

Convocation Lecture
Graduate School of Business & Public Policy
Naval Postgraduate School

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Thank you, Doug. I'm honored to participate in your convocation, and I want to add my congratulations to those of you who will be receiving your degrees tomorrow.

Today I would like to talk to you about some tough challenges I see ahead for leaders of government organizations, and to offer some perspectives on methods of dealing with these challenges. Much of what I have to say applies to the United States federal government, which has been my main focus for the past few years – but I believe that you will find that many of my observations are of interest to any organization in these changing times, including foreign governments and private sector companies.

To trade on your name for a moment, the *business* of public policy – and by that I mean developing organizations that will effectively execute public policy – is a strong personal interest. For many years in my consulting career, I specialized in executive compensation – a field that has been somewhat tarnished recently by a rash of greed – but a field that gave me direct access to top executives in hundreds of major corporations – and that gave me a good understanding of their organizations' strengths and weaknesses.

As my career advanced, I moved into management, eventually spending six years as the Chief Executive Officer of Watson Wyatt, a 5,000 professional human resources consulting firm with offices in major cities throughout the world. When I became CEO, Watson Wyatt was struggling, facing declining revenues and profits and decentralized to the point of the absurd – I had 95 direct reports, almost everyone of them of the belief that the extent of my authority was to make sure their paychecks arrived on time. We learned a lot in getting the company back on solid footing.

After retiring from Watson Wyatt, and looking for a way to “give something back”, I was introduced to the Private Sector Council – a non-profit organization dedicated to improving the business of government by connecting private sector experts with their counterparts in federal agencies. I've been running PSC for four years now, learning with fascination the challenges of managing in the public sector, noting many differences and many similarities across the sectors, and watching the line between the sectors continue to blur.

So this morning I'm going to discuss the principal challenges of managing in the public sector, focusing on where I think the public sector can learn from the private sector and do things better.

But first I'd like to comment on one vital difference that works largely in the government's favor: strength of mission.

In my work with federal agencies, I'm constantly impressed by the integrity of public servants and by their focus on mission. I see it in people committed to improving inner-city education, protecting our natural resources, preventing and curing disease, protecting our homeland. Last year, I saw it first-hand on special assignment in Iraq, where thousands of people with different backgrounds and political views were pulling together as one to help Iraq rebuild.

Integrity of mission in the public sector is palpable, and it is a vital element of leadership. Rarely is it as strong in the private sector. Art Friedson, the HR director of CDW, said "In the private sector, we're trying to motivate people to increase quarterly profits. In the public sector, you have 'truth, justice, and the American way!'"

That's a very strong platform on which to build success.

That said, I want to focus the rest of my remarks on areas where the federal government – and in many cases large private companies – seem to have the most difficulty, and the most opportunity for improvement. Some of these areas deal with managing processes and some deal with managing people.

The first area is process inefficiency, something that plagues most governments. Delays, rework, and waste that would not be tolerated in competitive private industries are often tolerated with a "hurry up and wait" mentality. I saw this first hand as a DoD employee last year in connection with my assignment to Iraq. This service began with an orientation session at Fort Belvoir, where as one of my colleagues put it, "1 1/2 hours of training were crammed into a long 8-hour day."

Almost everywhere I went, every day, I encountered some process that took longer than it should have – getting a card to access Coalition Provisional Authority offices, being issued a laptop, or acquiring a cell phone. This is not just a DoD problem -- I run into similar inefficiencies in every federal agency I deal with – Education, Interior, Homeland Security, Justice – you name it. But if we are allowing mindless bureaucracy to get in the way of succeeding in Iraq, imagine how widespread it must be at home.

Ronald Reagan once said, "Outside of its legitimate function, government does nothing as well or as economically as the private sector." There is a lot of truth in this statement. The problem isn't the people – almost everyone I've met in government is dedicated, intelligent, and hard working – but the process. It seems that in most agencies, no one gets up above 5,000 or 10,000 feet to look at how things are done, to find ways to make things work smoothly, to cut unnecessary steps and redundancies. This area needs a lot more attention.

