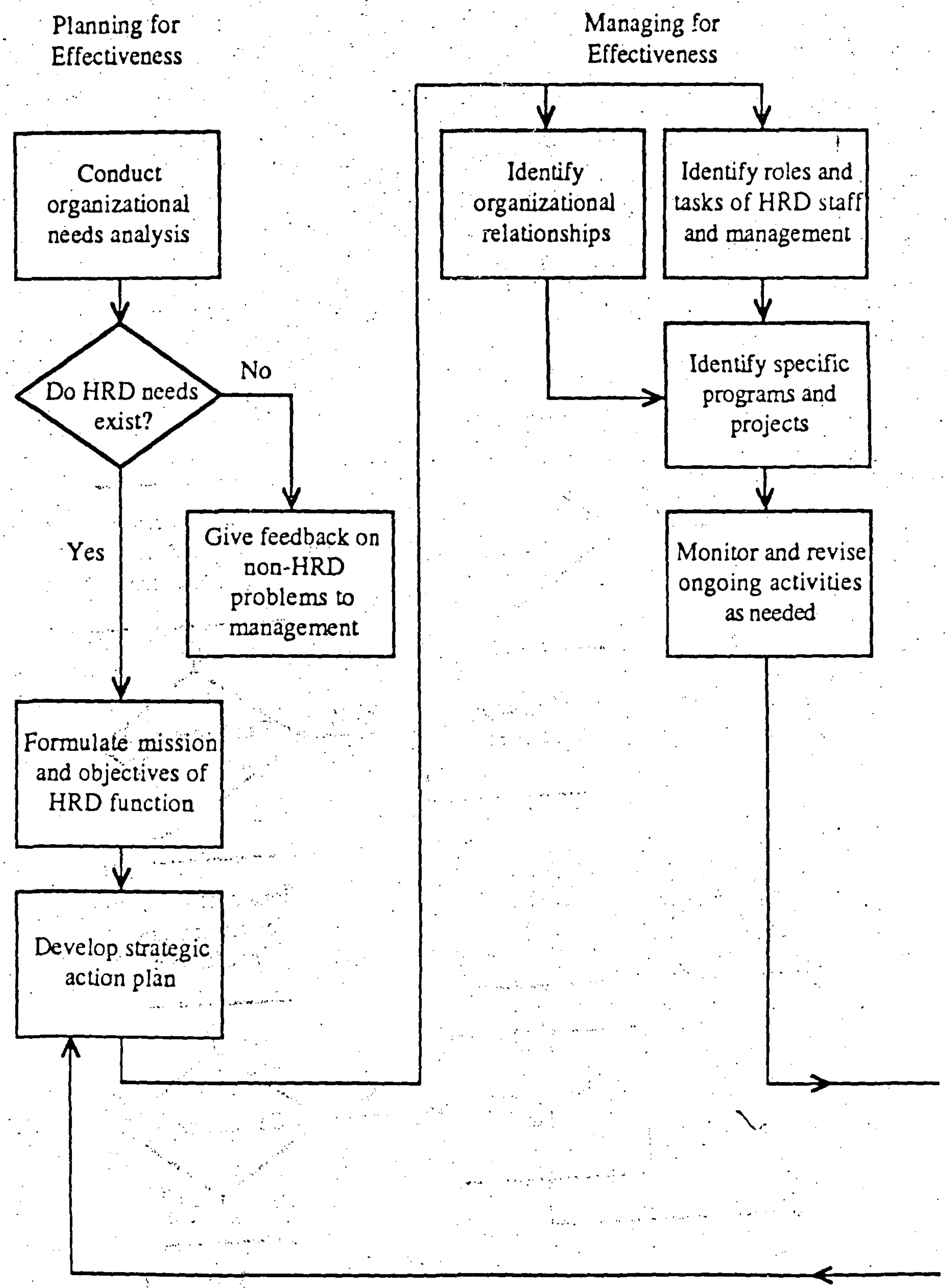
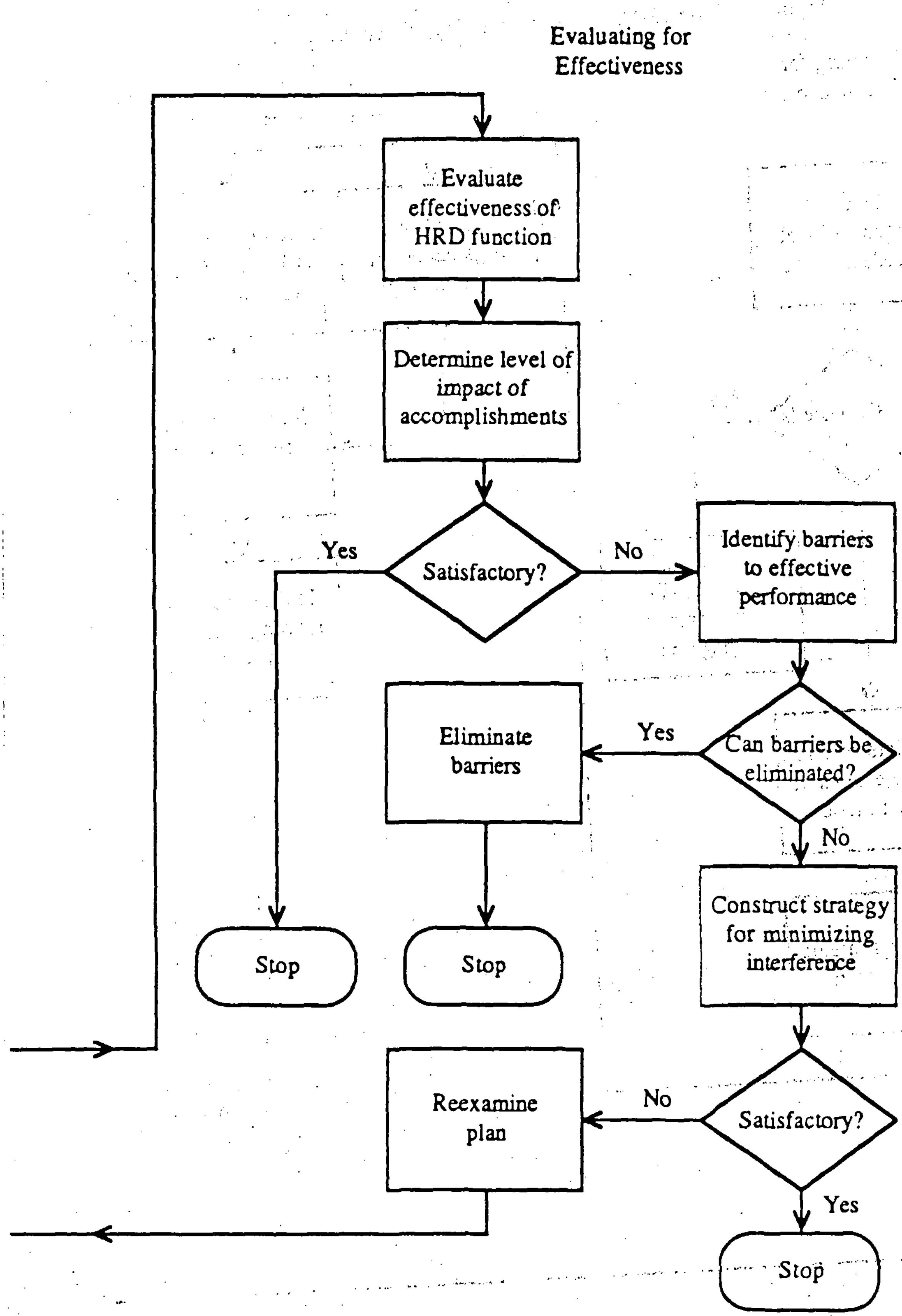
