

Ideas for Organizations

Volume 1, Number 4

This is the fourth in a series of newsletters taken from **Clearing Out the Dust and Cobwebs: Observations on Management, Organizations, and People**. The series contains a number of anecdotes and observations based on the experience of management consultant Bill G. Evans, as recorded by Michael H. Walker.

The anecdotes in this series are grounded in actual experience, and the principles they embody can be applied to management in any sector, public, private, or nonprofit. Each story communicates a simple truth about management. Taken as a whole, they convey an overall management philosophy.

Reducing Costs Without Reducing Services

Reducing costs without reducing services is possible in almost any organization. A front-page article in the *Wall Street Journal* discussed the budget squeeze being felt by cities and counties throughout the country. The article pointed out that the costs of operating local governments – primarily salaries and fringe benefits – are spiraling upward, while a number of factors are combined to push revenue down. The flow of dollars from the federal government has slowed to a trickle. At the same time, citizen resistance to increased taxes has become more vocal. In many parts of the country property values can no longer be counted on to keep rising; this means that in many communities increased property tax revenues can no longer be taken for granted. The reporter for the story noted that local government officials faced with this situation believe that they have nothing but unpalatable choices. While they watch their community's fund balance erode, they can reduce costs by lowering the level and quality of service their citizens receive – or they can raise taxes and face the wrath of the citizens.

After reading this article we immediately drafted a reply to the *Wall Street Journal* editor. Our letter spelled out a third alternative: reducing costs without reducing services. This option is rarely considered, even though it's almost always possible to

apply. We make our living helping states and local governments reduce costs without reducing the services they give their citizens. Even local governments that are already very well managed (where one might think that every last possibility for cost reduction has been exhausted) can reduce costs without reducing service.

In explaining our approach, the first thing we pointed out to the *Journal* was that competition – the primary force that keeps private sector companies efficient – is nowhere to be found in local governments. This may seem self-evident, but the implications for efficiency are not. Local governments are essentially unregulated monopolies, and like all monopolies, they face little competition for the services they provide. As a result, dust and cobwebs that impede efficiency, which in a private sector firm would be swept away by the winds of competition, tend to accumulate in the nooks and crannies of local governments. Cobwebs are sometimes very difficult for local government officials to find, even when they are looking for them, because they have been around so long that the people who work in the government no longer notice them.

Of course, this phenomenon is not limited to the public sector. In private sector or-

ganizations that are fortunate enough to enjoy big profits and/or little competition, dust and cobwebs can also accumulate. Certainly a lot gathered in the nooks and crannies of U.S. auto manufacturers before the stiff winds (or rather typhoon) of Japanese competition began to blow through the industry. Likewise, there is ample opportunity for dust and cobwebs to collect in regulated industries that face little competition.

Over the past 25 years, Berkshire Advisors consultants have helped state and local governments reduce costs without reducing services. During that time we've developed a few ideas on how to do this. We've also made a few observations on the wrong way to cut costs. The first and most important hurdle that must be overcome if costs are to be reduced is an attitude among employees that we can't because "we've always done things this way."

Beware the Eight Deadly Words of the East

When we were performing a management study of a small county in eastern North Carolina, the county's health director said, "When you do this study you have to watch out for the eight deadly words of the east." (He was referring to eastern North Carolina.) "They are: 'we ain't never done it that way before.' The second most deadly words spoken around here are 'we've always done it this way.'"

The "eight deadly words of the east" are not confined to North Carolina. When one of our most experienced consultants, Bill Evans, was working for the army prior to joining Berkshire Advisors, one of his many jobs was serving as inspector general. In his job which is roughly equivalent to serving as an internal management consultant to the army, Bill traveled from army base to army base inspecting operations. During one such visit, he went to the base library to find an army field manual he needed. He had trouble finding it because all the books in this library were placed on the shelves with the bound side of the pages facing inward the cut side of the pages were facing

outward. To identify the books the call number for each was typed on a gummy sticker attached to the manual.

After considerable effort Bill found the manual he was looking for. When checking it out he mentioned to the librarian that the library certainly had an interesting way of displaying its materials. "Wouldn't it be easier," he asked her, "to display the books with the bound side facing outward? That would make the title easier to read and you wouldn't have to type those gummy stickers."

