

**SES Leadership Training Conference**  
**U.S. Department of Labor**

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***“The High Performance Government Organization  
of the Future”***

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**Prelude:**

As the participants in this conference all come from senior leadership positions in the department I began by searching for what I thought was a good definition of a leadership role and what follows is the result of that search.

The simplest definition of leadership, I believe, is that leadership is a combination of traits, abilities, and behaviors that cause a person to attract followers. If there are no followers, there is no leadership.

Why would anyone follow a particular person? What are the traits and behaviors that distinguish a leader?

1. *A leader is someone who knows where he or she is going, is passionate about getting there, and can communicate that to other people in clear and certain language. A leader has a clear vision, a definiteness of purpose. He or she is decisive, confident in his or her beliefs. He/She acts. He/She does not accept the commonly perceived constraints of the present.*
2. *A Leader is trusted by team members or followers. This trust may be generated by the leader's superior skills at the task at hand, by being an honest broker when dealing with others, by showing respect for all people, especially each one who joins the task, by high moral standards, and by encouraging others to lead.*
3. *A leader is attractive - not necessarily physically attractive - but attractive in some meaningful ways. Some examples of meaningful attractions are superior skills at doing the job, being hard working and of good cheer, and being willing to go the extra mile for the group.*

**What about failure? What causes leaders to fail?**

- 1. Lies. Simply being dishonest.**
- 2. Arrogance. Allowing ego, which is necessary, to get out of control.**
- 3. Believing that success makes one immune to ordinary moral constraints.**
- 4. Failure to listen.**
- 5. Loss of vision.**
- 6. Lack of a sense of humor.**
- 7. Misunderstanding the difference between organizational authority and leadership.**

**Introduction:**

**If I were to ask you individually why you sought a career in government service then I hope the answer would be “to make a difference.” If that was your answer then throughout your career it will have been difficult to measure whether or not you managed to achieve that ambition. It will have been even more difficult to quantify how much difference you have made. The reason for this strange set of circumstances is really quite simple. Until recently, accountability in governments has been focused on how money was spent, while measurement of what happened as a result of the expenditure of that money has been relatively sporadic.**

**The Drivers of Change:**

**Starting in the 80’s this situation began to change, driven by a variety of pressures that challenged the adequacy of the old accountability. A smattering of these pressures are captured in these facts: public dissatisfaction with the poor progress on solving some fundamental societal problems like hunger, poverty, dependency, crime, etc. Continuous deficits in government budgets was placing spending under greater pressure and through the information revolution, the public’s ability to become much better informed about the performance of their government was enhanced.**

**The result of the confluence of these events around the world has been what I call a quiet revolution. That revolution has seen a dramatic change in the principles of accountability for the public sector. Gone are the days of only having to show to the legislature that public monies were spent in accordance with the appropriation. Now it is also required that an accounting be made for the public benefit that arose from the expenditure of those monies.**

**There are a number of powerful forces that are driving these changes in over 60 countries, which include developed economies, developing economies, and underdeveloped economies. Politicians are being forced to realize that the taxpayer is not an unending source of new money for new policies. In fact, they are realizing in most cases that their government must live within its current share of GDP or less.**

**In addition, the information revolution is making all of us more informed than ever, so we the citizens are more knowledgeable about the success or failure of government initiatives and we are more openly critical. These pressures on government organizations mean that they are expected to produce greater public benefits with the same or less in resources. This can only be achieved by directing resources to the most effective programs and removing resources from ineffective activity. In order to succeed, these organizations must become totally results focused.**

**Moving to Results Based Management:**

**While on the surface this may not seem a momentous change, when the traditional practice and culture of government bureaucracies are considered, one comes to the realization that this is about a 180 degree change in direction for government organizations. In the past it was possible to ensure next year's funding by focusing on the needs and wants of the legislature. In the shadow of this new paradigm, next year's funding must be earned by focusing on the needs of customers and the public, and by solving their problems.**

**In beginning to wrestle with this new environment, government agencies are realizing that they need to develop new competencies and skills. Today they need to know who their consumer is, what particular needs that individual has, and how effective the agency's current programs are in addressing those needs.**

**These management principles are equally applicable to high performance organizations in the public or the private sector. The wise civil servant recognizes that during this first decade of the new century, pressures will constantly increase to manage for results. The most astute amongst the civil service will take every opportunity to acquire superior managerial skills and hone them to help their agency produce results measured in the increasing benefits to communities.**