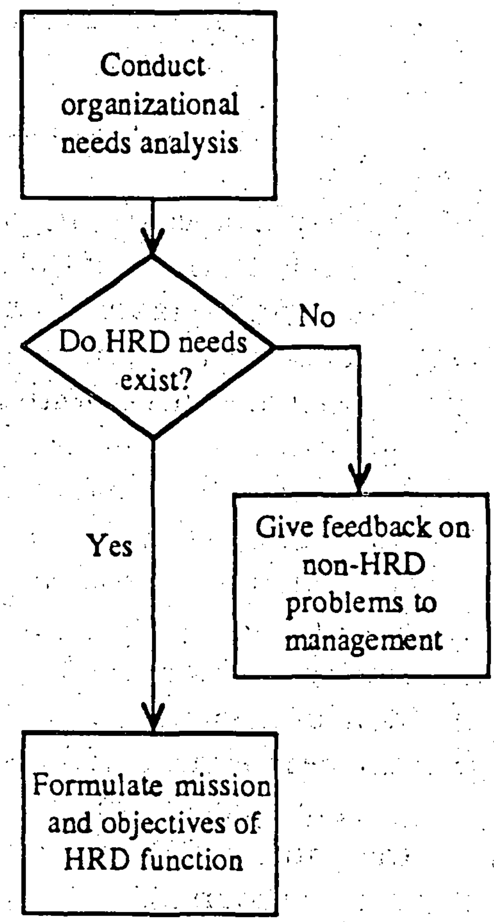


