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MANAGEMENT REFORMS

Examples of Public and Private Innovations to Improve Service Delivery



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Accounting and Information
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The Honorable John Kasich
Ranking Minority Member

The Honorable Lamar Smith
Committee on the Budget
House of Representatives

This briefing report responds to your June 1993 request that we conduct a survey to learn more about the extent and type of managerial initiatives in the public and private sectors that have improved efficiency and reduced operating costs in the delivery of programs and services. As agreed, we looked at innovations and improvements that have taken place in the private sector, federal government, foreign governments, and state and local governments. On February 4, 1994, we briefed members of your office and discussed the major themes and observations that are emerging from our work. This report documents the information that we provided during that briefing, identifies characteristics common to the reported innovations, provides some notable examples, and includes our observations.

SCOPE AND METHODOLOGY

Information for our survey was gathered through literature searches and from major clearinghouses and research firms, such as the Federal Quality Institute and the Department of Commerce's National Institute of Standards and Technology, which administers the Malcolm Baldrige National Quality Award. From recently completed and ongoing GAO work, we also drew examples that identify innovations in the federal sector, state and local governments, and foreign countries. From the gathered materials, we made generalizations and observations and categorized the reported innovations for ease of presentation.

As agreed with your office, we primarily relied on secondary sources and did not independently verify the information we obtained. Also, we did not attempt to quantify cost savings nor evaluate the policy implications of the innovations we

surveyed. Most of these initiatives were in the early implementation phase and savings often were not reported. In addition, these initiatives, such as decentralization, privatization, and regulatory relief and reform, each have policy implications that may impose trade-offs between efficiency and other concerns such as accountability, consistency, and equity.

RESULTS IN BRIEF

Fundamental change in service delivery is occurring in the private sector, federal government, foreign governments, and state and local governments. Three factors were repeatedly mentioned in the literature as causing change: (1) a desire or need to achieve "competitive advantage," (2) long-term revenue or budget constraints, and (3) mandates required by law or regulation.

The reported government and private sector innovations are taking many forms. For discussion purposes, the variety of change and activity can be grouped into four types of change:

- cultural changes, which involve altering underlying assumptions, values, attitudes, and expectations shared by an organization's members;
- mission changes, which entail an organization recognizing the need to systematically identify and plan core activities and responsibilities;
- structural changes to ensure that organizational authority and work responsibilities are arranged in the most efficient manner; and
- process changes in how products and services are produced and delivered.

In appendix I, we provide examples of these service and program delivery changes. These examples, which are organized under the four categories of change, provide a sense of the nature and type of successful initiatives identified during our literature review. However, these relatively few examples can only begin to scratch the surface of the broad and extensive activity that is underway in all sectors. Accordingly, appendix II lists selected readings that include discussions of reported change efforts. In addition, this spring we plan to issue two reports on the lessons learned

from selected states and foreign countries recognized as leaders in instilling results-oriented management.

GENERAL OBSERVATIONS

Organizations are developing approaches to better address the cost of programs and services. In performing our work, we made the following three observations.

First, the primary focus of innovations was not short-term cost or budget savings. In fact, organizational innovations often required up-front investment of both money and time. Although these investments may be costly in the short term, the organizations considered these changes to be necessary and important to enhance future productivity and to avoid future costs. Over the long-term, innovations can play a vital role in restructuring agencies. In the context of federal programs, however, restructuring may not necessarily result in budget savings or deficit reduction unless the caps on discretionary spending are lowered by the amount of savings.

Second, organizations became more oriented toward long-term results and outcomes to make the organizations work better. The changes made by these organizations typically provided a structure for measuring and reporting program results, which allowed them to identify programs or services to be eliminated or improved. Studies of private sector corporate restructuring have indicated that successful restructuring is more likely to occur when improvement is seen as a long-term process, rather than a "quick fix."

Lastly, we noted four conditions which were common to successful efforts: a holistic approach, tailored changes, management commitment, and flexible organization.

- Successful, sustained changes were rarely brought about in piecemeal fashion. Rather, they were planned and implemented as holistic and mutually supporting efforts, directed at long-term organizational objectives.
- Organizations implemented changes in their culture, mission, structure, or processes only after careful examination of how the changes should be adapted to fit their particular organization. Accordingly, integrated, targeted, and tailored change, rather than across-the-board

approaches, was far more likely to achieve and maintain desired results.¹

- The changes were commonly marked by top management commitment and employees who were involved, informed, and free to innovate.
- The changes typically included a trade-off between allowing managers greater autonomy and flexibility in exchange for increased accountability for their performance.

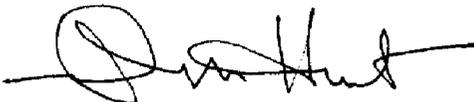
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We are sending copies of this report to the Director of the Office of Management and Budget and appropriate congressional committees. Copies will be made available to other interested parties upon request.

The major contributors to this report are listed in appendix III. If you or your staff have any questions about this report, please call either of us. Paul Posner can be reached at (202) 512-9573 and William Hunt can be reached at (202) 512-8676.



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¹For a discussion of recent across-the-board reductions of administrative expenses, see our report Budget Issues: Assessing Executive Order 12837 on Reducing Administrative Expenses (GAO/AIMD-94-15, November 17, 1993).

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EXAMPLES OF PUBLIC AND PRIVATE INNOVATIONS
TO IMPROVE SERVICE DELIVERY

GAO Objectives and Scope

Determine the type of innovations that

- improve efficiency and service delivery
- reduce operating costs

Look at four sectors:

- private sector
 - federal government
 - foreign governments
 - state and local governments
-

GAO Approach

Performed a broad-based survey using:

- literature searches
 - major clearinghouses and consulting and research firms
 - GAO publications, ongoing work, and cognizant issue area staff
-

GAO Common Theme

**Fundamental change in program
and service delivery**

- is occurring in all sectors,
- is taking many forms, and
- is driven by several factors

GAO What Factors Prompt Or
Cause Change?