**Any exploration of successful organizations will show a number of competencies, principles and practices that are common to all. While the basis of this knowledge comes from the experience of private sector organizations and the public sector has a strong antipathy to such comparisons, the public sector environment of the future is going to demand organizations that are creative and innovative in solving problems.**

**Successful organizations are also going to have to be knowledgeable about the needs of individual customers, capable of and flexible enough to customize their product to those needs, and able to deliver wherever those needs arise. The best role model for generating those capabilities is the experience of private sector organizations that have already coped with the ever increasing demand for further customization. Adapting this knowledge and experience to public organizations is what will separate the high achievers from the rest of the field. The impact of this questioning is going to undoubtedly bring an intense re-evaluation of programs measured**

against demonstrable improvement in the problem targeted and will be accompanied by a search for the most effective solutions.

### **Human Capital:**

The growing wisdom in organization dynamics is that the key to high performance is recognizing the key role that managing human capital plays in delivering success.

The concept of managing human capital can be divided into two categories. First, there is the requirement that an organization be a good employer. In my view, most organizations are well versed in the qualifications of being a good employer. In addition, much has been written on this subject and does not require further comment from me.

The information age has given us a new concept of human capital. During the industrial revolution labor was seen as an infinitely replaceable component of production and measured as a unit cost of production. Today, human capital can be defined as the collective skills, talents and experience of the workforce representing the capability of an organization to accomplish its mission. They are the intangible assets that add value to an organization's physical assets because without human capital the physical assets have no value.

The lessons of the 1990's dot-com pursuit of specific skills show that human talent is a scarce resource, prone to being inappropriately valued. As the market tries to capture emerging talent, certain segments of the economy, like the government, could be denied access to that talent because it bears too high a price. The solution, in my view, is to look at government's existing stock of human capital and determine if that stock could be upgraded to meet organizational needs.

- Human capital determines the capability of the organization to successfully complete the tasks set out by the president. Thus, human capital considerations should not be limited to the human resources team, but should become the challenge and responsibility of mainstream senior management.
- Human capital plans should identify the capability needed by the organization if it is to be a successful high-performance organization. The plan should identify the organization's current human capital capability, what capability will be needed in the future, and a strategy for bridging the gap. In addition, the plan should detail how much could be achieved by investing in the existing stock of human capital, and how much new skill must be acquired.

Government has tended to adopt an approach, in tight budgetary times, of cutting investment in skill-building and workforce training as a costless solution to a budget crisis. However, there is a cost. The cost is in organizational capability. And it needs

to be expressed in terms that will get attention, in a quantification of the public benefit forgone.

**Delivery Organizations:**

Here I am including a portion of testimony that I gave in front of the House subcommittee on the Federal Workforce and Agency Reorganization along with former Speaker Newt Gingrich and David Walker from GAO earlier in July. I am doing this to demonstrate that Congress is also talking about these issues.

Delivery organizations are those departments and agencies of government responsible for carrying out the activities of approved by government and producing the desired Public Benefit determined by the political process. These organizations may undertake the delivery of services themselves or sub-contract that activity to other levels of government, to the voluntary sector, the non-profit sector, to private sector businesses or to other non-government groups. Regardless of the arrangement made, the agency letting the activity should remain accountable for the result. These activities are funded either by appropriation or by cost recovery from the consumers of their goods and services.

Traditionally governments have chosen to use a bureaucratic model for the management of these organizations, but more and more governments are moving to a new results based management style. The following is a cursory description of the two different models.

**The Bureaucratic Model:**

Most governments traditionally have operated a management system for their departments based upon the bureaucratic model. Under this system the department tended to develop over time the mantle of an institution of government with something of a divine right to exist in perpetuity. Therefore, questioning the institution's performance was fraught with implied recrimination. The original purpose of the organization also was often lost in antiquity and became masked by its expansion into areas of activity that bore little or no relationship to its core business. In other words these institutions had become conglomerates, with all the lack of focus and accountability that often plagues conglomerates.

This model in very general terms worked on the basis of an allocation of money by the legislature to a specific activity that was directed at a societal issue. The allocation tended to focus on controlling inputs and defining the activity while accountability tended to concentrate on whether the money was spent on the identified activity and whether the activity did indeed take place. In this model the benefit tended to be presumed because the money was spent as directed and the measurement was the quantity of activity rather than the benefit produced. The culture of bureaucracies tended to develop around the concept of serving the demands of the administration and the legislature rather than addressing and solving the needs of the people. In only rare cases was there a requirement to produce evidence that the desired outcome was actually achieved.