Figure 5. The HRD Effectiveness Improvement Process, Cont'd.

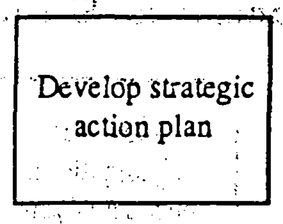


Planning for Effectiveness



One of the critical elements of effectiveness clearly identified by our research is an organizational needs analysis to determine present and anticipated problems and opportunities. Once those needs are uncovered, you can use the HRD Effectiveness Model as a template to develop a mission statement for the HRD unit and identify its goals and objectives.

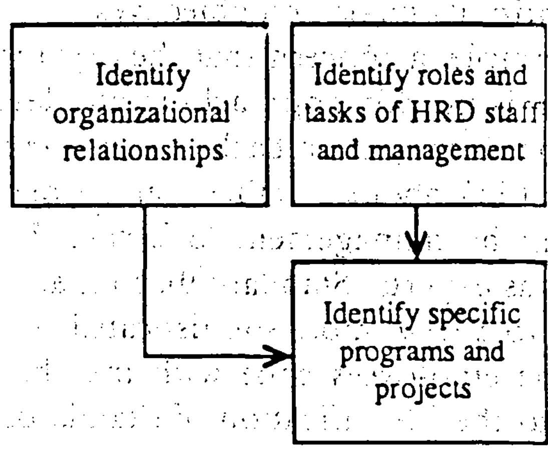
For example, a concern that the organization's word processing system is quickly approaching obsolescence would cause you to feed that information back to management. It *should* also cause you to think about whether you are perceived as an internal consultant by management (Standard 7) and whether you are perceived as experts (Standard 9), so that when the organization changes to a new, more sophisticated system you are called in to help the employees cope with the change. This in turn should link to the identification of Standards 7 and 9 as HRD functional objectives.



The mission and objectives formulated for the HRD function should drive the development of the strategic action plan. The objective of becoming more of an internal consultant with expertise in sociotechnical approaches should translate into specific actions to achieve this objective. Your strategy may be to educate management about the sociotechnical approach and increase your visibility as internal consultants. The actions you plan may include conducting an executive briefing on sociotechnical systems, offering to assist a division of the organization that is changing over to a new hi-tech system, or developing a session on sociotechnical systems change and adding it to your management development program. (In this chapter we use the word *program* to mean either a major activity within HRD [such as the executive development program or the career development program] or the entire HRD function. *Program* in this case is much more than one course.)

Managing for Effectiveness

In order to carry out your strategic action plan successfully you need to take into account the three HRD effectiveness criteria:



1. *Close relations with line and staff management.* Initiate a new network or improve on the existing one by setting up management-level steering committees and task forces. Ensure that the HRD function's priorities are based on top management's goals. Build an HRD network among specialists in other organizations in your industry or in your geographic area. Listen to people in your networks and their expertise.