- "Competitive advantage"
(that is, customer/market
driven)
 - Long-term revenue or budget
constraints
 - Legal or regulatory mandates
-

FACTORS PROMPTING OR CAUSING CHANGE

The changes needed for management reforms were often spurred by external pressures. Competition, long-term revenue and budget constraints, and legal and regulatory relief/reforms were important catalysts in promoting the innovations described in this report.

Competition

A recent survey of more than 500 private sector executives found that competitive pressure was the most frequently cited external motivation for corporate restructuring. Increasing competitive advantage was cited as a primary objective of the restructuring among 64 percent of the respondents.

Competition can also drive change in the public sector, as governments search for ways to deliver services more efficiently. One of the ways of improving the public sector--to gain efficiency and reduce costs--is to force it into more of a competitive position by requiring government agencies to compete with the private sector or other government agencies in order to become more businesslike and more responsive to citizen's needs.

The Naval Aviation Depot in Cherry Point, North Carolina, is a Defense Business Operations Fund installation which is intended to operate on a self-sustaining basis in competition with other federal and private installations. However, after experiencing several years of losses, the installation implemented a broad program of structural reforms to improve its "competitive" position.

The need to cope with the rapid globalization of the economy and to maintain international competitiveness helped drive the public management reforms in Australia, Canada, Great Britain, and New Zealand. As a result, these countries were highly concerned with the fundamental need for their respective governments to perform at higher levels of quality and productivity than before.

Each country looked to the private sector, with its market-driven, competitive mechanisms, for solutions. For example, to become more competitive, organizations that manage government-owned buildings and other real property in Australia, Canada, and Great Britain adopted market-type mechanisms from the private sector to better meet their governments' real property needs.

A National Governors' Association Task Force on State Management reported in 1993 that economic competition at the global level was one of the formidable challenges facing governments today. The Task Force further reported that the high costs of maintaining infrastructure, declining revenues, and increasing customer demand for social services were difficulties that had to be addressed in making state governments more efficient and responsive to citizen's needs.

Long-Term Revenue and Budget Constraints

Governments at all levels have come to realize that revenues and budgets will be constrained for some time to come. They have recognized that more fundamental restructuring, not onetime, short-term savings is more appropriate to respond to these conditions.

Since 1987, the Smithsonian Institution had not received any increases in its appropriation for operating expenses to cover inflation. Faced with a projected budget deficit for fiscal year 1991, the Smithsonian made onetime program cuts in allocations for research, exhibition, collection acquisition, and educational programs. To deal with an even larger deficit for fiscal year 1992, the Smithsonian again primarily used one-time reductions to program allocations. When another budget deficit was projected for fiscal year 1993, the Smithsonian changed its strategy and undertook an intensive effort to ensure that resource allocations were better linked to its mission.

In the face of declining resources in 1989, Canada began a major governmentwide initiative, called Public Service 2000, to formally provide the government's views on the role of the public service, state its underlying values, and set out a blueprint to cope with the task of governance. It highlighted a need for renewed emphasis on service to the public and government with fewer resources being devoted to overhead. The Canadian Clerk of the Privy Council and Secretary to the Cabinet reported in 1992 that the initiative had led to specific accomplishments in Canadian departments and agencies and had created a spirit of reform and process of change throughout the government.

The North Carolina legislature's Government Performance Audit Committee began its efficiency study report of the state's government by pointing out the structural budget crisis North Carolina will be facing through the year 2000. In this 1993 report, the Committee introduced a comprehensive set of 350

recommendations to the state legislature to reinvent the state's government.

Legal and Regulatory Reform/Relief

The mandate for innovative change in the federal government in recent years was Executive Order 12637 (1988) that established a "government-wide program to improve the quality, timeliness, and efficiency of services provided by the Federal Government." All executive branch agencies were to be involved in this program by 1991. This order is cited as the primary mandate for total quality management in the federal government. A 1992 GAO survey found that 68 percent of all federal installations surveyed had implemented some aspects of Total Quality Management.²

The Government Performance and Results Act of 1993, Public Law 103-62, was enacted in August 1993 to improve the efficiency and effectiveness of federal programs. The act requires agencies to develop strategic plans, program performance and management goals, and measures of progress towards achieving these goals. The act calls for three sets of pilot projects to take place between fiscal years 1994 and 1999. These projects pertain to annual performance plans, managerial flexibility, and performance budgeting. Through the act, Congress intends to achieve greater accountability for results, enhance managerial flexibility to achieve desired outcomes and service quality, and improve decision-making.

Public management reforms prompted by new laws or regulations have also affected foreign countries. For example, three laws were enacted in New Zealand to implement a broad range of public management reforms. The State-Owned Enterprise Act of 1986 established state-owned enterprises to operate as businesses. The State Sector Act of 1988 gave chief executives significantly greater power in the employment of staff. The Public Finance Act of 1989 further defined and strengthened the accountability relationship between chief executives and their respective Ministers. An independent review group concluded in 1991 that these laws provided a sound legislative framework for reforms, which had already improved the efficiency and effectiveness of the public sector.

²Quality Management: Survey of Federal Organizations
(GAO/GGD-93-9BR, October 1, 1992).

GAO Categories of Innovative Change

- Cultural change
- Mission change
- Structural change
- Process change

GAO Type of Innovation:
Cultural Changes

- Customer focus
 - Results-orientation, emphasis on performance measurement
 - Flexible organization
-

Cultural Changes

An underlying theme in literature dealing with successful innovations is the willingness of organizations to rethink the values and expectations shared by their members. This cultural change is typically reflected in a shift from traditional views on economy and efficiency to include a greater awareness of the needs of customers, from reliance on formalized rules and procedures to a recognition of the need for innovation, and from rigid organizational structures to flexible organizational arrangements geared to achieve specific results.

