

Politicians, managers team up to turn New York City around

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New York City was nicknamed "Gotham" after the English town where everyone walked around acting like fools. The Big Apple's managerial reputation is not much better. Moreover, the city has been on the verge of bankruptcy for years.

Former Mayor Abraham Beame and Mayor Edward Koch admitted the problem and set off to remedy it. A major effort to upgrade the city's management is showing promising results. That effort has come about by coupling government and business in an attempt to turn around this \$14 billion corporation (it would rank 13th in revenues in the Fortune 500 Industrials).

"Clearly, what is needed in New York City are sound business practices, which are as applicable in the public sector as the private sector," said Joseph Hydok, director of the mayor's office of operations.

Hydok is one of roughly two dozen top executives on loan at any given time to the city from corporations. Companies with an interest in New York's survival lend the managers for 12 to 18 months, and pay their salaries during that time.

Hydok is a vice-president and division head of Consolidated Edison. His deputy director, Alistair (Scotty) Semple, is on loan from W. R. Grace & Company, where he is vice-president of marketing, planning, and programming.

"Traditionally, New York City, or any other U.S. city, does not have a business approach," said Semple. He added that to further complicate municipal management, "those who stay after an election are normally not those at the top."

But New York is bringing in the best of business to eliminate the worst of government.

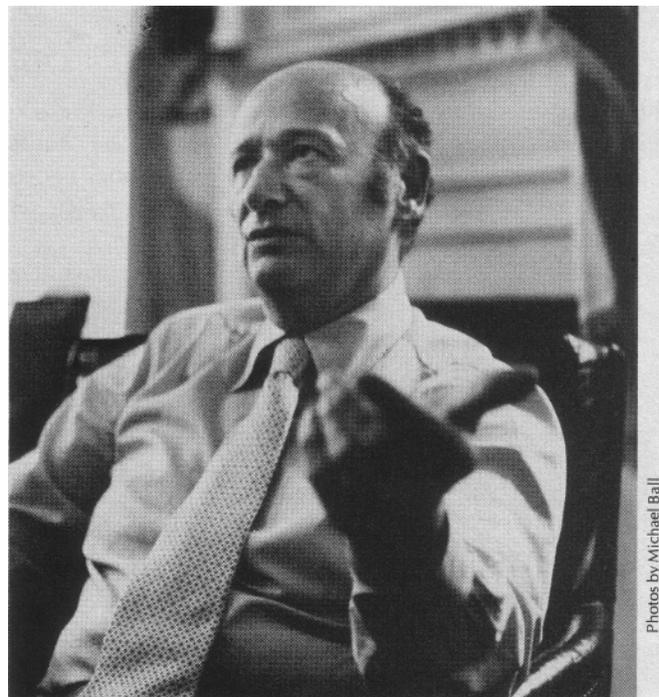
This is an outgrowth of the "Shinn Committee"—a group of nine top executives who formally advised the city during the 1975 fiscal crisis, when bankruptcy was seemingly only hours away. Named after its head, Richard R. Shinn, president of the Metropolitan Life Insurance Company, the committee found that the city "had no viable organization structure, limited management talent, little management training and

systems or capabilities—as business knows them." In short, New York was badly managed.

The municipal office of operations was formed in February 1977, with a director and one staff person. Lee Oberst, New York Telephone's vice-president of operations, was the first director. Hydok succeeded him in November 1978.

The office has grown substantially from that, but Hydok sees the office of operations as still in its infancy. "We now have 20 people," he said. "This office has started to demonstrate business feasibility in city government, but I could use twice as many business executives as I have."

Hydok's office reports directly to the newly appointed deputy mayor of operations, Nathan Leventhal, with direct access to the mayor. It is responsible for a wide variety of day-to-day



New YORK CITY'S CEO: *Mayor Edward Koch*

Photos by Michael Ball

tasks, as well as for upgrading the management system. It is concerned with the management of the 31 diverse city agencies, from parks to police to information systems, and for citywide programs. It puts out brush fires and is instrumental in long-range planning.

As with most cities, New York's office of management and budget (OMB) was all-encompassing. Now OMB can concentrate on fiscal management because there are separate budget and operations functions, as in business.

The first major crisis Hydok faced with the city was one of vendor payments, which came to a head in December 1978. Even without its then major cash-flow problems, New York had been a notoriously slow payer for several administrations.