2. *Highly professional HRD staff.* Ensure that your staff knows the business of the organization and can speak the language. Develop your staff so that they have as much expertise as possible; at the same time develop your own managerial skills to the optimum. Be constantly aware of changes in technology, both high technology in general and training technology in particular. Maintain a realistic, results orientation to your HRD activities. Finally, be as creative and risk-taking as possible.

3. *High-quality track record.* Conduct accurate and thorough front-end analysis. Link the outputs of the HRD function to the bottom line. Publicize your accomplishments. Build in both management support and accountability. Again, ensure that your programs are reality-based. Compare your activities with HRD functions in similar business and ask for their critiques of consultants and packaged programs. Lastly, have fun building your track record.

Monitor and revise ongoing activities as needed

Once you have built in the quality control, then you develop and conduct your programs and monitor them. Make midcourse corrections as needed. Let us continue our example of the need to build your expertise in sociotechnical systems and improve your visibility as internal consultants. During this phase your staff may do some reading on sociotechnical systems approaches to change or go to a workshop on consulting and change. You would also identify the key managers who are the most influential and can make or break your image as internal consultants. You would conduct the programs and sessions you developed on sociotechnical systems and do some short-term evaluations. Make sure to invite the key managers to these sessions and cultivate their involvement by asking them to review the sessions for you.

Evaluating for Effectiveness

Most HRD professionals believe in the evaluation of training and development activities; they may use reactionnaires on how well participants like a particular workshop, or a follow-up evaluation effort to measure behavioral change. However, evaluating courses is just one piece of the pie; it does not tell you if your HRD *function* is effective.

Evaluate effectiveness of HRD function

Steele (1973) cites two major purposes of program (function) evaluation:

1. To form judgments about programs using criteria or standards of comparison and descriptions of what occurred and resulted in the program.
2. To compare alternatives in reaching program decisions.

These two purposes may not at first seem to be different from course evaluation; the difference lies in the scope of the results. Evaluation that is concerned with overall effectiveness of a program deals with such elements as the balance in the types of employees reached, the extent to which the results deal with actual organization needs, and the efficiency of the organizational resources used. According to Steele, program evaluation is as concerned about the value and suitability of the program as it is with whether its purpose is accomplished.

There are two major approaches mentioned in the literature (scant as it is): descriptive and evaluative. Descriptive approaches, traditionally labeled *audits*, tend to describe what is; they review or examine the function and report findings. These findings may inform you of problems and inefficiencies in your function but do not necessarily help you identify the causes or the impact of the findings.

An extension of the traditional auditing procedure is the *performance audit*, which deals with problems, causes, and impact (Rothwell, 1984). A performance audit assesses how well results match intentions (effectiveness) and how well resource utilization matches results (efficiency). It answers such questions as:

1. Are the results consistent with the needs of the organization?
2. Are the results important?
3. Do they contribute more to the participants and the organization than if the resources had been invested in other things?
4. Were they produced at a reasonable cost?
5. Are the results sufficient in terms of the overall need?
6. If the results are insufficient, does it mean that the program is not effective or that changes need to be made in the way the program is carried out?
7. Are the results of one program significantly more valuable than those that could be produced through an alternative program with the same expenditure of resources (Steele, 1973)?

Performance auditing is a management tool that can provide HRD with the information needed to improve the effectiveness of the function (Bullock, 1981). It should be a normal part of the ongoing activities of the HRD function.

Performance audits compare present conditions to desirable criteria. While there are several examples of audit processes in the literature (Rothwell, 1984, and Tracey, 1974), there is very little mention of criteria. Rothwell's process uses an accounting-based audit model and his article mentions the need for criteria that are authoritative, credible, and convincing, but he never addresses how to develop the criteria. Tracey's process cites areas of concern rather than desirable criteria, although he does discuss the need for measuring accomplishments against objectives already developed for each program and activity.