Cultural changes rarely occur independently of other mission, structural, and process changes. In both the public and private sectors, we identified three types of cultural change that emphasize the necessary underpinnings to any successful initiative: customer focus, results orientation, and flexible organizations. First, increased focus on needs and objectives of the customers and recipients of services is an important element of service improvement. Second, a results orientation was evident in the measurement of performance against key targets and then reporting the results to the public. Finally, public management reforms usually included provisions and incentives for managers to have the flexibility to manage their programs, within certain broad frameworks.

In February 1992 we reported on the cultural changes introduced by nine large companies having diverse, global interests and concern about inventory management. These companies used a combination of techniques to introduce cultural changes, including training, to promote and develop skills related to their desired values and beliefs, and the using of rewards, incentives, and promotions to encourage behavior that reinforces these beliefs. For example, in 1981, Motorola began moving toward a participative management style after it began to change its culture to emphasize quality. Although the company had been people-oriented for years, it began to encourage and empower its employees to suggest better ways to do the work and make decisions. The company believes that this change will help it achieve its fundamental objective of providing total customer satisfaction through the reduction of defects in all its products and services to the very low rate of 3.4 per million.³

³Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, February 27, 1992).

The importance of cultural change was further underscored by a Western Australian commission appointed to review state finances. The commission observed that reform of financial reporting can not be considered in isolation of "whole-of-government" management. Specifically, the commission recommended that reforms should be part of an overall management framework that addresses relevance of government programs to community needs, achievement of government policy objectives, employment of the most cost-effective strategies, and measurement of the full cost of meeting objectives.

**GAO Type of Innovation:
Mission Changes**

- Strategic planning and alignment (that is, explicit linking of goals, objectives, information, and strategies)
 - "Core business" focus
-

Mission Changes

Many organizations and government agencies reexamined and even changed their missions after completing a comprehensive strategic planning process. This process generally involved an explicit linking of organizational goals, objectives, information, and strategies for meeting their mission needs. In many cases it also involved a better understanding and even a substantial revision of the organization's mission or core business.

Strategic Planning and Alignment

Strategic planning is often used by both public and private sector organizations to better align strategic goals with operational activity or to select the appropriate activity. The chief of management analysis at the Johnson Space Center said that the prime objective of planning is "to enable all people in an organization to make day-to-day decisions about improvement, equipment, work processes, training, and personnel based on tomorrow's needs as well as today's."

The Transmission Systems Business Unit of AT&T's Network Systems Group used the strategic planning process to create a clear cause-and-effect relationship among priorities, goals, and subsequent improvement actions. In this process, executives said that they used customer-related information as the basis for a draft strategic plan that tied 1-year and 5-year performance improvement goals directly to customer satisfaction and gains in the market. From the draft strategic plan, units developed their own plans, detailing the steps and resources required to reach their specific goals. Once each plan was approved, progress in achieving the goals was carefully monitored by all organizational levels, using carefully selected performance measures. The unit cited the effectiveness of the strategic planning process as a major cause factor in its success in cutting new product development time in half and realizing cost savings of \$300 million.

During early improvement efforts, investigators at the Department of Labor's Wage and Hour Division in San Francisco increased the number of investigations they conducted to enforce the Migrant and Seasonal Agricultural Worker Protection Act. The investigators realized, however, that increased numbers of investigations did not always serve the best interests of their customers. Rather, the best results were attained when serious violations that affected

the welfare of farmworkers were not merely cited but also corrected. A team assigned to review computer database files of investigations provided information to the investigators that allowed them to target their agricultural enforcement efforts toward those areas of greatest impact on farmworkers. As a result, the division reported that the number of violations cited and corrected per investigation rose from approximately 0.6 in 1990 to 1.4 in 1991.

Canada, Great Britain, and New Zealand--as part of their public management reforms--realigned their organizations to more effectively carry out their governments' missions and goals. This realignment included the establishment of new agencies that had freedom to operate in a businesslike fashion. Canada and Great Britain found that agencies created through these realignments were providing greater focus on results and improved customer services. In Great Britain, among the frequently mentioned benefits was greater focus on the primary purpose and business of the organizations. An independent assessment team reported in 1993 that, although certain operational problems still remained, Executive Agencies had made very real progress in becoming attuned to customer needs.

In its 1991 strategic planning guidance for state department plans for 1993-1999, North Carolina required that its departments' mission statements identify the department's principal clients and define its obligations and responsibilities to these clients. Each state department was asked to evaluate its current activities and their impact in light of its mission, changing conditions, and goals. Then, based on this evaluation, each department was tasked to develop strategies and objectives to achieve improvements over the next 6 years.

Core Business Focus

As part of using strategic planning, many private sector companies improved their competitive position by refocusing on core activities and responsibilities. For example, as the steel industry experienced decline, many steel companies had to decide whether to remain solely in the steel business or diversify. Consequently, some steel companies, such as U.S. Steel, decided to diversify into oil and other industries, while other companies, such as Bethlehem Steel, decided to devote themselves exclusively to manufacturing and processing steel.

Public sector organizations have less flexibility in deciding on core missions and programs, but some public sector agencies have used the strategic planning process to identify "core responsibilities." As the Smithsonian Institution approached a critical point in its budget crisis, the Secretary of the Smithsonian called a retreat, during which the Secretary and staff members identified six priorities. The Smithsonian reported that these priorities were later used to identify activities that would be strengthened and others that would be eliminated.

Virginia's Department of Mines, Minerals, and Energy instituted its strategic planning process after it had identified and communicated the agency mission to Virginia's taxpayers. The Department's strategic plan for 1991-92 contained a mission statement and related departmental values and goals to develop and conserve the state's energy and mineral resources in the most productive manner. As a result of this focus, departmental staff noted that they no longer viewed their role in the agency as enforcing administrative rules and processing requests. Instead, staff worked to meet the needs of their customers, which, in turn, led to increased accuracy and timeliness of administrative tasks, decentralized decision-making, and improved ability to respond to customer's information needs.