"We had a long-term problem, and some vendors would not do business with the city," said Hydok. "Others would charge more because of the history of slow payments, including some meat suppliers who would sell only on a C.O.D. basis."

Hydok's people worked with OMB to identify problems and short-term solu-

Hydok: "We want to move as far as we can toward performance measurement."



tions. They discussed the matter with the mayor's advisory committee of business executives, which Semple calls "the unofficial board of directors for the city." A team was then set up from the offices of operations and management and budget, and the top ten agencies in terms of invoice volume were tackled.

"In eight weeks," Hydok said, "we identified the problems, established goals and monitored monthly performance." The other agencies were then added to the payment system.

Because of the special situation in the city government, it is necessary to set up a team to work with an agency in setting up a new system, and in identifying problems. Likewise, the personnel system has peculiarities that require special considerations.

"Good managerial selection and a sound operating structure are more difficult with the civil service structure," Hydok remarked. He added that civil-service reform needs a lot of support for sound management principles to be truly effective.

Instituting performance measures has meant problems as well. For one, some departments lend themselves to unit measurement and others do not. The effect of every additional sanitation truck and worker is predictable and can be measured in tons. However, the number of crimes not committed because of an extra police cruiser is impossible to reckon.

As much as possible, Hydok's office is trying to apply business measures. "We try to weed out problems and evaluate performance on a dollars-and-cents basis," Hydok said. "What we want to do is move as far as we can toward performance measurement."

An even stickier area is measuring management output. The agencies are considerably different, and city government is not directly translatable into well-defined corporate terms.

"The city has 168,000 employees, and only 1,800 of them can be classified as managers," said Hydok. This situation

has been complicated by cutbacks and losses of workers on some lower levels. As a result, restrictive titles have been altered to allow for more flexibility in moving jobs, transferring, and promoting. But with civil service and union workers involved, this has not gone entirely smoothly.

For example, half of the city's sanitation trucks are generally down at any given time. They average 11-years-old and should have been replaced after seven years. New maintenance workers were hired to keep up the new trucks and repair the old ones. In addition, the office of operations is proposing two-man instead of three-man trucks, and extending the average route.

Hydok expects dissent from the union. But since such systems have been developed and proven in federal and municipal setups, and since the city's particular circumstances have been considered, "we're prepared to fight the union on this one," he added.

The efficiency efforts are having far-ranging effects on the city's managers. Now that the outputs of various departments, sections, and subsections are being quantified, the pressure is on to show good results.

"We rank the agencies against each other and the departments within the agencies," said Semple. He added that reaching for "accountability as a result of our productivity systems," the city is going all the way down to the subsections to see which supervisors are doing the best jobs. "And we find that the competitive spirit works just as it does in private enterprise," Semple said.

Complicating this managerial improvement effort is a characteristic of municipal government: little use of staff. Not only does New York not have enough managers to be run exactly like a corporation, but the government structure also encourages line independence.

"Most agency heads have very little staff support, and many managers do not recognize the importance of staff," said Hydok. "Consequently, there is less ad-

vance planning." This is particularly important since the city must deal with physical crises like blackouts and snow emergencies.

"We're trying to coordinate and support the agencies during crises, and to do this we have to do more advance planning," said Hydok. As a result, the office of operations is making the "first real attempts" to establish line dependence on

city government staff functions. Another important project involves "corporatizing" data processing. This operation has a budget and staff comparable to Hydok's office. Yet, for all the trouble and expense in revamping it, the computer side has shown the quickest return on investment.

Several major agencies had set up their own computer systems with their

own hardware and software. The restructuring called for melding five major systems. "Besides having their own equipment, staff, and space, these operations competed for programmers and managers," said Hydok.

Using seed funds of \$1 million for the project, Chairman Mike Samek, Celenese Corporation's manager of computers, and ten corporate vice-presidents formed

New York mayor says civil servants need more incentive to perform

The management improvement program using on-loan executives "has had a major positive impact on the city," Mayor Edward Koch said in an interview with Management Review. However, he added, "I don't believe we will ever get in government the same kind of management efficiency that you get in the private sector."

The difference is a concern with profit and loss. "In government, the average civil servant does not worry about that," said Koch. "It's not that they want to waste money. It's simply that they don't know that if you run out of money, you have to cut something somewhere."

Lacking a profit-and-loss mentality, the city "needs some substitute, to get as close as we can," he added.

Fundamental in this effort, said Koch, is bringing in people from the business world to evaluate the city's operation and suggest where different techniques and safeguards can be applied.

