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Berman Jewish Policy Archive at
NYU's Robert F. Wagner Graduate School of Public Service
Presents:

DOING MORE WITH LESS:

CAN JEWISH AND OTHER NONPROFITS
TURN CRISIS INTO OPPORTUNITY?

A lecture by:

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With Response by:

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About the Speakers:

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About the Berman Jewish Policy Archive at NYU Wagner:

The Berman Jewish Policy Archive at NYU's Robert F. Wagner Graduate School of Public Service is a central address for Jewish communal and social policy, both on the web and in its home at NYU Wagner. Named for its principal funder, The Berman Foundation, BJPA's primary focus is on making the vast amount of policy-relevant material accessible and available to all those who seek it. Launched in October 2008, BJPA's free and searchable online archive spans from the early twentieth century into the twenty-first, and is bridging into the future with continually updated print and web-based sources. In placing this material into a comprehensive database—the first of its kind—BJPA aims to encourage thoughtful and informed policy discourse in the Jewish community. Its online collection is housed within the Policy Archive of the Center for Governmental Studies in Los Angeles.

In its institutional and intellectual home at NYU Wagner, BJPA produces reports on current topics and hosts conferences, forums, and other events to engage the public in issues of pressing concern to the community at large. In so doing, BJPA hopes to create a rich, comprehensive, and usable intellectual legacy, animating research on Jewish life for the present and for generations to come.

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Lecture

Introduction

Thanks to Prof. Steven M. Cohen and to the leadership of the Wagner School for hosting this event. It is nice for me to be here. The Wagner name means a lot to me -- I broke into government in Bob Wagner's third administration and I once spent eight hours with him and my students at the New School as part of a Great Mayors Series. Additionally, Bob Wagner Jr. and I were good friends and I still miss him.

Background

A little bit of background before I approach the topic directly. In the fall of 1975, New York City's government experienced a severe fiscal crisis and teetered on the verge of bankruptcy for many, many months. I was then running a graduate program in policy analysis at the New School for Social Research and was asked to serve as the Executive Director of a new entity called the Mayor's Management Advisory Board.

Over the next three years I worked in a variety of positions related to the fiscal crisis. I was part of the team that reconstructed NYC's government. Most of what I know about management actually comes from that often painful educational experience and is reflected in today's comments. For me, much of what's happening today is "*deja vu* all over again."

Crisis

Somebody said to me the other day "What is a crisis?" What they were really saying to me was "I don't think things are so bad. Why do you think this is a crisis?" And so, I checked with Noah (Webster) and Noah says a crisis is "a time of great danger or trouble whose outcome decides whether possible bad consequences will follow."[1] The example of a crisis in the dictionary is "an economic crisis." And the synonym is, "EMERGENCY." I think the current situation qualifies.

I happen to believe that language and words matter. I do not think it is helpful to talk about a downturn. I think it lulls us into a false sense of security. However, it is helpful to distinguish between an economic crisis and a fiscal crisis. There is a tendency to conflate the two. An economic crisis affects the society as a whole; it is about the loss of jobs, decreases in income, declines in the production of goods and services. A fiscal crisis affects organizations and institutions; it is about a persistent negative gap between expenditures and revenue and between assets and liabilities.

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[1] Webster's New World Dictionary.

As a society we are in both. It turns out, not surprisingly, <u>that</u> it is much more difficult for nonprofits to deal with a fiscal crisis when there is an economic crisis as well. Less discretionary income for individuals, lower sales and profits by corporations, and a weaker stock market means less funding.

Uncertainty and loss of optimism dampens giving. People in the field tell me that core funders are not vanishing, but they are cutting their gifts. Governments have lower revenues and they are reducing grant-making.

Felix Rohatyn, who played the key role in the refinancing of city government, pointed out, and I think correctly, that the current crisis is much worse than the 1975 government crisis in NYC. In 1975, Wall Street and real estate were in pretty good shape; that is a far cry from today.

Managing in a Nonprofit

Even in the best of times, nonprofit management is challenging. I would argue that in comparison with management in government and in the private sector, nonprofit management is the most challenging of the three sectors.