**GAO Type of Innovation:
Structural Changes**

- Partnering
 - Commercialization
 - Privatizing
 - Franchising
 - Decentralization through delegation
and empowerment
 - Regulatory relief and reform
-

Structural Changes

Structural changes have also been introduced to ensure that authority and work responsibilities were delegated in the most efficient manner. In this regard, innovative organizations reconfigured themselves, redistributing responsibilities further down, across and, if necessary, outside their organization. Among the major types of structural changes were partnering, commercialization, privatization, franchising, decentralization, and regulatory reform/relief.

Partnering

Partnering is building teamwork and commitment between parties to work towards a common goal. As part of the changes identified in the literature we reviewed, partnering provided a cost-effective alternative to potentially adversarial or confrontational relationships.

The private sector has demonstrated that partnering can occur within an organization. The National Broadcasting Company (NBC) applied the partnership approach to its purchasing process by linking the purchasing staff with the program staff who use the purchased items. One NBC executive observed that purchasing departments that attempt to control the process display a lack of trust that fosters bureaucracy and hinders effectiveness. NBC used a team approach to purchasing that involved all parties in each step. Within the teams, the purchasing group performs the business analysis and the program group performs the technical analysis of supplier proposals; the team decides on a supplier together. One NBC official noted that this process is effective to the extent that the purchasing and program staffs build a relationship and internal customers feel that they are being treated as customers.

The Army Corps of Engineers reportedly used partnering in a number of construction contracts with positive results. For example, one partnering effort included having cost-sharing partners from industry as members of project teams, willing to share in project risks, such as cost overruns or schedule delays. In a similar vein, we reported in 1992⁴ on the successful results of an industry-led consortium, SEMATECH, in making the technological

⁴Federal Research: Lessons Learned From SEMATECH
(GAO/RCED-92-283, September 1992).

advances needed to regain the U.S. semiconductor leadership. Its success had demonstrated, in our view, that a government-industry research and development consortium on manufacturing technology could improve a U.S. industry's technical position while protecting the government's interest.

In 1989, Environment Canada, Canada's environmental protection agency, formed a partnership to protect, conserve, and restore the Saint Lawrence River. According to a 1992 report on the progress of Public Service 2000 reforms, the magnitude of this effort forced the department to pool its efforts and to share responsibilities with other federal departments, the Quebec government, the polluting industries, environmental groups, universities, research centers, and consulting firms. This partnership, known as the Saint Lawrence Action Plan, resulted in almost four times the initial federal investment of money and human resources. Although the final results are not in, the plan has been hailed as a success, not only for its positive results for the environment, but also for its innovative management and, in particular, for its creative approach to partnerships.

Commercialization

Commercialization--the emulation of a businesslike environment in the public sector--has proven to be a successful initiative in the public sector for improving services while reducing costs.

We have testified that the Department of Defense could save millions of dollars by adopting commercial practices for its stock inventories. We further reported that Defense's use of commercial practices, such as obtaining volume discounts and instituting automated ordering systems to manage its inventories, resulted or could result in improved quality and better customer services. The

inventories examined included medical supplies, aircraft parts, food items, and maintenance and repair inventories.⁵

To place its public sector operations on a more businesslike footing, Australia commercialized its Department of Administrative Services, which is comparable to the U.S. General Services Administration, to improve the efficiency and effectiveness of the delivery of services to government agencies. The Australian National Audit Office found that commercialization resulted in the Department's business units being more client-oriented and cost-conscious and significantly improved their financial and management reporting.

Privatization

Privatization can be defined as the transfer of government services, assets, or enterprises to the private sector to obtain better services at lower cost.

The United Kingdom requires its government agencies to determine if all or part of their services can be carried out more efficiently by the private sector. As an incentive, departments that achieve savings through such an analysis, known as market testing, will be able to apply these savings to their programs. For example, according to a 1991 study, the Ministry of Agriculture, Fisheries and Food had obtained some services from the private sector at significantly reduced costs. The study further noted that market testing strengthened agencywide cost-awareness among staff and thereby boosted efficiency in services retained in-house.

Privatization was a basic tool for reinventing state government, with about 90 percent of state agencies using some form of

⁵Defense Inventory: DOD's Efforts to Improve Management and Reduce Stocks Need to Continue (GAO/T-NSIAD-92-13, February 28, 1992); Commercial Practices: Opportunities Exist to Reduce Aircraft Engine Support Costs (GAO/NSIAD-91-240, June 28, 1991); DOD Medical Inventory: Reductions Can Be Made Through the Use of Commercial Practices (GAO/NSIAD-92-58, December 5, 1991); DOD Food Inventory: Using Private Sector Practices Can Reduce Costs and Eliminate Problems (GAO/NSIAD-93-110, June 4, 1993); and Commercial Practices: DOD Could Save Millions by Reducing Maintenance and Repair Inventories (GAO/NSIAD-93-155, June 7, 1993).

privatization, according to a 1993 study for the National Governors' Association. For example, as part of its first performance review, Texas found that the lack of competition at the state level caused the state to provide services at higher cost and lower quality. State officials found that by privatizing certain state services, such as security, maintenance, repairs, custodial services, and prison operations, the state could save more than \$30 million annually.

Franchising

Franchising is the marketing of goods and services between governmental agencies. Franchising within the public sector calls for government agencies to bid against each other for work. Government offices, divisions, and agencies cast themselves in the role of entrepreneur by marketing their goods and services, selling to customers, and competing with other public and private organizations with respect to price, quality, and customer service.