The second area I want to discuss is more significant. It involves a simple concept that can do much to help in organizational restructuring, to facilitate change, and to help stamp out needless bureaucracy. It can help answer the question of what should be centralized. Stated briefly, the principle is "Figure out what has to be the same, and let everything else be different."

I learned this as a new CEO of Watson Wyatt. As I mentioned earlier, our firm was decentralized to the point of the absurd. Almost everyone knew we had to change, but to our strong local leaders, this usually meant that you had to change – not me. The call for centralization had also fed the appetite of the bureaucrats running our finance and

administrative operations to put in myriad needless rules and regulations. One example was a 40-page travel policy that among other things specified which items our consultants could select from hotel mini-bars.

As all of this was unfolding, a friend of mine – then the Director of Human Resources at Apple Computer – told me that Apple had had similar problems when they first went global in the 1980's. Proud of their success and methods, Apple first stipulated that everything they did around the world had to be done the same way they did it in Cupertino. This didn't go over very well in places like France, Germany, and Tokyo, and the results were pretty bad.

Then some bright person at Apple came up with the principle: "Let's figure out what has to be the same, for the good of the business, and let everything else be different." Apple divided its work processes into three buckets – processes where there was a clear business justification for doing consistently around the world, areas where there was clearly no need for consistency, and areas in doubt.

If something fell into the first bucket, Apple operations around the world were expected to follow corporate processes. Otherwise they were free to operate autonomously, tailoring Apple's marketing and employee policies to local needs and conditions. And Apple's globalization efforts improved markedly.

We followed the same principle at Watson Wyatt, and it worked wonders for us. We pushed for centralization and consistency only when there was a valid business reason for doing so. This process gradually gained the respect and support of the many independent operations that we were trying to change. It enabled us to merge what were essentially 100 independent operations into one global firm. And it neutralized the worst of our administrative bureaucrats, who unfettered would have come up with endless rules for everything.

This kind of thinking has important implications for government today. Consider for example the new Department of Homeland Security, which one Agency CFO has described as "merging 24 agencies with 180,000 people, many of whom hate each other, and many of whom are armed." When should this new Department respect the traditions and different missions of the incoming agencies, and when should it make things the same? As the Department becomes established, assuring there is a valid mission-related reason for centralization, or for any significant change, will do much to help build trust and employee alignment.

So, I encourage you to "figure out what has to be the same, and let everything else be different." It's a good principle for running any organization, and as a father of four children, I can attest that it's not a bad principle for raising teenagers, either.

The third area I want to discuss this morning is employee alignment, and again I'd like to use my Watson Wyatt experience to illustrate a process that can speed change and help align employees with mission.

When I became CEO of Watson Wyatt, one of the worst aspects of our decentralization was that every office had different systems on their desktops for things like word processing, spreadsheets, and communications. At that time, files created in one program couldn't be opened by others, and when we had teams from multiple offices

working on client assignments, the amount of rework to get everything into reports was staggering.

Everyone agreed we had to change this (this was one of the things that “had to be the same”), but everyone wanted everyone else to change – not themselves – and everyone expected the change to take years. We couldn’t afford to wait that long, so we came up with a process that shortened the time frame to nine months.

First, we appointed a small task force – one person in the U.S., one in Asia, and one in Europe – and told them they had six weeks to come up with a solution. Then we e-mailed everyone in the firm, told them what we were doing and why, and encouraged them to send their thoughts and recommendations to members of the task force. Since this touched everyone’s desktop, as you can imagine there was a lot of input.

A little over six weeks later, the task force presented their recommendations to our management committee, who agreed to them unanimously. But we did not at that point make a decision. Instead, we e-mailed a copy of the recommendations, again to all employees, and gave them two weeks to review them and provide any comments to the task force. The task force received hundreds of responses, many from agonized Word Perfect users who were just learning they might have to switch to Word, and some from technology experts whose suggestions actually improved the recommendations.

