

## Managing in Challenging Times

Bill Cibes

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If you thought I was here to talk about management techniques, I can quickly allay your fears. I'm basically not going to do that.

Instead, I'm going to give you my version of the "90 Second MBA," and then move on to discuss the specific role of managers in the challenging times that confront us now.

So first, the "90 Second MBA."

Go to Google and search for Peter Drucker's marvelous article from 2005 in the Harvard Business Review, called "Managing Oneself." Print it out. Read it. Take his analysis to heart, and apply it.

Basically, Drucker says that managing well boils down to three things: first, understand your strengths, the ways you work best, and your values – and the strengths, the ways they work best, and the values of the people you work with.

And second, take responsibility for communicating this information about yourself to folks you work with, and asking them (and listening when they tell you) about their strengths, the way they work, and their values.

Third, align these factors within the organization. Organizations today are not built on force, but trust. And trust is built when people – managers and their workers – understand one another and work constructively with one another.

90 Seconds. There's your MBA.

Now let me talk about how to use your new MBA.

These are indeed challenging times for Connecticut's state government – although I can't say that any time in the past 20 years has been very non-challenging. Ever since the late 1980s, when the triple-whammy of the collapse of the overbuilt housing market, the failure and then consolidation of banks, and the end of the Cold War, with the consequent decline in defense spending, Connecticut state government has never been very flush with cash – and budgets and programs have been on the chopping block. Over a period of nearly 20 years, operating efficiencies have been achieved, the personnel count in a number of state agencies has been reduced – and sadly, some functions which are vital for the state to perform have been reduced or eliminated.

Still, the people of the state continue to demand services that only state government can provide: only the state can deprive people of personal freedom when they break the law – so budgets of the judicial branch (now \$500 million), prosecutors (\$53 million) and public defender (\$51 million) have risen over 20 years, although none so high as that of the Department of Corrections (to \$700 million). The people of the state want state government to care for the most vulnerable, so the budget of the Department of Developmental Disabilities is now \$1 billion per year, and the budget of the Department of Children and Families is not far behind (\$870 million). DMHAS is at \$608 million. The cost of Medicaid alone is now in excess of \$3.8 billion a year, and DSS, including Medicaid, now totals \$5.12 billion. In order to keep Connecticut economically competitive in the global marketplace, the total state spending on education, both for aid to local boards of education, and for higher education institutions, now totals \$3.5 billion (not counting debt service costs for school construction at both the elementary and secondary level, and in higher education – to revitalize an aging plant and to accommodate additional students seeking to become more qualified to meet the challenges of the information age).

By and large, these are commendable – even high priority – programs that meet people’s needs. But with the downturn in the economy, the lack of revenue means that we will need to examine all of them, in detail, to find areas where expenditure reductions can be made. More programs will have to be scaled back, and more programs will have to be eliminated.

It would be nice if increased revenues would enable the state to balance its budget, so that some cuts could be avoided.

But for the foreseeable future, the prospects for the state budget look bleak. To get the state out of a fiscal hole in this biennial budget, the state not only reduced expenditures, it will use all of the Rainy Day Fund money (\$1.4 billion) (and borrow \$1 billion to pay for the deficit in FY 09), use over \$2 billion in federal stimulus dollars, and “securitize” \$1.3 billion in future revenue streams – that is, borrow for current expenses. That’s a total of \$4.7 B in “one-shot” revenues during the biennium – revenue that will not be available in the future.

Some revenue, in the form of increased taxes and fees, was raised. But the consequence of this combination of actions is NOT that we will be out of the woods in the next biennium, but that we still face falling off the edge of a cliff – that’s technical language for an ongoing structural imbalance in the budget. OFA now projects a \$3 billion deficit in each of the fiscal years 2012, 2013, and 2014.

We all hope that we may be bailed out by a rip-roaring economic recovery. Some optimistic commentators (James Grant, in the WSJ on September 19, 2009) (Dirk Hofschire, for Fidelity) (and Robert Johnson of Morningstar) have argued recently that, without exception, in the past 100 years, the deeper the dip

in the economy, the stronger the rebound. So maybe some uptick in state revenues will occur.

But even if optimistic projections come to fruition for the country generally, Connecticut, unfortunately, is likely to be left behind. Why? 2 reasons:

1. We lack young entrepreneurs – the folks who fuel innovation. We've educated them to take their place in the information economy, but for a variety of reasons, including the lack of affordable housing when they're starting out, they have left the state.