The U.S. Department of Agriculture's National Finance Center in New Orleans provides to a variety of other federal agencies automated information systems services for personnel, payroll, supply, inventory, property, and travel records. Originally established in 1973 to design, develop, and operate automated systems for the processing of financial transactions, the Center receives no appropriated funds from the Congress, and all expenses incurred must be billed for the Center reported in 1989 that each year it conducts more than 16 million financial transactions, disburses \$6.7 billion, and collects over \$365 million for its clients who include 38 Agriculture agencies, the Department of the Treasury, and other federal entities. Even though the Center has captive clients of all Agriculture agencies, which are mandated to use its services, it has successfully sold its services outside of the agency and reduced its average annual per capita cost to client agencies from \$111.74 in fiscal year 1990 to \$96.84 in fiscal year 1993.

Decentralization

Delegation and empowerment are the techniques used to decentralize authority in organizations. Delegation involves the transfer of administrative functions from one part of an organization to

another. Empowerment means giving employees, at all levels, the authority they need to do their jobs, and the tools to exercise that authority effectively.

Delegation

A significant aspect of recent change within the federal government is the breaking down of traditional hierarchies by bringing together employees of different expertise from all organizational levels for a variety of purposes, including evaluating and setting performance standards, examining key processes, and problem solving. In many cases, team management affords flexible, participative work groups uncharacteristic of decision-making in strictly hierarchical organizations.

For example, as part of its commitment to improved service, the Naval Aviation Depot of the Marine Corps Air Station, Cherry Point, North Carolina, restructured the staff in one of its departments, effectively flattening its organizational structure by eliminating several layers of the hierarchy. The Depot created a Process Improvement Division within the Production Engineering Department to examine the processes involved in the manufacture of its top 20 products. On the recommendation of 20 self-managed teams, the Depot reported that it moved 300 personnel from support functions to the production department and eliminated 54 supervisory and management positions. The Depot believes that the new self-managing, cross-functional, multidisciplinary teams manage personnel resources more efficiently, more than tripling the availability of staff. Other restructuring initiatives reportedly cut aircraft, engine, and component average turnaround time by 29 percent, 37 percent, and 29 percent, respectively.

The Eastern Region of the U.S. Forest Service, which serves 20 states and employs 3,000 people, began a quality improvement program in 1987. As part of this program, the Region restructured 11 separate hierarchies that had been organized by functional areas, such as fire aviation, into five teams with interlocking expertise. The Eastern Region also capped the size of the staff in its headquarters and returned positions and responsibilities to the district offices. The Region reported that it gave personnel at all levels new authority to make suggestions and take actions for improvements, thereby permitting decisions to be made by teams of people instead of unilaterally from above. As a result of these changes, the Region reported that it cut its budget, while reducing

its staff from 223 to 183 people and lowering the portion of its fiscal year 1993 budget devoted to operating costs.

Canada's Department of Western Economic Diversification administers the Western Diversification Program, a program designed to bring Western Canada into the mainstream of Canadian economic development through investments in projects that contribute to this area's economic development and diversification. To carry out this program, the Department delegated responsibility for approving contributions up to \$200,000 (Canadian dollars), or 60 percent of all contribution projects, to the regional assistant deputy ministers. The Department reported that this led to a cut of about 10 percent in the time it takes to release funds, thus speeding up developments that provide jobs to Canadians.

In 1991, Florida chose its Department of Revenue as one of two agencies to operate its Flexibility Pilot Project, with significant flexibility being granted to the Department in two areas: personnel and budget. The Department was authorized to create its own personnel program, which included classification, pay plans, and the handling of employment matters, and to modify its budget without prior approval, in accordance with legislative intent. For example, the Department could further transfer funds and positions or contract out for services. The Department found that the flexibility program allowed it to improve its operations by shifting funds and staff more rapidly to meet changing management priorities. In his 1992 annual report, the governor reported that the Flexibility Project led to productivity improvements estimated at up to 34 percent in some Department of Revenue bureaus and divisions.

Empowerment

The Arnold Engineering Development Center, Arnold Air Force Base in Tennessee provides ground testing and evaluation of aerospace systems before actual flight. The Center is one of the world's largest aerospace test facilities and has helped in the evaluation and development of almost every military aircraft and weapon system produced since 1951. Motivated by a desire to continue the testing offered by the facility in the face of decreasing budgets for military spending, the Center sought to improve customer service by empowering each employee to solve problems individually. The Center noted that this commitment was dramatically illustrated by a propulsion maintenance superintendent who went the extra mile for an Ohio customer who was unable to deliver an engine to the

facility on time for a scheduled test. Encouraged by management's commitment to empowering employees, the superintendent, rather than simply waiting for the delayed engine--which would have proven very costly--flew to Toledo, rented a truck, and delivered the engine to the Center on time.

The Public Services and Administration (PSA), an agency of the Patent and Trademark Office, reported that it focused on employee empowerment as part of its quality improvement effort. Employees were given authority in many areas to satisfy customer requirements that previously had been referred to supervisors or managers. The PSA reported that it had extended this authority to the discretion of waiving customer fees. For example, if a customer had not received a patent copy that was ordered, employees were authorized to order another copy without collecting additional fees or forwarding the complaint to a supervisor. In addition, all employees were encouraged to recognize the contributions of other employees. Every year, each employee receives four "Peer Recognition Certificates" to award without supervisory approval.

To give public managers flexibility in allocating their resources in response to changing priorities, Australia initiated the Running Costs system in 1987.⁶ Among its features are allowing managers to transfer funds between certain expense items, and "borrow" unused running costs from one year to the next. An independent assessment in 1992 found that the running costs system had contributed generally to improving resource management.

The Canadian Auditor General reported in 1992 that Canadian central agencies were reducing their central direction to a minimum of basic rules. Also, departments and agencies were placing as much authority as possible in the hands of front-line employees and managers, along with responsibility for ensuring the adequacy of controls over their resources and operations. As a result, policies and red-tape requirements were significantly reduced and, at the time the report was issued, unnecessary central reporting requirements were being eliminated.

