



JUL 9 1970

MEMORANDUM TO THE HONORABLE GEORGE P. SHULTZ

SUBJECT: PRIORITIES FOR THE NEW OFFICE OF
MANAGEMENT AND BUDGET

As you requested, I have put together the following memo as an expansion of our previous discussions. I have tried to highlight some of the major problems in managing the Federal Government as I see them, and to summarize the principal management needs I feel that the Office of Management and Budget should address.

MAJOR PROBLEMS IN MANAGING THE FEDERAL GOVERNMENT

Lack of Management Expertise in Top Positions. People in key management positions -- department officials, agency heads, and program chiefs -- often have no training or background in management. Program chiefs, in particular, often have impressive professional credentials (doctors, educators, etc.,) rather than the solid management expertise that is badly needed in public administration. Management problems in the Federal Government are probably even more difficult than those in private industry because typically there are no readily available measures for success or failure.

The governmental practice of placing specialists in top management positions is contrary to the usual practice in industry. Industry normally places management generalists in top management positions with support from technical specialists. In fact, it is impossible in most companies for a specialist to advance to a top management position without considerable experience and background in general management. Medicaid is a good example of a program in which a wide range of management capabilities is needed much more than professional expertise. In my mind, there is no reason why a doctor should have been placed in charge of this program originally. Many skills other than medical expertise are required, such as experience with management information systems, audit procedures, and so forth. It is principally in these and other management areas that the Medicaid program has experienced substantial difficulties:

Separation of Management from Policy Development. Management considerations are often given insufficient attention when policies are being developed. In my view, this lack of attention to management at the critical early stages is the cause of many of the interagency conflicts and operational problems of major programs at later stages. For example, the Medicaid and Medicare programs were formulated without sufficient concern for how they might operate. Acute administrative and cost problems have been created by the reliance on fee-for-service, hospital convalescence, and other traditional health practices. Perhaps these problems could have been anticipated if more attention had been given at the early stages to the possible management problems inherent in the implementation of these policy decisions.

More recently, policy deliberations on the Family Assistance Plan have involved management only to a limited extent. However, the involvement occurred too late to have a significant impact and centered only on the timing of the program. Decisions on the administration of FAP superseded much of the management involvement. As a result, we are committed to a starting date which may not be realizable administratively.

Neglect of Less Visible Tasks. There is a great tendency among top officials to focus on high visibility problems and on major new initiatives. Everyone is trying to look good to the political leadership, which is itself mainly concerned with "hot" items. This creates pressures that flow through to career levels. Practically all key management resources are placed on a few top priorities.

Such limited top management emphasis results in a tremendous lack of follow-through after a key new initiative has reached its peak of visibility. Attention and pressures tend always to be shifting to new initiatives and priorities -- forgetting about the equally important tasks of ensuring last year's initiatives are implemented effectively and produce the expected results. There is gross neglect at the top levels of the less appealing problems of effective administration.

General Inability to Measure Results. This tendency to neglect follow-through is encouraged by our inability to measure results. We just cannot tell objectively whether someone has done a good job. People in top management positions throughout

the government have not placed sufficient attention on specifying the results expected, and then evaluating performance based on those expected results. It appears that, for most programs at the present time, performance is judged on the basis of whether or not all funds were obligated and all positions were filled -- not whether any substantive program results were achieved.

Organization. Most governmental units are organized along the lines of specific pieces of legislation and are charged with carrying out the provisions of that legislation. Such organizational arrangements foster a "product" rather than a "market" orientation among program managers: primary emphasis is placed on providing the services or carrying out the provisions of the authorizing legislation rather than on examining the needs of the population served and then determining how their program, in conjunction with other related programs can best meet those needs.

These organizational arrangements also encourage isolation and offer no incentives for coordination. This isolation is an especially critical problem in areas where programs overlap substantially.

Poor Working Relationships with State and Local Governments. There is a general failure on the part of the Federal Government to establish effective working arrangements with State and local governments. Yet better relationships are crucial if we are to implement such Administration policies as greater decentralization and revenue sharing.

The nature of Federal grant mechanisms is a substantial obstacle to improved Federal-State-local relationships. Grants often are accompanied by cumbersome award procedures, and Federal requirements and standards vary widely among programs -- thus, making coordination most difficult at the State or local level.