2. In part because of the departure of the young, but also because we are not attracting enough immigrants to replace them, Connecticut is aging. Increasingly, our population is becoming an elderly, "dependent" population. Rather than producing income, on which they can be taxed, they instead are objects of expenditure, relying on others to take care of their needs. [Check out Orlando Rodriguez's ratio of dependency]

And note also, because our increasingly elderly population has no children, they are less likely to support educational budgets – so the next generation will not be as highly educated as in the recent past. In the information age, which requires knowledge workers, that is a prescription for disaster.

So it is highly unlikely that increased revenues will be sufficient to keep in place every aspect of every program that the state has funded, now or in the recent past.

On the other hand, we can't indiscriminately and arbitrarily CUT our way out of this problem, either (as I indicated earlier by my short list of some of the programs the public demand).

Some balance is required.

Given the situation we face, we have a couple of alternatives.

We could, like Alice in Wonderland, simply muddle along contentedly from day to day without knowing what we want to achieve. You remember her conversation with the Cheshire Cat: "Would you tell me, please, which way I ought to go from here?" Alice asked the Cheshire Cat. "That depends a good deal on where you want to get to," said the Cat. "I don't much care where," said Alice. "Then it doesn't matter which way you go," said the Cat. (the functional equivalent of this lack of direction, in Connecticut today, is to cut every line item indiscriminately by 15%).

Alternatively, we could agree on a vision of what the state should be like in 20 years, develop a strategic plan to get there, and then budget to implement those

programs – and only those programs – which would lay the foundation for achieving that vision.

I favor the second alternative, and I hope you do, too. I'm a member of a group which has drafted such a vision, and set the priorities for investment in order to make that vision happen. I won't go into all the details – it's all on the web at CTBlueprint.org – but I will tell you that it recommends that the programs we should invest in should foster innovation, develop human capital (education), construct infrastructure (to move goods, information, energy and people), and enhance our quality of life. Our future depends on political leaders making hard decisions which will make Connecticut an effective competitor in the global economy.

Political leaders must decide which programs produce high-priority outcomes are vital to preserving our competitiveness in the future, and having decided to keep those critical programs, they must decide how to run them more efficiently and less expensively.

If you've been listening at all, you will have noticed that I referred to the need for POLITICAL LEADERS to make hard decisions. So, you may say, what role does that leave for me as just a MANAGER?

Let me respond in two ways to that question. First, don't downplay your role as a LEADER. As a manager, you are the leader of a cohort of state employees who serve the state in important ways. You and they produce the results which the public demands. Your supervisors, the Commissioner of your agency, the Governor, and the General Assembly, all look to you to play a leadership role in implementing the state's priorities in your program area.

And, second, and more importantly, the elected leaders and their appointed subordinates look to you – as the folks with the most experience and expertise in your program area – to provide them with policy options and alternatives. You have an important leadership role in serving as their advisors in setting priorities, and putting some realistic boundaries and limits on what those priorities can be. What you need to do, as a manager, is to help elected officials come up with a prioritized vision and some concrete steps to attain that vision.

Let me give you some examples, both of which I regard as enlightened efforts to spend funds wisely – achieving important results while saving money. The draft budget this year, as it came out of the Appropriations Committee, cut \$15 million in Personal Services costs in the DOC in FY 10 and \$30 million in FY 11. This reduction in operational funding, the Committee said, reflects a change in the implementation of various administrative and legislative correctional policies. The Committee write-up then went on to say: "The Commissioner shall submit recommendations to the Approps Comm and the Judiciary Committee with all due haste regarding changes in policies and statute that will enable her to reduce

the pressure on the prison system and enable significant savings in the incarceration of non-violent offenders.” The write-up even suggested what the changes should include: 1) expanding reentry furloughs to 90 days or more, 2) restoring administrative parole, 3) restoring/creating risk reduction credits including necessary retroactive establishment thereof (and a couple of others) “Such recommendations shall include the redistribution of savings into appropriate community resources and re-entry programs as needed in order to facilitate a reduction in the incarcerated population, a reduction in recidivism and the safeguarding of public safety.”

Now, let me pause right there, and ask directly: do you think there is any way in the world that the Commissioner could achieve that amount of savings without the participation of the managers in DOC in developing and vetting various policy options?

Another example: the Department of Social Services is expected – in the Approps Committee budget – to save \$25 million in FY 10 and \$75 million in FY 11, by “restructuring the \$2.8 billion continuum of Medicaid nursing home care. There are two major components to this restructuring effort – the Integrated Care Initiative and a restructured Nursing Home Finance Advisory Board.” Again, where would the DSS Commissioner look but to his managers to develop the potential options that might be available to restructure, and to achieve the savings?