⁶Running costs represent the full cost of providing the government services, other than capital expenses over \$250,000 (Australian dollars), transfer payments (such as pensions, grants, and subsidies), and loans. About \$11 billion of Australia's \$111 billion 1992 budget, or 10 percent, was running costs.

Regulatory Reform/Relief

Governments were reexamining their applicable laws and regulations to determine whether they should be redesigned in instances where they were considered outdated, rigid, and anti-competitive.

As reported in 1990, the Navy has nine public works centers located in the United States and overseas. They all used to work in accordance with thousands of pages of detailed regulations and task specifications developed in Washington, D.C. In an effort to improve performance, however, the Naval Facilities Engineering Command threw out the detailed regulations and gave the centers a short list of business principles instead. The centers all reorganized to match the type of work local customers needed. The planners were told to stop using "book" procedures to specify how to do specific tasks. Instead, workers were allowed to use their knowledge and skills to do a good job. As a result, the public works centers have reported improvements in customer satisfaction and employee morale, lower costs, and increased innovation.

Beginning in 1992, Canada expects that regulatory reviews will result in 25 percent of government regulations being eliminated and another 25 percent significantly changed, as part of government renewal efforts. In lieu of these regulations, Canada is using new approaches, such as voluntary compliance, industry-developed standards, and self-regulation, to accomplish its objectives.

A task force of business and civic leaders, chartered by the state of Florida to recommend improvements to the government's performance, found that most state agencies operate under a maze of rules and regulations that severely restrict the ability of managers to manage and employees to effectively perform their jobs. The task force recommended that Florida's career service laws and regulations be further reformed to give state agencies more flexibility.

GAO Type of Innovation:
Process Changes

- Reengineering
 - Streamlining
 - Technology applications
 - Benchmarking
 - Performance measurement
-

Process Changes

Process changes refer to changes in how products and services are produced and delivered. Such changes include reengineering, streamlining, technology applications, benchmarking, and performance measurement indicators.

Reengineering

Reengineering is the redesign of an organization's processes to achieve dramatic performance improvements. Redesign entails a complete reevaluation of processes with a focus on making major reductions in the cost and the time necessary for service delivery. It also entails improving quality of the end product.

The IBM (International Business Machines) Credit Corporation, a wholly owned subsidiary of IBM, provides financing to customers purchasing IBM computers, software, and services. Before the credit approval process was reengineered, requests were handled by four separate specialists, went through several different departments, and took from an average of 6 days to as much as 2 weeks. Two senior managers discovered that each request actually took only 90 minutes to process--the rest of the time was consumed by routing the form from one place to the next. The Corporation reengineered the credit approval process by replacing the specialists, who had been processing the applications, with generalists, who now process the applications from beginning to end. It found that the specialists were only needed to help with a small number of difficult or unusual financing requests. The Corporation claims that the new process reduced the 7-day turnaround to 4 hours. Without increasing staff size, the reengineered office reportedly handles 100 times more cases than it did before the reengineering process.

Government Services Canada, a government agency, was established in 1993 to provide cost-effective and efficient common services to government departments and agencies. It has begun reengineering these services that have the largest impact on clients, including procurement, pay and benefits, space planning and leasing, and real property management. The agency notes that its goal is to improve effectiveness and to eliminate activities that have no "value-added."

The State of Texas found that governments must be reengineered to cut costs and improve government services. This reengineering

involved organizing state agencies to be efficient and effective, exploiting new technologies, and eliminating overlapping structures that duplicate duties and create useless red tape. For example, the state, after identifying and mapping the key functions for tax administration, recommended reengineering that process. The State's reengineering team estimated that an additional \$51 million in general revenue could be collected by using a single integrated tax collection system identified through this reengineering process.

Streamlining

Streamlining refers to the paring down of organizations to remove nonessential layers of supervision and reorganizing around processes, rather than functions, to minimize non-value-added steps.

The Department of Veterans Affairs' Philadelphia Office made determining customer needs and requirements the first objective of its quality improvement plan. Prior to its efforts to obtain customer feedback, the Office's Insurance Center, which handles veterans' life insurance loan applications, was exceeding its self-defined check processing standards. After seeking and analyzing customer feedback, the Insurance Center implemented new procedures and streamlined the application and check mailing process from an average of 2.7 days to 1.5 days. In addition, the Center reported that it cut in half the amount of time spent dealing with customer complaints.

The Public Services and Administration within the Patent and Trademark Office focused improvement efforts on streamlining 45 distinct processes. It formed quality action teams to review each process. For one process, a goal was established to reduce the amount of time a patent applicant had to wait for a filing receipt from an average of 36 days to 22 days. A process review team flow-charted the pre-examination process, eliminated non-value added functions, streamlined tasks, restructured various work units with specialized functions to multifunctional teams with "one-stop processing," and made other improvements. As a result of the changes, the Administration reported that filing receipts were, on average, provided to applicants within 18 days, in-process errors were reduced by half, and requests for corrections decreased 81 percent.

We reported in May 1993 that collection methods used by private firms and states offer the Internal Revenue Service opportunities to increase collections from delinquent accounts, streamline the collection process, and perhaps ultimately reduce the overall cost of collecting delinquent taxes. Early telephone contacts, customized collection procedures, and staff incentives for collection performance were among the private sector and state government practices used.⁷

In May 1990 the President created an interagency Trade Promotion Coordinating Committee to "unify and streamline" the government's decentralized approach to trade promotion. The Committee is chaired by the Secretary of Commerce and includes representatives from 18 other agencies. Congress further unified and streamlined this structure through the Export Enhancement Act of 1992 (Public Law 102-429). The act, as amended, provided that one-stop shops be used to provide United States exporters with information on all export promotion and export finance activities of the federal government.

