



PARTNERSHIP FOR PUBLIC SERVICE

**Written Testimony of Max Stier
President and CEO
Partnership for Public Service**

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Hearing on Federal Government Reform and Reorganization

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Chairman Issa, Ranking Member Cummings, and Members of the Committee, thank you for the opportunity to appear before you today. I am Max Stier, President and CEO of the Partnership for Public Service, a nonpartisan, nonprofit organization dedicated to revitalizing the federal civil service and transforming the way government works. I appreciate your invitation to testify on the issue of government reorganization and other ideas to achieve budget savings.

I applaud the Committee for devoting much-needed oversight to the role that government reorganization and other strategies can play in addressing our nation's dire fiscal situation. There is no dispute that our current fiscal path is unsustainable, and the Committee is to be commended for looking at all opportunities to save money while improving the efficiency, effectiveness and performance of our government.

Fortunately, the Committee needs to look no further than the 1990s to find another time in our history when saving money was a key government management objective. The Partnership and Booz Allen Hamilton released a report last fall entitled "Making Smart Cuts: Lessons from the 1990s Budget Front" that details the eight budget reduction strategies that agencies employed most often in the 1990s. Our findings suggest that budget cuts can present a valuable opportunity for reform and, if planned and implemented properly, can lead to a stronger, better government. However, the report also suggests that a rush for savings, without focus on planning and implementation, can lead to a government that is less capable and less responsive to the American people.

Making Smart Cuts

Since the 1990s, the world has become increasingly complex. Our federal government faces the demanding task of serving the public with fewer funds while also transforming itself to meet domestic needs and international challenges. Although our world has changed, the 1990s provide examples on how agencies handled funding reductions and offer today's leaders valuable lessons for responding to budget cuts.

The Partnership for Public Service, in partnership with Booz Allen Hamilton, gathered those lessons by interviewing more than 30 current and former senior federal officials, academics and other public-policy experts for their insights into how agencies responded to the steep budget cuts of the 1990s. By documenting their experiences and offering direction for leaders facing similar challenges today, we shine a spotlight on the more effective strategies and conditions for success.

Our interviewees outlined eight strategies used during the previous budget-cutting era of the 1990s, and shared insights and disadvantages of each. A detailed discussion of each strategy is included in the “Making Smart Cuts” report;¹ in brief, they are as follows:

- **Across-the-board cuts**, which reduce budgets, programs or functions by an equal percentage, are easy for leaders to implement since they apply to all alike, but they ignore differences in priority, performance or efficiency.
- **Programmatic cuts**, which reduce programs or functions according to relative importance or efficiency, may allow agencies to protect those programs that are the highest priority or achieving the best results, but they require difficult decisions that may be opposed by affected stakeholders.
- **Decreasing administrative costs**, which can reduce overhead, but may over time weaken managerial capacity or critical support functions, such as human resources and financial management.
- **Personnel reductions**, which can contribute to major cost-savings through attrition, forced layoffs or both, but can also create severe skills imbalances, degrade morale and “hollow out” organizational units.
- **Consolidating or centralizing functions**, which can lead to greater efficiency, but may degrade responsiveness or citizen and customer service.
- **Reengineering**, which can improve service quality and speed but may require significant upfront resources, particularly if technology is employed, as is often recommended.
- **Investing in information technology (IT)**, which can significantly increase productivity and efficiency, but requires significant initial investment and may result in unanticipated implementation costs.
- **Outsourcing**, which assigns functions or tasks to external organizations, when allowed, ideally at a lower cost, but requires oversight by skilled government personnel and may not achieve expected savings.

Our interviewees also cautioned that none of these strategies would be successful in isolation, and they identified four key cross-cutting conditions that are integral to the success of any downsizing effort:

- **First, the President and Congress should set a clear vision for what the federal government should deliver, and how it can serve citizens well, operate efficiently and still reach deficit-reduction goals.** The President should designate one high-level official to lead the cost-saving effort, establish strategic priorities to guide

¹ *Making Smart Cuts: Lessons from the 1990s Budget Front* (September 2011) available at www.ourpublicservice.org/OPS/publications.

reductions and communicate those priorities to agency leaders and the public. The plan must include measurable goals with mechanisms for accountability and transparency.

- **Federal agencies should consider the long-term consequences of various cost-cutting scenarios and systematically reexamine missions and functions to achieve them in the most cost-effective way.** Leaders should consider the composition of the workforce and create an environment that rewards innovation and empowers employees to contribute new ideas to save money or improve business processes.
- **Congress should set cost-reduction targets and allow agencies flexibility in determining the best way to meet those targets.** Studies and experience show conclusively that better results are achieved when leaders cut strategically, rather than slicing a little from everywhere. Across-the-board cuts tend to penalize the most efficient agencies and can throw the composition of an agency's workforce out of balance.
- **Agency leaders should consider alternative ways of delivering services and performing functions, not just doing the same things the same way with fewer people.** They also need to plan and communicate with all stakeholders and develop a strategy for routinely exchanging important information with employees, central agencies, Congress and the public. Federal employees may need to learn how to perform different functions or carry out new responsibilities. They will need supportive leaders to carry them through these transitions, and the training, tools and technologies to do their work efficiently.

