

**A FRAMEWORK FOR CONSIDERING THE  
CENTRALIZATION OF SBA FUNCTIONS**

The Congress has applied considerable pressure on the SBA in recent years to reduce the operational role and staffing levels of the headquarters components. At the same time, the Agency's overall resources have been decreased substantially, forcing management to consider significant program adjustments and the consolidation of functions that might be performed more efficiently from one or more central sites.

In most organizations, authority for policy making and oversight is centralized in the headquarters component. While the authority for operations and process-related functions may be decentralized to field officials, the activities themselves may be consolidated to reduce costs and improve operational efficiency. This paper outlines an approach for deciding whether to centralize the common functions of various SBA programs in central locations. It describes the respective advantages of centralizing and decentralizing operations, suggests a framework for centralization and some SBA programs where it may be most applicable, and identifies potential pitfalls.

**Centralization versus Decentralization of Operations**

*Potential Advantages of Centralization*

- minimizes redundancy
- maximizes quality control
- provides for closer control by program office
- facilitates training
- provides for greater consistency in applying policy
- lowers overhead
- promotes economies of scale (until optimal size is reached)
- cuts costs - personnel, space, travel
- avoids counter-productive conflicts of interest between local offices and "partners"
- equalizes workloads
- facilitates access to records and staff for policy making, monitoring, auditing, and investigating purposes

### ***Potential Advantages of Decentralization***

- takes advantage of familiarity with local problems and transactions
- allows for the development of partnerships with program participants
- produces less bureaucratic decision making
- permits the marketing of programs locally
- avoids loss or corruption of data in transfer to centralized processing sites
- satisfies more political interests

### **A Suggested Framework for Centralization**

The first step in developing a cohesive centralization plan is to decide which functions to centralize. The following characteristics identify those that are most amenable to centralizing to improve operational efficiency:

- require little personal contact between the agency and its customers;
- need consistency, economies of scale, and optimized operating costs over time;
- are large scale, routine, and mechanical to take advantage of automation and technology; and
- do not require decision making flexibility on the local level.

Second, in determining the number and location of centralized offices, SBA officials should look at the same factors considered by private industries:

- redundancy (a minimum of two centers to ensure backup capability and minimize time zone problems);
- transportation;
- cost of living;
- quality of life for transferred workers; and
- availability of skilled local labor.

After decisions on the centralization of functions have been made and implemented, SBA should then review the requirements for an appropriate number of regional and district offices.

## Potential Pitfalls of Centralization

The OIG has identified a number of potential obstacles to centralizing Agency functions. This information was obtained from a review of current literature on reengineering and downsizing and from interviews with reengineering experts at the National Academy of Public Administration and with officials of other U.S. Government agencies experienced in centralizing processes or offices (HUD and Labor's Wage and Hour Division). To establish efficient and effective centralization, policy makers and managers should focus on avoiding the pitfalls in each of the following areas.

### *Strategic Planning*

- *Failing to develop a cohesive plan.* The plan should focus on issues important to mission delivery. Solutions include:
  - Forming a group to analyze the area being considered for centralization in order to identify (1) the mission and objectives; (2) the customers; (3) the desired result; and (4) the resources, processes, and other capacities required to produce results with quality, speed and low cost;
  - Developing standards, policies, and training programs, if necessary, to implement centralization efforts; and
  - Centralizing activities on a trial, or regional, basis.
- *Assuming that government reengineering can be accomplished in the same way as corporate reengineering.* Government reengineering is more complex because while the private sector can selectively assess client satisfaction, growth, profit/results, employee satisfaction and speed to market, public and Congressional expectations require the public sector to evaluate all of those factors at the same time.
- *Failing to obtain complete support from senior management.* To succeed, strategic plans require vigorous backing from top leadership.

### *Organizational Structure*

- *Centralizing processes without recognizing that authority must remain decentralized.* Decentralized authority is normally considered necessary if the organization is to (1) be effective and innovative and (2) maintain high morale, commitment and productivity.

- *Attempting to centralize responsibility.* Ultimate responsibility must reside in the agency leadership.
- *Allowing policy management to be separated from service delivery.* Separation often results in unrealistic policies. One solution is to bring people with experience in service delivery into the policy making process.
- *Failing to recognize that centralization and decentralization may each create problems.* For example, centralization may stifle creativity while decentralization can drive up costs.

### ***Human Resources Management***

- *Failing to communicate to employees changes in the work environment as soon as possible.* This lack of communication often leads to poor employee morale and reduced commitment due to uncertainty and mistrust. Solutions include:
  - Involving the employee's union from the beginning of the centralization process, thereby allowing the union to voice its concerns early on and resulting in fewer grievances in the future;
  - Initially developing an agency-wide plan to define formal and informal channels for providing ongoing information; and
  - Establishing discussion groups where employees of all levels meet to solve problems and brainstorm issues.
- *Believing that effective changes can be made in a short time frame using existing resources.* After restructuring, employees are given new duties that may not match their skills and experience. Solutions include:
  - Using assessments and training to identify each employee's knowledge, skills, and abilities in order to use his/her talents where they are most needed; and
  - Employing a team approach to the new tasks and emphasizing to management the importance of interpersonal skills.

### ***Technology Change***

- *Forgetting that, while the use of technologies must be expanded, ultimately process improvements are more important than technology improvements.* Technology should be applied only to “good” processes.

### **Establishment of an Planning Unit**

It would be advisable for SBA to create a unit to help policy makers determine what functions should be centralized or decentralized. The unit could be either an ad hoc task force or a permanent policy analysis group reporting to a senior management official, such as the Deputy Administrator, CFO, or ADA/M&A. Its mandate would be to study the costs and benefits of various centralization alternatives, recommend courses of action, and monitor the implementation and effectiveness of approved initiatives.

### **Outside Resource**

SBA may also want to consult with outside experts. The Private Sector Council, for example, is an organization dedicated to improving the productivity and efficiency of the government through the use of private sector executives who assist government agencies' reengineering efforts as consultants on a pro bono basis