Federal, state, and local governments are working to reduce the fragmented and often difficult to access system that confronts at-risk children and their families who try to use government-sponsored education, health, and social services. Service-oriented integration efforts attempt to link families with existing services through such methods as collocation of providers and using case managers. Service-oriented efforts encourage agencies and providers to share information and collocate many services at one center. Over the past 30 years, service-oriented initiatives, such as Head Start, have improved client access to comprehensive service.⁸

Canada's Council for Administrative Renewal was formed in 1991, under the leadership of the Canadian Comptroller General, to restructure administrative operations in government. The Council's working groups have developed the concepts for streamlining

⁷Tax Administration: New Delinquent Tax Collection Methods for IRS (GAO/GGD-93-67, May 1993).

⁸Integrating Human Services: Linking At-Risk Families With Services More Successful Than System Reform Efforts (GAO/HRD-92-108, September 24, 1992).

procurement, payment and payroll functions, sharing administrative software and systems development, and locally sharing support services.

Michigan established "one-stop shopping" for the integrated delivery of local, county, and state human services. Five communities were selected for this pilot. Income assistance, child care, family support, and job training programs were included among the chosen collaborative programs. The state believes that having an integrated delivery of services has provided participating Michigan communities with a comprehensive inventory of services and this has enabled it to identify gaps and areas of duplication while more effectively delivering community services.

Technology Applications

Advancements in information technology have permitted organizations to reduce costs and improve efficiency and effectiveness.

The Internal Revenue Service began accepting electronically-filed income tax returns nationwide in 1990. In 1992 we reported that electronic filing is gaining wide acceptance. IRS received about 7.5 million electronic returns in 1991. As of April 10, 1992, about 10.4 million returns had been filed electronically. We found that electronic filing permits faster refunds, more accurate returns and returns that cost less to store.⁹

A team at the 1926th Communications-Computer Systems Group at Warner Robins Air Force Base in Georgia investigated expanding the base's data communications and information system needs. The team recommended the installation of leading-edge technology to broaden its local area network. The Group reported that this new technology is capable of serving 15,000 new customers, eliminates the use of less capable and more costly equipment, and has saved millions of dollars.

Canada's Vision 2001 sets forth the country's vision for improved public sector productivity and service delivery, through improved information management processes and the use of information technology, over the next 5 to 10 years. For example, to better meet the needs of Parliament and interested citizens, by better

⁹Internal Revenue Service: Opportunities to Reduce Taxpayer Burden Through Return-Free Filing (GAO/GGD-92-88BR, May 1992).

disseminating its biennial budget estimates--over 12,000 pages of material--on alternate media, the Canadian government began piloting a project in 1993 called Technology Application for Reporting to Parliament. CD-ROM disks and floppy computer disks containing budget information will be sent to repositories throughout the country as soon as the budget estimates are submitted to Parliament for review. Because automated data is easy to manipulate and can be transmitted promptly, state officials found that automated budgetary data was easier to retrieve and analyze than cumbersome paper documents.

Minnesota has introduced several major information technology initiatives to deliver its products and services more efficiently and effectively. Among these were statewide systems projects to uniformly automate common operations and to improve procurement practices through electronic data interchange.

Benchmarking

Benchmarking is a learning process triggered by looking at the best practices of other organizations. Benchmarking is accomplished by making process-to-process comparisons and developing data about performance output levels for the process. Through benchmarking, organizations have been able to identify the best practices and methods of operating and delivering services.

In the early 1980s, Ford Motor Company was searching for ways to cut overhead and administrative costs. It believed that through automation it could reduce its accounts payable department, which had a staff of 500, by 20 percent. After Ford managers visited Mazda, however, they began to rethink their strategy for achieving staff reductions, as Mazda's accounts payable department had a staff of only five. Ford decided to reengineer its process to do the work with hundreds of fewer workers. After a major reengineering effort, Ford reported that it had reduced the size of its accounts payable department to 125.

Medical effectiveness research is a technique for measuring the outcomes of medical treatments to determine better and more cost-effective treatments by analyzing the outcomes and costs of treatments used in other similar cases. This technique was applied at a Denver Health Maintenance Organization (HMO) by the Foundation for Informed Medical Decision Making. The HMO reported savings in the cost of surgery not performed. Patients expressed greater

satisfaction because the technique allows patients more choice in the selection of their treatments.

The Philadelphia Office of the Department of Veterans' Affairs reported that it used the benchmarking process to improve many of its processes. It relied on information provided by an insurance industry professional association to improve timeliness in such functions as correspondence, beneficiary changes, death claims, and others.

Performance Measurement Indicators

Performance measurement is a method that organizations used to assess progress towards achieving predetermined results-oriented goals. Performance measures should be related directly to the organization's mission and used to determine areas where improvements can be made. Performance measures were used to measure productivity and success in meeting customer needs.

Measuring performance by assessing processes and ensuring that chosen alternatives are effective is an important part of improving businesses and federal programs. Winners of the Federal Quality Institute's Quality Improvement Prototype Award measure the performance of their quality efforts with a variety of statistical and analytical methods that allow them to systematically gather data and display trends and deficiencies. These data are then used to determine the causes and frequency of problems, and ultimately, whether the processes are effective. Many private and government organizations reported that performance measurement has contributed to savings.

In May 1992, we testified before the Senate Committee on Governmental Affairs that over a dozen federal agencies were using performance measurement systems for a variety of purposes. Some were using them to ensure organizational accountability and efficiency. Others were using them to aid in budgetary decision-making and determine individual employee rewards. We found that there was increased activity by federal agencies toward developing results-oriented performance measures.¹⁰

¹⁰Performance Measurement: An Important Tool in Managing for Results (GAO/T-GGD-92-35, May 1992).

A basic tenet in Australia, Canada, New Zealand, and the United Kingdom was that the increased flexibility provided managers as part of their public management reforms should be accompanied by adequate accountability. Accordingly, measures, including measures of outcome, were designed and used to gauge agencywide performance against pre-established performance agreements. Countries continue to seek better performance, striving for the right mix of output and outcome measures that best show how well government departments are meeting their mission and goals.