1. <u>First, authority in the nonprofit sector is more diffuse than either the public sector or the private sector.</u> In the private sector it is pretty clear that the CEO is the boss. I worked with a man named Lee Oberst who came into City government from the New York Telephone Company where he was considered a management genius who had turned around the telephone company. Lee was the City's First Director of Operations and I was his deputy. And he was baffled by City management, particularly by the diffuseness of authority. He said to me, "In the phone company, I would say to a manager 'Jump', and they would ask me 'How high?' " In City government, he would give commissioners a direct order, and nobody would react. Nothing would happen.

   The nonprofit world is even worse than government because you do not know who the boss is. Is it the chairman of the board or is it the executive director?

2. <u>Second, success is hard to quantify in the nonprofit sector.</u> Even in the private sector measuring success is complex, at the end of the day there is a bottom line -- profit. In government, measuring success is even more complex, but at some level, the mayor knows if he or she is doing well if they win re-election. In the nonprofit sector organizations are trying to do "good" and that is something which is really hard to measure.

3. <u>Third, revenue sources are the least controllable in the nonprofit sector.</u> In government, there is the possibility of raising taxes. In the private sector, a company can sell more goods or services. In the nonprofit sector, with a major dependence on fund-raising, organizations are pretty dependent on outside forces.

I came to the nonprofit world mid-way thru my career, and I had a reasonable grasp of how to function in the public and private sectors. I found the nonprofit world baffling. When I came to the New York Federation in the number two position, on any given day, I could encounter two members of the board: one would relate to me like I was their boss and the other would relate to me like I was their serf. It was completely unclear who was running things. I was on a panel with my predecessor from Federation (I was really new to the world), and he said that it was very important to make major donors, who were members of the board, feel that they were making decisions. "Even if the major donors are not actually making decisions, it is important that they felt like they are, so they will give more money." I was appalled. I literally did not understand what he was saying. I understand it now. I am not sure that I like this approach any more today, but at least I understand it.

Managing a Nonprofit in a Crisis

Nonprofits are hurting, and are not well prepared for the fiscal crisis. I do not think we have to belabor the point. The Bridgespan Group in Boston did a survey of more than 100 nonprofits groups.[2]

- 75% of nonprofits surveyed are feeling the effects of the downturn

- 52% percent of nonprofits surveyed have already experienced cuts

- Only 28% of nonprofits surveyed appear to have a "well-defined" contingency plan (e.g., key tripwires to determine when to enact the plan)

- 74% of respondents have less than six months of operating reserves

So here is our question: what is different about managing in a crisis? My view is that good management is good management is good management. A crisis is a time to make changes that probably should have been made anyway. It gives leaders courage to make changes and gets people to focus.

The truth is: fear can be paralytic, but it can also be a great motivator. That may sound cynical, but it is one of the great lessons of my experience in the 1970's. I was in NYC government in the 1960's, in an environment that was very change oriented. We had a bunch of ambitious initiatives and they all crashed and burned.

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[2] "Bridgespan Group "Managing in Tough Times" Survey. November 14, 2008. www.bridgespan.com

In 1976, I faced 30 department heads managing an aggregate work force of nearly 300,000 people and hissed at them (because I had laryngitis), and said "You need to get your management plans in within three months." No one said "That's impossible." No one told me to go to hell, stormed out of the room, or called the mayor and said "Fire this nut." They just did it, and the plans were, in the main, pretty good. This was something that never could have been done in the normal course of events.

Six Possible Responses to Fiscal Crisis

So how do we connect to a fiscal crisis? As I look around I see six patterns – three are pretty useless and three are pretty useful.

1. The first response is **denial**. Comments like: "It will be OK." or "It will soon blow over."

In the fall of 1975, either September or October, I had been approached about becoming the Executive Director of the Mayor's Management Board. As part of my due diligence, I met with the first deputy mayor, a man named Jim Cavanaugh, who was a great public servant and worked for the city his whole life. I came to his office and asked him about the City's financial situation. Jim leaned back and he said to me "Ahhh, it'll all blow over. We'll move the BANS and the RANS and the TANS (different forms of public debt) and we'll be fine." Three months later, the City was inches away from default, and six months later, Jim was out of a job. That was denial then, and there is plenty of denial out there today.

Fred Lane, a friend and colleague from Baruch College, reports that in 2001, in a mild recession, 40% of nonprofits in San Francisco had taken no action, even though 78% said things were going to get worse in 2002.[3]

2. The second response is **panic.** Panic leads to making irrevocable decisions, such as closing entire programs or facilities that have taken decades to develop.