This book is based on research that resulted in "desirable" criteria that can be used in a performance audit process. But we did not want to stop there, merely giving criteria and examples of how these criteria can be accomplished; we wanted to complete the picture by describing a performance audit process that can be used to evaluate and improve HRD effectiveness. The steps are based on a combination of performance analysis, auditing, and HRD management concepts and techniques.

Determine level of impact of accomplishments

This evaluation process is basically a form of discrepancy analysis (Provus, 1971). It is concerned with the impact of any discrepancy (positive or negative) between the criteria or standards and actual accomplishments.

The process assumes that:

- A program evaluation is warranted to make sound decisions on whether to improve, change, or maintain the HRD activities and practices.
- A problem-solving or goal-setting activity will be required to improve the HRD function.
- The HRD staff is committed to the change process required by the results of the evaluation.

Conducting the evaluation includes the following steps:

1. *Identify an evaluator or establish an evaluation team.* Ideally the evaluation should be conducted by someone outside the HRD function, preferably someone with program evaluation

or management auditing experience. Unfortunately, most of us cannot afford the luxury of an outside evaluator. The next best alternative is a small team composed of HRD professionals, with at least one person from another staff function and one person from a line unit. This mix of personnel will give the analysis added objectivity and give the results added credibility.

2. *Plan the evaluation effort activity.* Set up areas of responsibility for the team and time lines for the tasks. Ensure the availability of both needed documents and HRD staff. Share your plan with the HRD manager.

3. *Identify the HRD function's planned activities and outcomes.* These should be based on the goals and objectives of the HRD function, which in turn should have been based on the mission and goals of the organization. If the goals and objectives of the HRD function are not aligned with the mission and goals of the organization, then you already have one discrepancy that needs to be investigated.

The criteria and standards of the HRD Effectiveness Model should serve as a framework for establishing a new HRD unit's goals and objectives. They can also be used to derive individual objectives for an existing HRD function.

The HRD Effectiveness Model criteria and standards should stimulate the HRD unit's objectives or planned activities (whichever form you prefer). For instance, if after looking at the model, you decide that one priority you need to deal with is "close working relationships with line and staff management" and you decide that one activity you want to pursue is to establish a management steering committee, then this activity becomes the focus of the evaluation.

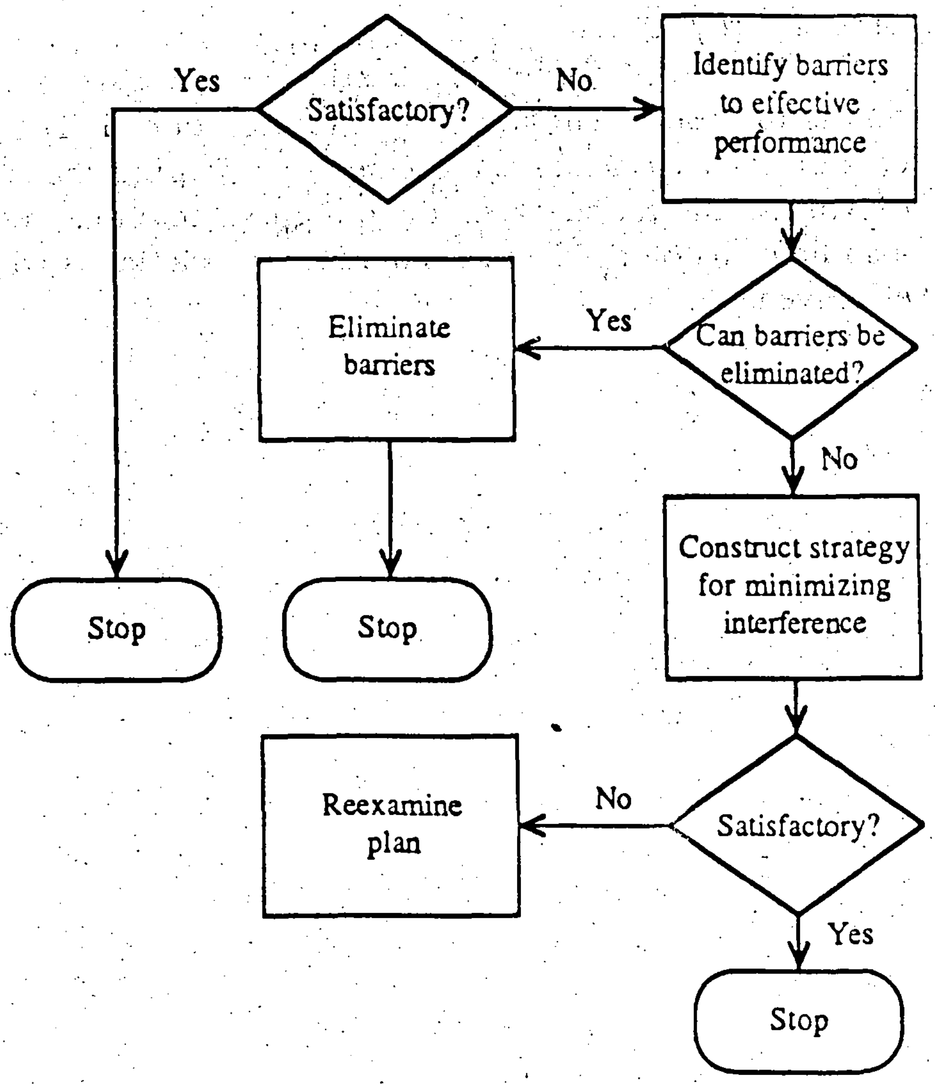
4. *Design an evaluation format.* Our suggestion is that you design your own format to actually conduct the evaluation.