Later that afternoon when he returned the book, Bill found the librarian busily turning around all the books on the shelves so the bound sides faced outward. Spying Bill, she said, "You know, I got to thinking about what you said this morning. It's kind of crazy to type all these stickers, isn't it? I never thought much about why we do that. We've just always done things this way. I learned to do this from Suzy Jones whom I replaced as librarian two and a half years ago." "You know something else that's surprising?" she added. "In the two and a half years I've worked here you're the first person who has ever mentioned that typing these stickers doesn't make much sense."

Beware the Favorite Five

The five most popular ways to reduce costs in an organization are as follows:

- Cut every department's budget across the board
- Impose a hiring freeze
- Require department heads to propose methods for reducing their budgets by a specified dollar amount.
- Discontinue or curtail selected programs or services.
- Start a long-term "textbook" productivity program

The problem with “the favorite five” is that none of them work. Each one is loaded with pitfalls and each one may in fact create more problems than it solves. Here are the reasons.

Cut Every Department’s Budget Across The Board

The usual rationale behind this approach is commendable. It seems eminently fair to cut every department’s budget by the same amount. In fact, however, the approach ends up being arbitrary and even unfair. Clearly, departments that are run inefficiently (overstaffed departments, for example) can absorb budget cuts. But it’s unfair to use this approach on a department that is already operating at peak efficiency. Cutting the budget of such a department would only serve to compromise the quality of its output.

Impose a Hiring Freeze

This is sometimes seen as a painless method of cost reduction, because no one is laid off. I’m sure you’ve heard of hiring freeze policies that read in part, “Departing employees will not be replaced unless their jobs are essential.” These statements don’t make much sense. If the job is not “essential” in the first place, why should it continue to be filled? Should a nonessential job continue to be filled just because the incumbent does not choose to resign or retire?

In the hiring freeze approach to cost reduction, jobs vacated through resignations or retirements are not filled. What this means is that the employees who resign or retire are the people who are making the decisions about which jobs will be vacant. This doesn’t make sense. It’s the organization’s leaders who should make these decisions, and they should do so by careful and considered analysis of all jobs to sort out which ones are essential and which aren’t.

Require Department Heads to Propose Methods for Reducing Their Own Budgets

This approach often results in what has become known in bureaucratic circles as the “Washington Monument Syndrome.” By this we mean the situation in which U.S. Park

Service superintendents, faced with budget cuts, decided to close the Washington Monument to visitors after 3:00 p.m. daily. Frustrated tourists responded by deluging their congressional representatives with protests. Faced with a barrage of these calls, it didn’t take long for Congress to restore the Park Service’s budget. No one knows whether the Park Service could have cut its budget by the same amount by reducing the number of employees who pickup cigarette butts along the C&O Canal. This kind of cut would have had few repercussions: only a few jogging enthusiasts might have noticed the increased number of butts on the trail.

The Washington Monument syndrome (which, by the way, is a true story) has become a classic bureaucratic technique. When a department or agency is asked to come up with a way to cut its budget, it can easily wriggle free of the requirement. All it has to do is pick out the most popular program and announce that here is where the axe will fall the heaviest. In fact, managers might even threaten to discontinue the program altogether. They then sit back and wait until their constituency cries foul and a groundswell of opinion rises to oppose the cuts. The result is usually that the cut has to be shifted to another department.

Discontinue or Curtail Selected Services

Anyone can reduce costs simply by discontinuing certain activities or certain services. This couldn’t be easier. The repercussions may not be so easy to handle, however. If the discontinued activity or service is essential, the quality of the organization’s output will suffer.

Start a Long-Term “Textbook” Productivity Program

These programs focus on motivating individual employees to work harder. The first step is usually setting up productivity task forces or quality circles made up of employees. After this, systems to measure “output” are created. Analysis of the

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output may take months or even years to complete.

Not only do these programs take a long time, but even worse, they tend to deal with peripheral functional areas. For example, instead of considering how many patrol units should be deployed in a police department, such studies focus on how many file clerks should be assigned to the records division. What's more, although they usually begin with great fanfare and enthusiasm, they are often long forgotten before any results are forthcoming. Either that, or the results are so negligible they have no real impact on the budget.

The Way That Works

Reducing costs without compromising the quality of an organization's output is not an easy task. The only way to reduce costs is through painstaking, thorough, and rigorous review of the organization, management, and operation. Keep in mind that although in-depth analysis is a necessary condition of reducing costs, it is not the only condition. Managers must also have the guts to make difficult decisions that might be necessary if they want their organizations to stay viable over the long term. In the next edition of *Ideas*, we will discuss a cost cutting approach that really works.