3. The third response is to **circle the wagons**. Comments like: "Don't change anything, we've been through tough times before, we can weather it again, if we just do what we did before."

None of these responses are worth a damn, pretty obviously, but they are really out there in a significant way.

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[3] Fred Lane, "Fiscal Stress: Be Prepared," Chronicle of Philanthropy (October 16, 2008)

There are three strategies that do make sense.

1. **Managing the crisis**

2. **Managing in the crisis**

3. **Using the crisis to improve management** (which is what I will be focusing on)

There is a lot of advice being given to nonprofits about how to **manage in a fiscal crisis**.[4] This includes actions such as:

- Attrition and early retirement incentives
- Job sharing and furloughs
- Deferring new initiatives
- Using emergency reserves
- Debt restructuring

In NYC in the 1970's, we reduced the work force from 300,000 to 240,000 with some layoffs, but mostly through attrition. However, it was not without cost; often it was the best people who left.

Much of the advice being given to nonprofits also focuses on **managing the crisis**:

- Keep your key constituents informed
- Involve your key board members and most valued staff in planning and decision-making
- Be as transparent as you can without scaring the hell out of everybody

The best strategy is to **use the crisis to improve management** not only so your agency can survive, but so your agency can come out stronger. In NYC in 1977, I counted 14 separate management improvement initiatives, from developing a new accounting system to a new productivity program. There was a major concerted effort to seize the day and it is my judgment that that is what nonprofits have to do in order to improve.

I mean something very specific by **management improvement**. **Management improvement is any change in how an organization operates that either increases revenue or reduces cost while maintaining the quantity and quality of service.** Things that make people feel better or improve morale are good things, but at the end of the day, if the change does not result in revenue increase, cost reduction or maintaining service, it is not a management improvement;

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[4] See e.g.,
Head, George L. "Sustaining Nonprofits During Economic Downturns." NonProfit Risk Management Center. http://nonprofitrisk.org/library/articles/strategy09002003.shtml
Male, Richard. "How to Prepare Your NonProfit for an Economic Recession." Grassroots Fundraising Journal, May/June 2008. www.grassrootsfundraising.org
Seltzer, Michael "A to Z Survival Guide for Uncertain Times." Philantopic. October 15, 2008
http://pndblog.typepad.com/pndblog/2008/10/the-a-to-z-nonp.html

it is simply a change, perhaps a good change. There are other, more complicated definitions of management improvement that we could employ, but I have found it useful to keep it simple.

Unfortunately, planning and implementing management improvement takes thought and thought takes time. In a crisis, time is what agency executives are lacking. Therefore, the first challenge is to make sure that things do not get worse while management improvements are being planned.

First, set the default to "NO." That means no salary increases, no new hiring, no major purchases, except…. and there are always exceptions. In some instances, there are hires or purchases or promotions that need to be done. If there are not, the organization will be worse off. An organization needs a formal process, not an informal process, to approve exceptions to the "NO" rule. In NYC in 1976, it was the Vacancy Control Board chaired by the First Deputy Mayor who implemented the formal process. Every single hire in the government of the City of New York went across the desk of the First Deputy Mayor.

Management Improvement Strategies

There are four strategies for management improvement:

1. Streamline operations
2. Set priorities based on mission
3. Install performance management
4. Examine restructuring options

Streamline Operations

Conceptually it is very simple to streamline. Basically, every area of operation is reviewed for possible savings and service improvements and more income. This would include subjects such as:

- Personnel
- Work and productivity
- Marketing & Communications
- Fund-raising
- Information Technology
- Facilities
- Purchasing
- Cash management

The possible improvements are ranked based on probable benefit and probable feasibility, and high priority prospects are assigned to a research-action team.

What does this mean in practice?

I can say review every area of operations, however typically there is not enough time or staff for a full scale review, especially in large, complex organizations. In practice, it means collecting all the good ideas in people's heads about how to save money, increase revenue, or improve service. The output is a great, big, long list. In a big organization there could be 200 ideas, some of which have been kicking around a long time. When I have done a formal process, I have literally interviewed every senior manager, and usually a sample of workers in order to pool ideas.