We responded to every one of the messages we received, even if they were just complaints, revised the recommendations somewhat, and then put them into action, giving the whole firm nine months to convert to the new systems. And it worked much more smoothly than any of us had expected.

The beauty of this process is that we never lost control – the decision was always mine – but we gave everyone affected the opportunity to raise their concerns and affect the outcome. We spent some extra time up front in communications, but we shortened by years a process that was vital to the firm’s transition.

I am not suggesting that this process works with every management decision. Obviously, things such as determining acquisition targets in the private sector, or military targets in the public sector, need to be made in closed groups. But when there is no need for confidentiality, an open communications approach can do much to improve alignment, motivation, and morale.

A good example of this is taking place in Washington today, where the Homeland Security Department is implementing new human resources programs. Given Congressional authority to move out from under the Title V Civil Service regulations, largely reflective of 1950’s era personnel policies, DHS has actively engaged employees at all levels and labor unions in developing alternatives and evaluating proposals. To date, this has worked very well.

By contrast, the Defense Department has taken a different approach to its new personnel system. At the outset, Program design discussions were limited to a few key executives and their advisers, and little information was shared until the final program had been decided. Feeling alienated and left out, employee groups and unions flooded Congress with complaints. Now, having learned an important lesson, DoD has shifted responsibility for program implementation to the Department of the Navy, and early

indications is that the Navy is very much on the right track in terms of employee inclusion and communications.

The final area where I think the private sector typically outperforms federal agencies involves the management of people. Two of my favorite quotes on this topic come from sports. In Casey Stengel's terms, managing is – and I quote – “keeping the people who hate me away from those who are still undecided.”

Football coach Lou Holtz was once asked how he developed such extraordinary motivation on his teams. “It's easy,” Holtz replied. “We just get rid of the ones who aren't motivated.”

These comments reflect important aspects of management – recognizing that the goal is not personal popularity, and having the courage to deal with poor performance. But leaders in the public sector often fail to deal with problem employees. The rationale usually is that regulations make the process difficult. Well, firing someone should be difficult – in any sector. But it's important that it be done. Poor performers reduce productivity and lower morale.

In the private sector, few companies manage people better than GE. Among GE's many excellent HR policies is the expectation that their performance ratings will be distributed on a forced curve, with 10 percent of professionals each year rated at the bottom level.

This sounds harsh, but in practice, it is very well accepted within GE. As it works out, usually a third of those rated as poor performers admit they're in the wrong job, and voluntarily either leave the company or move to another position. Another third successfully challenge the rating, and are moved up to a higher level. Thus, only about a third of those with the lowest rating – 3 percent overall – are fired each year. What's more important is how GE treats the remaining 90 percent. For these people, there are only two performance levels: highly valued and exceptional. There are many opportunities for training, job rotation, and mentoring, and the concept that “we can't guarantee you employment, but we will do our best to guarantee you employability” is integral to GE's culture.

But leadership development is rarely integral in public sector cultures. I find it curious that the Defense Department can do such an excellent job of educating and developing military officers in all the services, even across the services, while most other federal agencies – even the civilian side of the Defense Department – have relatively weak leadership development programs. Training budgets are tight, programs aren't supported, and when executives are invited to attend top-ranked academic or private sector courses, permission is often denied.

A friend of mine was asked last year to educate the Chinese government on how the best U. S. companies develop leaders. In Beijing, he expected to find relatively basic management training, if that. Instead, he found a government strongly focused, from the highest levels, on advanced leadership development – selecting the top one percent of graduates from the best schools, paying them competitively, giving them significant training from day one and lengthy rotational assignments thereafter, and evaluating performance regularly.

Returning to the United States, he asked rhetorically “Thirty years from now, as the world continues to shrink, which government will be most prepared to compete – theirs, or ours?”

With that thought, I would like to close by suggesting that, back at your workplace, you ask the employees working with you two questions. These questions should be addressed to civilian employees as well as the military.

What gets in our way of getting work done around here, and what can we do to fix that for our organization?

As an organization, how well are we doing to develop you to your best potential? What can we do better?