Now one reaction might be – in the case of the DOC – to throw up one’s hands in despair, and complain that there is no way that such cuts can be achieved. Indeed, the FoxCourant reported such a reaction on September 21<sup>st</sup>, when a banner headline announced “Connecticut’s Budget Requires Correction Department Cuts, But No One Seems to Know Where to Make Them.” The reporter went on to say, “From Gov. Rell’s budget office to the prison guards’ union, no one seems to know how the cuts will be made.”

Well, you asked me here to make some constructive suggestions about how to manage in challenging times, so I’m going to suggest how you can come to know how those kinds of cuts can be made – suggestions that I hope will have some relevance to managers not only in DOC, but across state government.

First, as managers develop policy options to present to their Commissioner, there needs to be a recognition that cuts in fact have to be made. Given the dire financial straits of the state, it isn’t acceptable to come back and say, “just give us more revenue, through a deficiency appropriation.” There isn’t any more revenue to give.

Second, consider what the real results of the Agency should be. In the DOC, it may not be, “just lock up the convicted felon, and throw away the key.” In building a successful society, isn’t it important not JUST to punish (although the

convicted person must in fact pay his or her debt to society), but also to work toward re-integrating that person back into society when he completes his sentence, in such a way that he does not recidivate, but goes on to be productive, to get a good job, and to care for and raise his family?

Third, having helped to determine the real long-term results the Agency should seek to achieve, check out what other jurisdictions have done in similar circumstances. Justice Louis Brandeis, almost a century ago, argued that the states are “laboratories for federalism.” We now have 49 other public entities that have grappled with problems of incarceration, with Medicaid spending, with freedom of information – indeed, with almost every issue that confronts Connecticut. Surely we can benefit from the “testing” that they have undertaken, and see if the results of their “experiments” provide any guidance to us. Then, too, there is the national government, and innumerable local governments, each of which may offer some insight. In older times, the borrowing of good ideas was sometimes called “plagiarism.” But in contemporary parlance, this is called “benchmarking.” In many instances, you don’t even need to call up your counterparts in other states (although that’s a tried and true method): much of what they have found has been summarized in very useful reports put out by their state’s budget and planning agency. I mention this source – what other states have done – because I have found, in my public life, that people in Connecticut tend to think that “if it’s not invented here, it’s not worth considering.” That often means that we waste a lot of time, effort and money starting from scratch in trying to find solutions – when we could avail ourselves of the work of others. (WITHOUT the intervention of consultants)

Fourth, along the same lines, explore what folks in academic life and at “think tanks” and “public policy institutes” have suggested as solutions to problems. Even admitting for the moment that a lot of academics tend not to have thought much about solving practical problems, there is an immense amount of material that has been published by analysts at various institutes, much of it relevant to issues that you are dealing with. Folks at the National Governors Association, the CSG, the National Conference of State Legislatures, the Rockefeller Institute at SUNY, the Brookings Institution, Center for American Progress, the Progressive Policy Institute, the Pew Center on the States, the New England Public Policy Institute at the Federal Reserve Bank of Boston, the Council on State Taxation, the Center for Budget and Policy Priorities, as well as various industry groups like the Amer Association of State Highway and Transportation Officials, the Association of American Railroads, etc etc have all published material that may be relevant to your problem – and IT’S ALMOST ALL ON THE INTERNET, instantaneously available. Google and Bing are your friends. (In the case of my Department of Corrections example, I would note that the Pew Center on the States has written a detailed report [One in 31] of how to save money by moving non-violent offenders from incarceration into community corrections – complete with citations of successful programs in states which have very conservative reputations.)

Fifth, when developing policy options to achieve the specific objective, WRITE THEM DOWN. Put them on paper in as complete a detail as possible. Even before you share them with anyone, think through whether you have considered all of the ramifications, put a realistic price on ALL of the possible costs and ALL of the possible savings, and covered all the questions that might be raised. You will likely find, first of all, that the suggested solutions from other states and think tanks don't exactly cover the situation here, and second, that they may well be in conflict with one another. Putting this all down on paper often makes it very clear where the problems are, and forces you to do a more thorough analysis. As my freshman calculus professor said repeatedly, "don't armwave!" (by which he meant, you have to put down the intermediate steps between the premise and the conclusion, rather than just asserting that anyone can see that the conclusion follows automatically from the premise)

Sixth, (and in many instances fifth, BEFORE the last step), get the input of folks who work with you, or indeed, whom you manage. Just like you are going to be consulted by your Commissioner or OPM or the Governor's Office, or the legislature, your peers and subordinates should be consulted by you. They have practical experience with more detail than you have, and they will likely have suggestions that you haven't thought of. That's why it makes sense to bring them in BEFORE you write down an analysis – but if not then, it's absolutely essential that you subject your draft of completed work to the scrutiny of others. Speaking from personal experience, it's absolutely amazing how many flaws are found when several pairs of eyes check out what you think you have perfected. And it's amazing what support you will have gathered from the people you manage when they find out that their ideas have been taken seriously, and integrated into the final product.