**In my view it is this management model more than anything else that has led to such poor performance in affluent countries on issues like homelessness, illiteracy, dependency, poverty and crime. The desire of the legislature to control the activity rather than demand the outcome contributed to this lack of success.**

#### **The Results Based Model:**

**In recent times governments have started to question whether they were getting the public benefits they sought through the bureaucratic model and whether a better system of management might be available. This analysis has moved many governments to adopt a variety of new systems where there is a shift in the focus of accountability towards measuring the production of results. In this model the allocation of resources is more in the form of a purchase agreement where a certain activity is predicted to produce a specific result and accountability is for that result.**

**This is an evolving process and no one system is perfect yet, but the evidence points to improvements in both resource allocation and in the quantity of public benefit achieved. The difference in philosophy is that the results model focuses more on the outcome and less on the inputs and outputs. For example, the measures of success would be the reduction of criminal acts, not the number of prosecutions; the reduction of dependency, not the numbers of people who received transfer payments, the number of successful new businesses started, not the quantity of businesses assisted, etc.**

#### **Designing the Organizations of the Future:**

**If there is to be a move towards a results based culture, the structures of accountability and the relationship between the government and its delivery organizations need to change. It is unreasonable to expect organizations and individuals to adopt a culture of accountability based on assessing their performance against the results produced unless they are given a structure that enables them to succeed under this result based accountability regime. Such a system must also produce incentives and rewards that encourage this culture shift towards results accountability.**

**The following principals are, in my opinion, essential to the success of any move towards results based accountability in government.**

#### **Principle One: Certainty and Clarity**

**If the Government of the United States is to improve the wellbeing of its citizens and the health of its economy then achieving clarity and certainty with regard to government's intentions is the first place to start.**

**If people working in government are to be held accountable to a new standard then they need to know precisely what they are accountable for and to whom they are accountable. This means they need certainty in leadership and certainty in terms of what they are to deliver.**

### **Directorship:**

When establishing results focused government organizations, it is essential to address two managerial functions: directorship and management. In my view government organizations need to separate these two functions with directorship becoming the field of the administration's appointees and focused on determining policy initiatives and the priority given to initiatives. Decisions taken at this level would then form the basis of the instruction to the management function to deliver that desired outcome. By this mechanism, control over the activities of the organization would remain where it should with the political process.

### **Management:**

Management is the function that takes responsibility for the delivery of the directorship's desired services. This function needs to be based on competency to manage and deliver results. It should have a permanence and competency about it that gives clarity of purpose, clear leadership and authority to employees, and confidence to the public. The managerial function should not be exposed to the vagaries of the changing fortunes of the political process. However, it should remain accountable to the political process for the delivery of the goods and services commissioned by that political process.

### **Chief Executive Officer:**

The organizations of the future should be managed by a Chief Executive Officer (CEO) who is chosen based on evidence of competency to do the job. These should be jobs that are widely advertised and available to people with the capability of successfully managing this organization. The preeminent qualification for selection should be competency and the grounds for termination should be non-performance. Appointment to these positions should not be a sinecure for existing civil servants.

Once chosen, this CEO should be given a fixed term contract that can only be terminated for non-performance. There should be the opportunity for a once only extension of this contract at the end of the initial term but after that the appointee must leave. The cumulative term available to a CEO at any organization should be less than 10 years. Remuneration should be based upon market rates for similar executive responsibilities in the private sector. Any linkages to the salaries of Members of Congress, the Administration or the President should be terminated.

The CEO should be directly accountable to a political person, presumably a Cabinet Secretary, who would negotiate with the CEO a performance contract that would determine if the CEO was doing the job expected. The Cabinet Secretary, with or without the input of the other political appointees making up the directorship of the organization, would have responsibility for identifying the outcomes the CEO was expected to produce. The Cabinet Secretary would also have responsibility for defining with the CEO the core business of the organization, but the CEO would be responsible for the day to day operations of the organization.