For example, Great Britain established the Citizen's Charter White Paper in 1991 to set out the principles to be followed in the British public service. These principles are based on a recognition that citizens are entitled to expect high-quality services, responsive to their needs, provided efficiently at a reasonable cost. There were four main themes to the Charter strategy: improved quality of services, choice among competing service providers, service standards, and value for money. According to the government's first report on the Citizen's Charter in 1992, the Charter and related agency charters provided the public, often for the first time, with published standards of service, information on performance, complaint procedures and ways to obtain redress. Information on performance is further contained in "Framework Documents," which are performance agreements between British Ministers and agency chief executives, subject to review every 3 years. In exchange for increased freedom to manage, the Chief Executive is expected to meet a set of performance targets. The British government reported in 1993 that considerable improvements in efficiency and effectiveness have been achieved since the introduction of Framework Documents.

Oregon has identified performance measures, through citizens' steering committees and the involvement of more than 200 organizations and individuals statewide. These measures were published in two biennial reports, in 1991 and 1992. The 272 measures contained in the second report are intended to translate the vision and strategies of the state strategic plan, "Oregon Shines," into measurable results, focusing on outcomes that affect citizens' well-being rather than simply on measures of government activities. These performance measures were established, measured, and planned for human (family-related), quality of life, and economic factors, for the period from 1970 to 2010.

Minnesota found that its government had done a poor job of measuring results because of its focus on measuring activities such

as money spent and forms filed. As a result, in 1992, the state developed a statewide report card--Minnesota Milestones--to measure its progress in meeting 20 long-range goals. Minnesota officials believe that this information about results is essential to improving the efficiency and effectiveness of government.

For more than 15 years, New York City has been using a system, called the Mayor's Management Plan and Report System, to guide and monitor the performance of city agencies. The system was designed as both a management tool and ultimately a mechanism for public accountability, in that periodic plans were tied to agency performance indicators and targets, as well as to semiannual reports to the public. Performance statistics included measures of activity levels and measures of quality. Even though most users found the system deficient in a variety of ways, they valued it in terms of its contribution to good management and government accountability.

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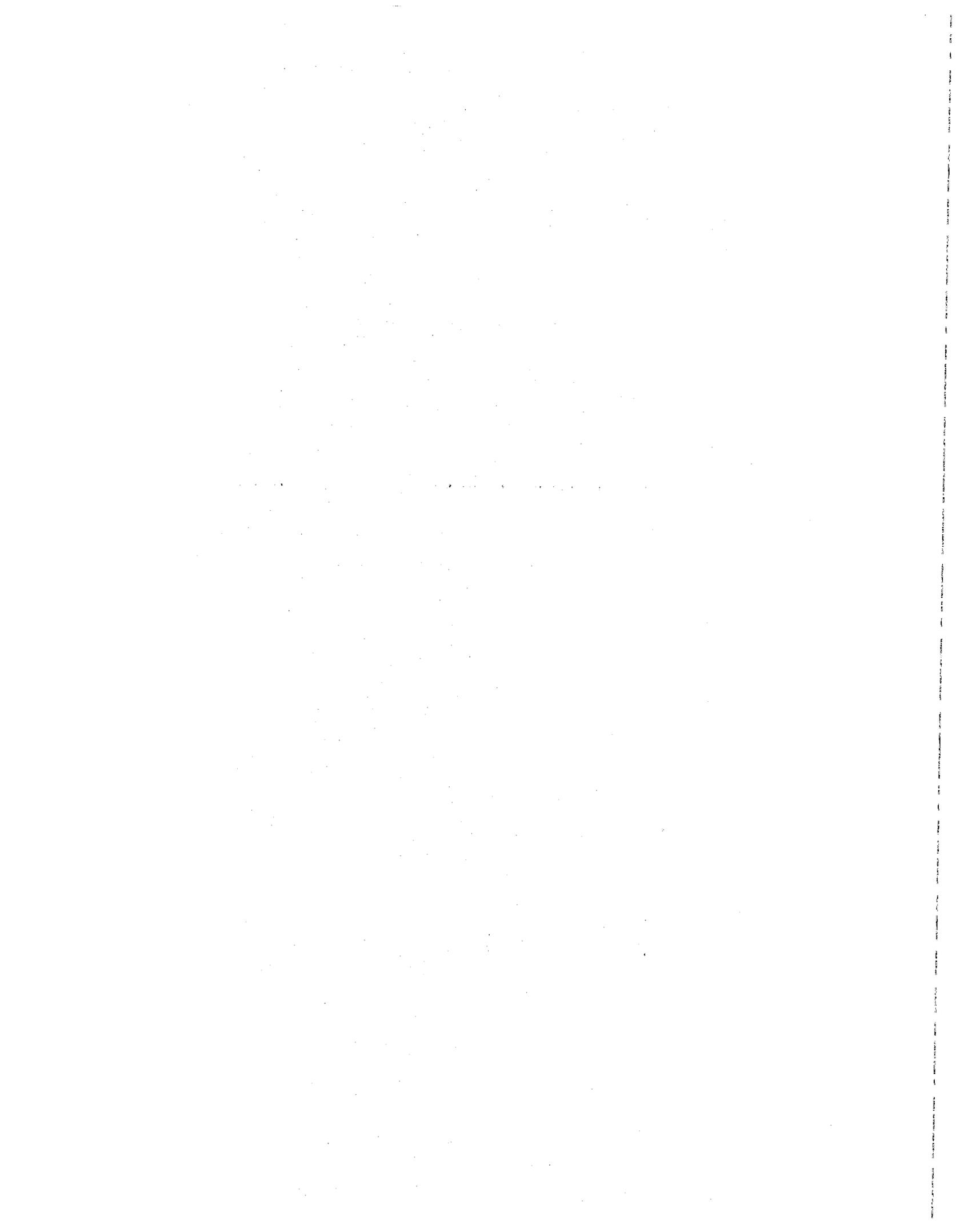
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