Seventh, and last, grab the ball with both hands and dare to carry it forward. Even if the person you work for hasn't requested any suggestions, show the initiative to tell him or her that you've worked up some options. Most of the time, that person will be more than happy to ask for more details. Now I'm not suggesting insubordination here. If you've been told that you must do something a certain way, or that you can't even consider a particular path of action, you should comply with that direction. But things are seldom so clear-cut. When Governor Weicker appointed me Secretary of OPM in 1990, in a situation that was quite similar to the current crisis, he told me that he first wanted to see how much spending could be cut, and if that failed to close the budget gap, to consider expanding the base, or increasing the rate, of existing taxes. Under no circumstances was I to even begin analysis of a personal income tax. I complied absolutely with that mandate. But when all of the other options failed, he gave permission to draw up revenue options that included the income tax. I was fortunate that the legislature had commissioned a year's analysis of the various options by the top national accounting firms, and the results were available. So, as George Washington Plunkitt of Tammany Hall recounted in a marvelous little

book from 100 years ago about how he found ways to get ahead in politics, “I seen my opportunities, and I took’em.”

The general outlines of what I’ve discussed concerning the formation of policy options also applies to considering alternative procedures and processes for doing the work of your agency, so as to be more efficient and effective, in order to reduce costs. A number of authors have suggested ways to “reinvent” government – none probably more well-known than the originator of that term, David Osborne. I think his most recent work – co-authored with Peter Hutchinson – called The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis is absolutely outstanding. So go on Amazon and buy a used copy, or rummage through your attic to find a copy you had tossed aside. I won’t repeat his creative recommendations here, but they all will help you make work processes smarter and save money at the same time, while achieving the results that people look to government to provide. His ideas are in the public domain: steal them, and use them to improve the performance of your section and your agency.

And let me make a related point: Max Weber wrote a celebrated essay about bureaucracy more than a hundred years ago, in which he pointed out the advantages of having standard operating procedures, so as to increase the speed and efficiency with which decisions are made, as well as the predictability and stability of administrative decisions and relationships to clients, and to avoid favoritism to some clients or denial of benefits to disfavored clients. In other words, there are many benefits – chiefly involving efficiency, fairness and equity – of bureaucracy and its chief distinguishing characteristic – standard procedures. But standard procedures don’t have to be, and should not be, the same for ten or 25 or 50 years, unresponsive to changes in external circumstances, or in technology, or in the results which society wants. At the bare minimum, it’s insane, as Einstein said, to do the same thing over and over again, and expect different results. If you always do what you’ve always done, you’ll always get what you always got. And that may well not be what is needed now.

To sum up:

Look out for the “permanent and aggregate interests of the community” (as Madison in Federalist 10 referred to) (not the short-term advantage for any “faction”) – the long-term goals that the public wants the state to achieve.

Cast your net broadly for the best ideas, and subject them to 360 review.

Don’t be tied down to what you’ve always done.

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Challenging times like these require change – change in policy, change in procedures, and change by management.

None of this is easy.

As Machiavelli reminded his Prince five centuries ago,

There is no more delicate matter to take in hand, nor more dangerous to conduct, nor more doubtful in its success, than to set up as a leader in the introduction of changes. For he who innovates will have for enemies all those who are well off under the existing order of things, and only lukewarm supporters in those who might be better off under the new.

Unfortunately, the current state of affairs makes the “introduction of changes” a necessity. Effective leaders – effective managers – have little choice but to master the delicate and dangerous art of change.

When you do introduce changes, recognize that people may criticize those changes, and you, severely. But move ahead anyway.

In this respect, the paradoxical commandments of Kent M. Keith might serve as your inspiration. They were first brought to my attention by David Carter, when he was President of Eastern CSU. The most relevant are:

1. If you do good, people will accuse you of selfish ulterior motives. Do good anyway.
2. Honesty and frankness make you vulnerable. Be honest and frank anyway.
3. The biggest men and women with the biggest ideas can be shot down by the smallest men and women with the smallest minds. Think big anyway.
4. People really need help but may attack you if you do help them. Help people anyway.

And finally,

5. Give the world the best you have and you'll get kicked in the teeth. Give the world the best you have anyway.