5. *Conduct the evaluation and analyze the results.* Let's look at two scenarios of how this process would work.

- You're concerned about the level of professionalism of some of your HRD staff, so one of your planned activities is to send several of your staff to the upcoming HRD workshop on organization development (OD) skills. They go to the workshop and come back with a fairly sound theoretical approach to OD and some new ideas about combining OD and career development efforts. But they also come back with a concern that they really did not learn "skills"—more knowledge about techniques that with practice and experience will turn into skills. When the evaluation is conducted, the discrepancy between the outcome of learning new OD skills and the actual learning about techniques is noted. However, the staff now understands the theoretical basis for OD and is able to plan a new OD/career development effort, and that may be more significant in the long run in relation to raising the overall level of staff professionalism than the significance of not obtaining new OD "skills."

- You need a successful training program to begin to develop your credibility and realize that one of the immediate needs that surfaced out of the last needs analysis was a new program on customer relations. You plan the activity, involving line personnel in every step of the development process. The program is conducted and is very well received by the participants. You also include some follow-up transfer of learning efforts to ensure the success of the program. The evaluation is conducted. It is too early to tell if the program was successful in terms of improved customer relations, but the praise for involving line personnel in the program design has a very significant impact on your credibility.

The importance of any program evaluation is to get a holistic view of the effectiveness of the HRD function. You not only want to know if your activities and programs were successful, but also whether there were other ways the activities affected your effectiveness, whether there were unintended spinoffs from your activities, and what the implications are of all the findings. In determining the level of impact of your accomplishments, you look at both the specific changes and improvements and the long-term implications that resulted from the evaluation. HRD is a system, like any of the other organizational systems. You need to take a system's approach to identifying the interrelationship of all the short- and long-term findings.



It is like throwing three pebbles in the water and watching how the ripples intersect. The idea is to step back and observe the intersecting ripples and get a total picture of the pattern they create. If everything is satisfactory, great! If not, can you identify the barriers and can they be eliminated or minimized? If you have done everything you can to try to improve the situation, then reexamine your strategic action plan to see if there were any problems you were not aware of at the time. Remember, we are not suggesting perfection, but thoroughness. To finish with our sociotechnical consulting example, this is when you want to step back and determine if you have been able to achieve the expertise and the image you wanted. The final proof would be whether you were called in to advise and work with the technical experts in designing and implementing a new word processing system.

The purpose of this HRD Effectiveness Improvement Process is to create, maintain, and improve your HRD function's credibility. Your actual achievements in helping the employees of your organization reach their highest potential, while you also help the organization itself adapt to change, is what HRD effectiveness is all about.