Reorganizing Government to Achieve Budget Savings

One deficit-reduction strategy likely to come before Congress in the near future involves the consolidation of trade and export functions into a newly constituted Commerce Department, while sending unrelated units to other parts of the government. As the committee with primary jurisdiction over government organization, it is certain that the Oversight and Government Reform Committee will have an important role to play in evaluating this and future reorganization proposals. The Committee has a long history in this area, and played a leading role in efforts to craft a Commerce Department restructuring proposal in 1995.

Government reorganizations are usually motivated by a desire to advance policy objectives and achieve operational efficiencies. They are often initiated or given momentum as a result of government failures; the creation of the Department of Homeland Security and the Office of the Director for National Intelligence following the 9/11 attacks are two notable examples.

When government fails, however, it typically has little to do with the way agencies are organized and almost everything to do with the performance of senior leadership at federal

agencies, their ability to effectively manage the people working under them and the culture of the agencies. The 9/11 Commission summed up this dynamic best when it said, “The quality of the people is more important than the quality of the wiring diagrams.”

It is easy to create new organizational flow charts. The hard work requires unifying managers, employees and different cultures into a common mission; integrating financial, human resources and technology systems; and reshaping relationships with important stakeholders that include Congress and private sector interests.

Successful reorganizations require a clear vision, sustained commitment over many years, an upfront expenditure of money even during tough budgetary times, and strong leadership. The mixed track record of prior reorganizations is evidence that, too often, those elements are lacking.

Study after study suggests that the failure rate of mergers and acquisitions in the private sector is somewhere between 70% and 90%.² Reorganizations in the federal government can be just as complex, and they bring a unique set of challenges. As the executive branch’s “board of directors,” Congress bears the burden of evaluating government reorganization proposals to determine whether they will achieve desired results, add value for the American people, and do so in a fiscally responsible way.

Recommendation

We recommend a series of questions that this Committee, and Congress as a whole, should consider when reviewing government reorganization proposals:

1. What is the mission(s) of the new entities that will result from this reorganization?
2. What problems are we trying to solve with this reorganization?
3. What other options have been considered to solve these problems?
4. What are the intended short-term and long-term outcome(s) we want to achieve?
5. How long will it take to implement the reorganization proposal?
6. How long will it take to achieve desired outcomes?
7. How will this reorganization affect the public, federal employees, private sector interests, and government policies, programs and management?
8. What are the potential problems and unintended consequences that may result from this reorganization?
9. What will be done to mitigate those problems and unintended consequences?

² “The Big Idea: The New M&A Playbook,” by Clayton Christensen, Richard Alton, Curtis Rising and Andrew Waldeck. *Harvard Business Review*, March 2011.

10. Who will be responsible for overseeing this reorganization, and what are their qualifications?
11. How will this reorganization be implemented? How has the reorganization plan been influenced by past merger, consolidation and reorganization experiences in the public and private sectors?
12. Do the affected agencies have highly qualified and well-resourced management personnel with the skills necessary to implement the reorganization efficiently and effectively?
13. How will Congress, federal employees, private sector interests and other stakeholders be engaged to participate in the process? Who is responsible for communicating with these stakeholders, and how will communication occur?
14. How much is this reorganization expected to save, over what time horizon, and what are the sources of those savings?
15. How much is this reorganization expected to cost, over what time horizon, and how will it be funded?
16. Who is responsible for establishing implementation milestones and measuring progress against those milestones?
17. Who is responsible for establishing performance goals for the new entities that will result from this reorganization, and how will performance information be collected, measured and reported?
18. How will this reorganization process ensure transparency?
19. What strategies will be employed to reduce spending in the new entities that will result from this reorganization (e.g., programmatic cuts, reengineering, personnel cuts, IT investments, etc.) and how will impact on efficiency, effectiveness and performance be measured?
20. What is the desired culture of the new entities that will result from this reorganization, and what steps will be taken over the long term to foster that culture? How will agency leaders create an environment that rewards innovation and empowers employees to contribute new ideas to save money, improve business processes and increase impact?
21. What skills and competencies will be needed in the individual selected to lead the new entity or entities that will result from this reorganization?
22. What skills and competencies will be needed in the senior executives of the new entities, and what steps are necessary to identify, recruit, develop and retain a senior executive corps with these skills?
23. What skills and competencies will be needed in the workforce of the new entities, and what steps are necessary to identify, recruit, develop and retain a workforce with these skills?
24. Which committees of Congress will oversee the new entities that will result from this reorganization, and what steps can be taken to ensure that these agencies do not receive inconsistent direction from multiple congressional overseers?

25. What steps will be taken to ensure continuity in the management and implementation of this reorganization from one presidential administration to the next?

Conclusion

We commend the Committee for your important work to understand and weigh all of the options available as our government seeks to improve efficiency, cut waste and serve the public. We believe that all stakeholders, including federal employees, the private sector, Congress and agency executives, can be a part of the solution and we all share a stake in government's success.

Thank you for inviting us to share the views of the Partnership for Public Service. We look forward to doing whatever we can to help.