Administrative procedures designed to alleviate or circumvent some of the problems with grant mechanisms and achieve coordination among programs have generally failed. The most notable device for coordination, the Model Cities Program, has certainly not lived up to expectations -- localities must still deal with a number of seemingly unrelated Federal programs. There often is no one that a mayor or other local

leader can turn to for help. The Federal Government has totally inadequate capabilities to give assistance to States or localities in packaging various Federal programs to meet local needs. The capability of most States to give such assistance is usually even less.

AREAS FOR INITIAL OFFICE OF MANAGEMENT AND BUDGET (OMB) FOCUS

The fundamental problems described above would appear to be soluble, but over a long period of time and not all at once. With limited resources available, it is critical that the OMB not get involved in too many problem areas initially. ~~Therefore~~, you must be highly selective and pick only those areas in which you can have a large impact and which offer a reasonable assurance of success in the near term. The areas which seem to me to meet these criteria are highlighted below:

Role of Management. Perhaps the most important job of the OMB should be to focus attention of the various operating departments on management -- to try to mitigate against the natural impulse in the public arena to ignore management and concentrate on policy. At present, most departments have only an Assistant Secretary for Administration who is responsible for management (as well as housekeeping chores which consume most of his time), but who has little clout. The OMB should ensure that each department places a top manager in its upper echelon (a political appointee reporting to the Secretary) with responsibility only for management. This step must be taken before other initiatives can be carried out effectively; thus, it should receive top priority from the outset. These top managers, in turn, should be held responsible for building similar management competency at key agency levels. They also should be responsible for providing the overall leadership to see that each of the initiatives undertaken by the OMB is effectively carried out within their departments.

Top Management Direction and Control. The President must have a means of assuring that the key policy initiatives of his Administration are carried out effectively by the operating departments. There must be a more effective way of communicating basic policy direction to the operating departments, clearly defining the results each department or agency is expected to produce, planning for a coordinated approach to implementation

of key initiatives, following through to see that the plans are carried out, and then evaluating performance on the basis of whether or not expected results are achieved. Emphasis on each of these management functions is crucial if concrete results are to be attained. Yet, none of these functions is now being performed regularly and effectively. The OMB must take the initiative in developing formal mechanisms to ensure that these management functions are carried out.

The mechanism we have developed in HEW offers a good model which could be modified to fit the needs of the OMB and the President. We are implementing a simple "management-by-objectives" system to enable the Secretary to ensure that the key decisions and activities of the operating agencies follow and support his policies, and that concrete results are achieved at all levels in those areas of crucial concern. In this approach, we first communicate the Secretary's priorities (and general strategy in each priority area) to all operating managers. We then require coordinated headquarters and regional planning for the use of budgeted resources to carry out the Secretary's priorities and to perform effectively other key HEW functions. We are trying to create a results-oriented environment in which managers throughout the Department are asked for specific commitments, and then their feet are held to the fire to see that they fulfill these commitments. We have found that even if real measures of ultimate program performance cannot be developed in areas such as educational research, some specific commitments are always possible -- such as a redirection of the program in a particular direction, or a special study in a particular area, etc.

A key element of our approach is sustained follow-up from the highest levels to assure results are achieved. The Secretary holds individual meetings monthly with each of his chief operating officials to review progress and problems toward achieving expected results. Performance is evaluated on the basis of results achieved. The OMB may also want to see that each department adopts a similar approach to internal management.

Coordination of Management and Policy Development. In order to avoid the problems described above when management considerations are given insufficient attention during policy deliberations, a formal link should be established between the Domestic Council and its staff, and the OMB. Such a link would ensure that management considerations are an integral part of policy deliberations from the beginning. Just as the staff of the Domestic Council will be working closely with departmental policy staffs in developing policy, so should the OMB work closely with key operating officials in the departments to get their views on possible problems in implementing the policies as proposed and to devise implementation plans once the policies have been decided. In this way, we hopefully can avoid commitments to procedures which may not be workable or efficient.

Relationships with State and Local Governments. Lack of coordination among Federal programs is a principal cause of poor working relationships with State and local governments. Common regional boundaries for all Federal departments and the establishment of Regional Councils in each region provide only a start toward improved coordination of programs at the State level. Present efforts to consolidate, simplify, and decentralize Federal grant-in-aid programs will remove many of the barriers to coordination of these programs at the State and local levels -- these efforts are now underway with a great deal of momentum, but must continue to receive prime emphasis and push from the new OMB.