He pointed out, though, that the aim is better service delivery rather than profits. "We're going to make it better, but anybody who thinks we're ever going to compete with the private sector in getting things done well and cheaply—they're out of their minds."

Aside from the techniques and management improvement, some modified business practices will be instituted. One is a "June bonus" to compare to the Christmas bonus in a corporation. It will

be a reward to managers assigned to perform specific tasks that would cut costs or increase efficiency. Saving gasoline would be one such task. "If you meet that goal, at the end of the fiscal year, we're going to reward you in some modest way—maybe \$500 or \$750," said Koch.



"For the following year, you don't get the bonus for meeting the same goal; you may get a different one. But if you don't meet that goal, and you're a manager who met it the year before, we're going to remove you."

Koch stated that that was part of the profit motive, something in which he strongly believes. "It has made business successful," he said. "That is what I am seeking to do and what Joe [Hydok] is helping me do."

Koch also iterated Hydok's call for business involvement in civil service reform. "The civil service unions make contributions to the legislators in a perfectly moral, legal way, and I want to tell

you it has an impact on the way those legislators respond to the desires of those unions. I think it is key that business people do the same."

More directly, businesses can help New York by sending their best managers to take part in the improvement program, Koch said. "To ease its conscience," he added, a business can "send a check to Father Flanagan [Boys Town] or send one of its people to the city. If you send a check to Father Flanagan, you know the value of it. We want them to send us their best for a year or 18 months if they really want to show pro bono interest."

Koch noted that besides sending their top executives, businesses should consider lending their best middle and lower level managers. "We need some Indians, too," he said.

There are some limits on the managers the city will take for the program. No sales or merchandising executive or any other employee who might have a conflict of interest is accepted. Companies that are vendors to the city are not excluded, but their merchandising people are.

Besides a salved conscience, a company lending a manager gains real benefits, according to Koch. The city will accept only promotable executives, so their careers will be enhanced. "And I think it's helpful to them as well in learning about the city and how it works," he said. "It's a whole other world." •



Sample: "There are a lot of good city employees who want to do more."

an advisory committee. It established permanent guidelines for purchase of hardware and software, eliminated duplication of inventory control systems, consolidated hardware, and set up models to be followed by various agencies.

Besides more efficient computing, the immediate savings in hardware and space rental has been \$1.2 million.

Linked with this computer upgrading has been accounts receivables. There had been no system for knowing how much was owed the city for how long, and how much was bad debt. "We soon identified \$800 million in parking, and water and sewer receivables," said Hydok. Using the new data system, the city was able to go after the receivables and set up write-off policies, both consistent with industry procedures.

Incorporating reports on these efforts and on the managerial program, the mayor's management report has recently been linked to the city budget. Now the combined April report includes the budget; the August supplement reflects budget changes, shifts in goals and objectives, and managerial progress; and the January report contains the mayor's preliminary plan for the year.

This gives the city's Board of Esti

mates the most complete and up-to-date information possible. It also ties the management efforts directly to the fiscal realities.

"Hiding the facts does not allow a city to improve its management," said Hydok. "The city is compelled to move to a balanced budget and the mayor is committed to one. This means no fiscal gimmickry, a four-year plan, and getting up the labor reserves."

While he calls this a "mandate for austerity," Hydok added, "We can reduce costs without a loss of service, if it is done in an intelligent way."

In moving toward a financially sound organization, there have been political problems, such as front-page headlines on ousted managers. And the mayor has been accused of trying to build up an empire in the office of operations.

Hydok sees the infighting and the replacement of some top managers as consistent with Mayor Koch's program. "The mayor has made a commitment to a strong management cadre. He believes he has made good selections, but he's not above admitting he has made a mistake and replacing the person."

Also, it is politically difficult for Mayor Koch to increase Hydok's budget at a time of budget cutting. Yet, "I argue that the savings are coming in other areas as a result," said Hydok.

However, he noted that at the present rate of three agencies revamped in the first year, it would take a decade to complete the program. "But I am convinced that when we have proved this is effective, practical, and not blue sky, we'll accelerate."

Sample added that he has seen improvement from the mayor's office down, and an increase in "profit orientation." "There has been an evolution, with city managers becoming aware that there is more to running a good shop than visibility," he said. "This becomes more difficult as you move down the ladder, but there are a lot of damned good city employees who say they want to help, want to do more. It gives you hope."•