The list of improvement opportunities is sorted into a nine-cell matrix:

Exhibit 1. Improvement Opportunity Feasibility – Benefit Matrix

PROBABLE FEASIBILITY	PROBABLE BENEFIT		
	High	**Medium**	**Low**
High	X	Improvement Initiatives	Low Hanging Fruit
Medium	Improvement Initiatives	Improvement Initiatives	Improvement Initiatives
Low	Long Shots	Improvement Initiatives	X

The above matrix is conceptually very simple. It consists of high, medium, and low feasibility on the left, and high, medium, and low benefit across the top. In the matrix, two cells are X'd out. The high feasibility-high benefit cell is X'd out because if there is something that is very easy to do with high potential payoff it should have been done already. Typically, there are few if any high feasibility-high benefit improvement opportunities. The other cell that is X'd out is the low feasibility-low benefit cell. Why would anyone want to invest scarce time and energy chasing improvement opportunities that are hard to actualize and with little benefit if they were implemented?

I labeled low feasibility-high benefit improvement opportunities "long shots." If you can pull them off, the results could be spectacular, but they are hard to pull off. Only one or two of these

should be pursued; pursuing more than that risks not realizing any of the "long shots." In the other corner are high feasibility-low benefit improvement possibilities. This is the definition of "low hanging fruit." Pursuing at least some low hanging fruit makes it possible to show some relatively quick results, which can help get buy-in for a management improvement process. Most management opportunities are likely to be in the middle, ranging from a low-medium combination to a high-medium combination.

The outcome of this process is that the initial list of improvement opportunities is reduced and catalogued, and similar ideas can then be grouped. We now have a list of potential management improvement initiatives, ranked from high to low based on potential benefit and potential feasibility. Starting at the top, we can assign high-priority prospects to research-action teams for analysis.

For each high-priority prospect, we can confirm or refute the initial view of benefits and feasibility. If this review confirms the initial assessment, we can develop an Action Plan, and start implementation and monitoring results.

This process seems very simple and straightforward, but it is actually counter-intuitive. The intuitive and widely used approach to management improvement is to elicit improvement ideas from top management, and to start doing initiatives based on the importance of the person presenting the idea and what sounds generally plausible.

Set Priorities Based on Mission

In the normal course of events it is almost impossible to set priorities in government or the non-profit sector.

Why is it so hard to set priorities?

Most people will agree that it is better to do a few things well rather than many things poorly. They will say, "We have limited money, let's decide what's most important and do it first, right?" This line of thinking makes perfect sense. Why not set priorities?

The reason is that allocation of resources, both in government and the non-profit sector is constituency-driven. That means there is no program in the budget, whether it's the Jewish Board of Family and Children's Services or the Department of the Aging, that does not have somebody reasonably important who said, "We have to do this." There are no programs without constituencies unless the person died and the people forgot. Every constituency has political clouts who then work to get a share of the pie. Therefore, it is politically easier to cut the budget across the board to equalize the pain among competing constituencies. Currently, I am working with a very sophisticated organization that is facing another round of cuts, whose leadership has

expressed verbal cooperation for priority-based cuts, and the chances are they are going to cut across the board. That is just the path of least resistance.

In the 1990's, my firm worked with six different Jewish federations on a formal priority setting system. In every case, I said on day one, "This is really hard. Do not do it if you do not have the courage to confront an angry major donor or a powerful agency whose pet program was rated low priority." They responded with "No, no, no. We are going to stick it out. We can do this." And, in every case it crashed and burned the first time a major donor walked in the door and said, "What? Jewish swimming is low priority?"

The only time it is feasible to use mission to set priorities is during a crisis. In other times, it is just too hard. The only successful example of formal priority setting that I know of (and I am sure there are others) was in 1977 in the NYC Budget Bureau. It was then that a former graduate student of mine applied a method he had learned in graduate school to NYC's budget. That budget was built around very simple three level priority system. If a program affected life and limb, it was rated 1st priority. If it was related to economic development it was ranked 2nd priority. Everything else was rated 3rd priority. Programs that were 3rd priority were cut a high percentage, 2nd priority programs were cut a medium percentage, and 1st priority programs were cut a small percentage or held even.

How can an organization set priorities in response to mission?