However, much remains to be done if coordination problems are to be overcome to any significant degree. Following are several specific areas which seem to provide an opportunity for substantially improved program coordination and improved working relationships with the States in the near term:

First, careful attention to operational planning in each region can significantly improve coordination among programs. We are now implementing this approach within HEW, and we are beginning to see encouraging results. We require each HEW Regional Director, working with field agency and program representatives and with State officials, to identify acute problem areas (e.g., family planning or education of disadvantaged children) for special attention during the coming fiscal year. We ask that particular attention be given to areas requiring the coordinated efforts of several programs.

Regional agency and program representatives then develop specific objectives and joint plans to achieve the objectives, dealing mainly with the priority problem areas. These plans include funding commitments to projects in specific locations. The Regional Director sees that the plans are coordinated where necessary among agencies and programs, and will not approve the plans until he is satisfied that all the potential for coordination has been exploited. Follow-up efforts similar to those described earlier are expended by the regions and by headquarters to ensure the plans are carried out, and regional personnel are held accountable for the expected results.

With a significant push from the OMB, this approach to coordinated planning of departmental field operations could be extended to other Federal departments.

Second, a strengthened Regional Council mechanism could greatly improve coordination among the Federal departments. To date, however, the Regional Councils have exhibited few concrete achievements. I feel that a major reason for their failure is a lack of commitment within each of the Federal departments involved to make them work. However, with effective and continuing pressure from the OMB upon each department, I feel the Regional Council mechanism could be made to work.

Third, new means must be devised for providing assistance to States in utilizing Federal programs to meet specific needs. In HEW, a Task Force evaluating our technical assistance efforts has recently concluded that very little effort is devoted to helping States and localities assess their needs and then to planning a package of Federal programs to meet those needs. A key reason for our inability to give the States and localities the kind of help which would be most useful to them is the lack of program generalists who are familiar with all HEW programs. Technical assistance is now provided, for the most part, by narrow program specialists.

The HEW Technical Assistance Task Force developed and tested a promising new model for providing more useful assistance to States and localities. The model involves a team approach to providing technical assistance. Various program specialists are joined in a team led by a member

of the Regional Director's staff. The collective capabilities of the team are much more useful to a State or local unit with a particular problem requiring multiple program inputs than each of the specialists would be individually. The teams could be expanded to include programs from outside HEW with team leaders working under the general supervision of the Regional Council.

Finally, the OMB should focus considerable attention on ways in which the Federal Government can assist the States and localities in developing their own capabilities to handle the greater responsibilities embodied in the New Federalism. For example, in HEW as a start we plan to assign a number of our outstanding employees to States and localities for one or two years to serve as HEW program generalists at the highest levels of State and local governments. They would act as guides through the HEW bureaucracy for the State or city. It is anticipated also that such assignments would greatly increase the understanding of these individuals of State and local governments and, therefore, improve our ability to work with these units over the long run. States and localities are most anxious to get any assistance they can, and this concept could be adopted by other departments. This approach is, of course, only a small start toward assisting the States and localities in developing the necessary capabilities.

SUMMARY OF SUGGESTIONS

The OMB should focus initially on a few key problem areas in an effort to bring about swift and significant improvements in the management of the Federal Government. A first and crucial step is to place a strong man with only management responsibilities in the top echelons of each department. With this person taking the lead within each of the departments, the OMB should focus on the following areas:

- developing means of communicating Presidential policies, providing direction, and evaluating performance;
- increasing the emphasis on results and accountability throughout the Federal Government;
- integrating management with policy development within the Executive Office by the President and in each department; and

- improving program coordination and developing better working relationships with State and local governments.

In building the organization to undertake these initiatives, I would suggest that the OMB recruit extensively from industry as well as utilize existing Bureau of Budget personnel. The entire organization should be attuned to a hard-nosed, results-oriented approach from the beginning.

The above is not intended as a definite plan of action for the OMB, but as a summary of a few key areas I consider important for OMB attention. I am also enclosing a copy of our annual management plan which outlines in summary form the approach we took in our first year at HEW. I hope this material is of some help to you in directing the OMB to the exciting challenges ahead. If I can be of any further assistance, please call on me.

Frederic V. Malek
Deputy Under Secretary