**In a similar manner, the CEO would negotiate performance contracts with his or her management team and so on progressively down through the organization. The purpose of these performance contracts is to provide clarity about tasks and purpose at all levels of the organization but also to move the organization to a results culture. The end result would be that all employees be working on an individual performance contract directly linked to the function they carried out in the organization.**

### **The Funding Process**

**To provide clarity with regard to what is expected to be delivered, appropriations once passed by the Legislature would be converted into Purchase Contracts with the CEO. These would be legally enforceable public documents that could only be changed by agreement with all of the parties. These purchase documents would be the result of intense negotiations that had taken place between the Cabinet Secretary and the CEO to determine what outputs, in what quantity, at what price, and with what priority, need to be produced to achieve the outcome the government desired. They would also be available to the legislature during its consideration of the budget. The CEO can challenge the Purchase Contract if in his or her view the contract is undeliverable because the outputs are inappropriately priced, or the activities will not deliver the desired outcome, or if resources have been directed in such a manner as to prejudice optimal performance.**

**With this clarity regarding deliverables, a very strong basis for accountability exists. Failure to deliver the outputs specified in the purchase contract could meet the non-performance grounds for dismissal of the CEO. However full delivery of the contract by the CEO and a failure to achieve the outcome sought would be a policy failure and the fault of the government because they bought the wrong goods and services. Because the CEO and the department are governed by the requirements of the purchase contract it is not possible for the department to be required to undertake unfunded mandates during the year as they are required to deliver only what is in that purchase agreement. Any change to the activities of the department during the year must be reflected by changes to the purchase agreement. That means that the Cabinet Secretary or the Legislature must either agree to eliminate some current activity to fund the new activity or provide additional monies.**

### **Principle Two: Authority to Manage**

**If the CEO is to be successful in producing a results based high performance organization, he or she must be given the authority to manage. There must be absolute certainty about the definition of the organization and its core business and authority to manage all of the physical assets; the hiring, firing, and remuneration of staff; and the disposition of all inputs and resources.**

**Given that negotiations between the Cabinet Secretary and the CEO have established the core business of the organization then latitude can be given in the following areas. If the CEO and the organization are to have a realistic chance to succeed in producing results, the CEO has to be given full authority to manage all**



**the resources available in a manner consistent with achieving the results sought in the contract. This means full control over the number of staff, their remuneration and terms and conditions of employment, purchase of inputs, the management and disposal of capital assets and the location of new facilities.**

**The development of a full set of books for the organization identifying all financial and physical assets and all revenues and all expenditures, in compliance with generally accepted accounting standards is essential. These books should be independently audited annually. It is also appropriate however to impose incentives like a capital charge to make certain that the government is getting best value out of its resources. By contrast however it is unacceptable to impose input controls on staff numbers or on the skill or grade levels of staff as these are inherently controlled through the price fixed for the delivery of outputs.**

**It is appropriate to have in the performance agreement with the CEO a clause reviewing the organization's performance status. This can be most effectively assessed by measuring whether the government's ability to be effective in this organization's field has improved, remained static or diminished. Unsatisfactory performance against these criteria would also meet the grounds for non-performance dismissal.**

#### **The Challenges for a Department of Labor:**

**Without a doubt, advancing technology is going to continue to revolutionize the way in which we work. This is not necessarily bad but, regardless of views about traditional versus new work practices, it is impossible to halt the advancement of new technology. What are required are good brains seeking to predict change before it occurs and prepare the workforce of the future for this changing environment.**

**Now I am going to pose a number of questions to which I do not have the answers but they are questions that I think a high performance 21<sup>st</sup> Century Department of Labor should be studying.**

- What is going to be the impact on the labor market of cohorts of older people who are going to remain participants in the workforce at some level until age 75?**
- Will remuneration in the workforce continue to be time based or will more and more remuneration shift to reward for product produced?**
- Who is going to identify the impact of government actions on the competitiveness of American workers versus workers in other parts of the world?**
- Given that skill sets are going to have an economic life of about 4 years, how are workers going to keep their skills current?**

- **Who is going to design the new training systems and the training content?**
- **What is the solution to workers retirement security, given the experiences of United Airlines and others?**
- **Are the processes and procedures of today's Department of Labor structured in such away that the department can successfully tackle these challenges?**

**If not how do they need to be changed and when?**

**Conclusion:**

**My first contact with the Department of Labor was in 1997 just a few months after arriving in America, when I was asked to be part of the team that would assess the quality of the first Strategic Plans under GPRA by House Majority Leader Dick Armey. The Department of Labor scored 6 out of 100 in that first effort; you have made enormous progress since then. From being right at the bottom you have now fought your way to the Number 1 position. I applaud that achievement and congratulate everyone involved in such a miraculous turn around. Today I envy you - I think the future looks incredibly exciting for the department as it helps to guarantee to the American people a continuing ability to be the Number 1 economy in the world.**