There was an approach that was popular for a long time called zero based budgeting where people advocated looking at every single program as if the organization was starting from scratch. I do not hear much about zero based budgeting anymore I think what I'm trying to do is head off a revival. I will not belabor the point. Hopefully this method remains dead as it is literally impossible to carry out.

Priority based allocation is the middle ground between incremental, constituency-based budgeting and zero-based models. It starts with the last year's budget as a base -- in this sense it is incremental -- but this method considers two factors: mission relevance and cost/revenue. Now many people have recognized that you need to look both at mission and cost when you think about priorities, but the trick is to look at these two factors in interaction, because they do interact.

Exhibit 2. A Model for Setting Program Priorities Integrates Mission-relevance and Revenue-cost Criteria Applied to All Programs

Revenue and Cost	Mission Relevance		
	High	**Medium**	**Low**
Revenue > Cost	1st Priority	1st Priority	2nd Priority
Cost = revenue	1st Priority	2nd Priority	3rd Priority
Cost > Revenue	2nd Priority	3rd Priority	Eliminate

Exhibit 2 includes a model for setting priorities among programs. Down the left, the **revenue – cost** relationship has three possibilities: revenue is greater than cost, cost equals revenue, cost is greater than revenue. And across the top, **mission relevance** has three possibilities: high, medium, and low mission relevance. If an organization only looks at mission relevance, it seems plausible to say, programs that are very highly related to mission would be a first priority, those that are medium are a second priority, and those that have low mission relevance are third. But especially in a tough fiscal environment there is another important question: is it bringing in money? And so this changes things because something that is low mission relevance, and that is making money, becomes a second priority. It cannot be a first priority because it is not highly mission relevant.

Where cost and revenue balance out, even if a program has low mission-relevance, it probably should not be eliminated, because embedded in that cost factor is a contribution to overhead that is always valuable.

If there are programs that are both expensive and not mission relevant then the organization really should not be in that business. This appears intuitively obvious, but it is not. An agency may have been in business for 120 years, with the founding program of the agency that bears the name of a revered former Board chair... This happens a lot, and a fiscal crisis may be the only time to have it not happen and make changes.

Install Performance Management

The key to effective management in any organization -- in the nonprofit world, private industry and in government -- is performance-driven *organizational culture*, not any particular model or method of management, or set of procedures. You can walk into three different organizations that look the same on paper: one might be doing well, one might be doing poorly, and one is in the middle and it all comes down to the culture.

There are two elements in performance-driven culture:

- **A clear and compelling vision and mission**
- **An obsession with performance**

Where boards, managers, and staff understand and are committed to the organization's vision and mission, they will find a way to solve managerial problems. Organizations get tied up in knots when one group of board members and/or key professionals work with one implicit view of organizational vision or mission and another group has a different implicit vision or sense of mission; or where a mission statement is so full of motherhood and apple pie that it does not guide the organization.

Preparing a vision and mission statement confronts and resolves major choices of direction. Conflicts over role and purpose are dealt with openly and not papered over. In many organizations, people walk into a room where a mission statement is being written and make nice and then they walk out into the hall and argue about what they really care about. We try to bring those arguments into the room. I would rather that different board factions confront each other and agree on something they can both live with, than write a mission statement about love and truth and peace and then go out in the hall, mutter at each other, and go back to work and do contradictory things.

While different people use "vision" and "mission" differently, to me a **vision statement** is inspirational, evocative, and reflective of core values. It deals with the "why" of an organization. It is supposed to lift people's spirits. A **mission statement** defines the focus of an organization and points in a direction. It deals with the "what" of an organization. It is supposed to get everyone working to the same purpose.

Effective organizations are obsessed with performance. Two questions are constantly and consistently on the table:

1. **How well are we doing?**

2. **How can we do better?**

The performance question, to me, is absolutely central to improving management.

What are the defining characteristics of performance-driven organizational culture?

- A definition of "good performance" and a way to measure performance
- People are held accountable for their performance
- People have control over the resources needed to perform well
- Good performance is rewarded, and poor performance is helped to improve, and if it is not improved, it is penalized

These are very old fashioned ideas, but they work. I used to argue that these principles were well understood in the private sector, and less understood in the government and the nonprofit world. I am now much less sanguine that all major industries in the private sector understand the importance of linking performance to accountability and rewards.

A performance management system is a formal method for supporting a performance-driven culture. It includes the following steps:

- Select performance indicators
- Set sensible targets (planned results)
- Collect the data to measure results
- Track results
- Compare planned and actual results
- Discuss and interpret variance
- Use the interpretation of variance to make improvements

The truth is an organization does not need a formal system if everybody wakes up every day and asks "How well are we doing? How can we do better?" And, a formal system will not work if people view it simply as a bunch of silly forms to fill out. A formal system helps to sustain and support the informal commitment to doing a good job, but it cannot substitute for it.

I always used to ask my students, "If you could choose between a monthly meeting to discuss performance (without data) OR data comparing planned and actual performance (without a discussion), which would you choose?" The right answer is do not choose; you need both. However, if you had to choose, the answer is the meeting without the data. I would rather have the conversation, because the data just goes in a book, rendering it almost useless.

In the mid-1970s, a key tool in improving NYC management was the Mayor's Management Plan and Report System (MMPRS). At the core of the MMPRS, there was a monthly meeting that John Zuccotti, the 1st Deputy Mayor, held with each department head. The Commissioner of Police would arrive at 7:30 am, accompanied by 20 senior uniformed officers. On the table was extensive data about the Police Department's performance in the previous month. The data would include, for example, how many police officers were actually deployed during each shift, how many were supposed to have been deployed, and what was the variance between planned and actual. If the variance was significant, the 1st Deputy Mayor would say to the Commissioner, "Why didn't you make your target last month?" And then the commissioner

would turn to his deputies. Often each would give a different explanation, and then they would have a conversation. By the end of the meeting there would often be a plan for improvement in the next month.

The truth is that is how City Hall got control over 30 agencies that were historically independent fiefdoms. Using these techniques, the city was able to reduce manpower by 60,000 and maintain services; the performance management system was the key instrument.

Examine Restructuring Options

The last management improvement strategy is restructuring. I am sure you noticed that for the other three strategies (streamline operations, set priorities based on mission, and install performance management), I am quite definite that nonprofit managers should execute each of those strategies, while for restructuring, I am only urging "examine." When it comes to restructuring, examining is as far as I am prepared to go, and I will explain.

There are two kinds of restructuring – and both need to be approached with caution:

- Internal restructuring, i.e., re-organization
- External restructuring, i.e., mergers

Reorganizations are time consuming. They create uncertainty and confusion and thereby threaten morale. When considering reorganization, a nonprofit executive needs to be reasonably clear that there is a significant potential benefit; particularly with changes of administration in government. Reorganization takes place in nonprofits too. People love to reorganize. They say, "If we are centralized, let's decentralize. If we are decentralized, let's centralize." Why? Essentially, it is neatness. If the current organization is diagrammed and the chart is really messy looking, people will say, "That's too messy, let's clean it up." So the organization chart is cleaned up, and looks neater, but the organization does not function any better or any worse. At the end of the day, if the informal system generates effective communication and teamwork, the formal structure does not matter very much.

When is it plausible to re-organize?

Internal Restructuring

It is plausible when the organization structure is a real performance roadblock; for example: if a manager has too many direct reports. In the city environment we had agencies where in the same level of management there were 30 people reporting to one manager and four to the other. The reason for this could be as simple as the fact that at some point there were two managers, one very able and the other inept, and workers were transferred from the inept manager to the able one.

There also could be too many levels of management. Sometimes, the CEO is putting out strong messages about mission, but there are too many layers between the CEO and the person seeing clients for the message to get through. This creates confusion about lines of accountability and reporting.

Effective reorganization is bottoms up. Most people who do a reorganization, get the current chart, go to the top of the organization, and start re-drawing the boxes, from the top to the bottom until it looks neat. That is the wrong way to approach the situation.

The right way to do it is to start with the work that has to get done and the people we need to do the work -- that becomes the bottom tier. Then calculate the smallest number of people needed to supervise workers, giving workers as much discretion as possible, but within a framework of supervision. Then calculate how many managers needed to direct the supervisors, and lastly how many people can a CEO manage while leading the whole organization. Once the "line" organization is determined, the smallest possible complement of staff and support complement can be added in.

External Restructuring

The second type of restructuring is external. There is a great deal of talk about mergers now, and many nonprofits are under pressure to merge. However, a merger is not a panacea. When a merger is completed between two small, underfunded, badly run organizations, the result is one bigger, underfunded, badly run organization.

The best time to merge two organizations is when both are still viable. Mergers often come too late to provide significant support for agencies in trouble. Sometimes a strategic partnership, or

a joint venture, is better than a merger. "It may make sense to live together before you get married."[5]

Ukeles Associates, Inc. (UAI) worked on three different projects exploring the feasibility and desirability of merging a Jewish vocational agency and a Jewish family service. In the first instance, we recommended a merger. The second instance, we recommended that the organizations did not merge, and for the third one, we recommended that they co-locate and share some backroom functions, but maintain their own identity.

Mergers make sense where there is the potential for real benefits. For example:

- To fill excess capacity: Two schools each built to serve 400 students that each have 200 students
- Economy of scale: If 200 older people can be served more cheaply in one program than 100 people in each of two programs
- Eliminate administrative duplication: i.e., one accounting department instead of two

The probability of successful merger will increase if the missions of the two organizations are similar and if organizational culture, decision-making style, and interests are compatible

Mergers will be more difficult if one organization is decentralized and the other centralized; if one is authoritarian and the other democratic; or if one is religious and the other secular. The field is littered with examples of bad mergers, and we live with those consequences a very long time. The other thing about mergers is people go into them thinking they are going to save a kazillion dollars. Mergers can reduce costs, but mergers rarely save as much as the proponents say. Eliminating one executive director's salary, eliminating duplicate backroom functions, reducing some overhead, probably can yield savings of 5% to 15%.

Conclusion

A management improvement strategy is only a tool. At the end of the day it is not a substitute for the real stuff. You can forget about strategy if you do not have courage, if you do not have big ideas, or if you do not have vision, and most importantly, if you do not have compassion. In fact without the "right stuff,"   you are in the wrong line of work.

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[5] Nancy Rankin, UAI project director on a merger study for a Jewish vocational agency and a Jewish family agency.

Response by Barbara J. Cohn Berman

I have a few reactions to reading Jack Ukeles' paper and to the topic at hand.

1. I was working in city government when Jack was designing and implementing the Mayor's Management Reporting system. I was running a major, controversial program with hundreds in staff – professionals and clerical. There were district offices, field operations, legal challenges and research and policy issues affecting one million households. The system that Jack brought to us, building upon very general language in the then-new City Charter, transformed the way every city agency operates, institutionalizing transparency and accountability here long before they were the popular concepts they are today. Remarkably, that system is still in place and is a model for other governments just starting similar efforts now. I tell you this because I urge you to heed what Jack says.

There are a very few people who are able to correctly analyze, size up, understand and articulate organizational situations. And there are even fewer people who can then come up with ways to manage those situations effectively. Jack is someone who does all of that and more. He brings his brilliance to non-governmental organizations, Jewish and otherwise, here and abroad, as well.

2. Although I agree with much of what Jack says here, I define "management improvement differently by adding just two words, but it is an important change and concept. Jack says*: "Management improvement is any change in how an organization operates that either increases revenue or reduces cost while maintaining the quantity and quality of service."* I say: *"Management improvement is any change in how an organization operates that either increases revenue or reduces cost while maintaining the quantity and <u>enhancing the</u> quality of service."*

I say this because we have few benchmarks for the quality of work being performed by government, but research that our Center on Government Performance has conducted since 1995 tells us that the public assesses government performance by the quality of its work:[6] Are the roadways smoother after pothole repairs? Do the repairs last? Do we get correct answers when we have a question for a government agency? Was a government employee courteous and respectful? Are people and neighborhoods treated in an even-handed manner? Similar questions apply to nonprofit organizations. I say, we cannot feel that management is improving unless there is a commitment to assess the quality of work already being performed and subsequent efforts are made to assure that high standards – higher standards when appropriate – are set and delivered for services essential to the mission of the organization.

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[6] Findings and methodology are described in the book, *Listening to the Public: Adding the Voices of the People to Government Performance Measurement and Reporting,* Barbara J. Cohn Berman; Fund for the City of New York, 2005

3. For those of you who are studying and interested in government management and in history, a field of study call "Cutback Management" emerged in the late 1970s and continued into at least the 1980s with cases, articles and books (including Jack's) addressing what was then a relatively unusual situation, as described in 1980 by the editor of a symposium on the subject of retrenchment in government, Robert Behn, Duke University:

> *"For most of this century – particularly since the New Deal – the various components of government have experienced a growth in resources. Now resources for many government units are declining, bringing about an era of retrenchment. Such cutbacks exacerbate a number of central problems of public management."*[7]

Studies and examples produced at that time included how to close an agency program and a whole agency, the problems involved with retrenching under civil service laws and regulations and unionization, the insight that closing something may cost more than considering other options, how to involve staff in the painful cutback processes, and other topics. You may want to look further into the literature to learn what still holds true today.

4. In the past few weeks I have heard about how (a) local government, (b) a non-profit and (c) a private sector organization are approaching these challenging times:

> (a) One local government imposed an across-the-board hiring freeze and set cost savings that each agency must find within a month. However, the cost cutting program will not allow crime to rise or street cleanliness to be compromised.

> Note that during the recent presidential campaign the question of across-the- board cost cutting was debated with our now president arguing that trimming the budget needs to be done strategically to assure that effective, well managed programs are not harmed and that ineffective ones are the ones to be cut. This could be a fertile field for policy research.

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[7] *Public Administration Review, Volume 40, Number 6, November/December 1980; Robert D. Behn, Symposium Editor, Leadership in an Era of Retrenchment – A Symposium, page 603.*

(b) A long-lived nonprofit organization has a large and mounting deficit. Its endowment will be depleted in two years at this pace. Their Board of Directors is actively considering the following options:

. Changing nothing, for now; hoping for the best
. Merging with another – currently unidentified organization (remember Jack's wisdom about this)
. Eliminating staff and moving toward an all-volunteer organization
. Eliminating office rental costs by operating out of someone's home
. Waiting until the results of their next fundraiser to decide what to do
. Developing a strategic vision before taking any action

During the course of these discussions, they discovered that they had to learn more about the legal restrictions on the use of their endowment before they embark on any course of action. Note: It is not uncommon for groups to realize that as they analyze their situation, they find that there are more questions than answers and no quick fixes or obvious solution. But they also must not give up on seeking facts and answers.

(c) A private business is suffering significant advertising revenue losses as a result of the general economy. The value of their stock is declining. They must cut costs to meet corporate financial goals. They informed their staff that cuts were coming. Careful review sessions were held by management to identify what was essential to maintain their competitive position in the market. They implemented difficult non-personnel cuts first by eliminating contracts for equipment that they felt they could tolerate. They tried re-negotiating some contracts with vendors. To their pleasant surprise, some vendors were willing to cut prices during this crisis (it is a crisis for them too). They consulted with HR staff before making any personnel changes, met individually with each staff member "on the list." One high-paid employee offered to stay at a fraction of his salary because he loves the work. Morale is low. People are nervous and waiting for the proverbial next shoe to drop. What advice would you have if and in the likely event that a new round of cuts is required?

5. Some other observations:

. Most organizations can find ways to improve service and cut costs if they have to (everyone resists change, so resistance is to be expected).

- It is very important to think about how, what and when to inform staff. Organizations can get very helpful ideas from the staff. People want to know what is going on so that they can manage their own lives. Many will pitch in if they are treated with respect and honesty. The climate of each organization is different, though. Some questions for public policy students are: How would you like to be treated? What are the down sides of keeping the staff informed?

- There are at least two fairly new approaches that organizations are employing to deal with the current crises:

  - Retention bonuses. Not in the public sector yet, as far as I know, but in some quasi-public and private ones, this practice recognizes that retrenchment and mergers and uncertainties can lead to losing the best people. Organizations are providing monetary incentives to high performers who agree to stay.

  - Furloughs. By reducing the work schedule, the organization continues to function while payroll costs decrease.

Final Thoughts: These are very trying and painful times for organizations and for people. The breadth and depth of this recession/depression is beyond what anyone in the current workforce has experienced. Effective, suitable answers are hard to come by. As Jack tells us, though, these are times of opportunity to make our work and our organizations more effective. We must seize the opportunities for creative solutions and for doing some things that we knew we needed to do but never got around to doing before.

And one last word from me: If you are in an organization that has to change, find out from the people you serve and you do business with – your clients, contractors, the general public – what they think about how you can improve and what you are doing that they no longer need or do not like. You may be surprised at what you hear, save money and win friends in the process!