

Statement of Billy C. Hamilton
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Mr. Chairman and Members:

My name is Billy Hamilton and I am currently the Executive Vice Chancellor and Chief Financial Officer of the Texas A&M University System. I thank you for the invitation to speak on this important topic. It is a pleasure to be here today.

The reason I am testifying has to do with my career prior to going to work for higher education. In 1991, I was fortunate enough to lead the Texas Performance Review of state government. At that time I was Deputy Comptroller of Public Accounts. The Comptroller, who is elected statewide, is the state's chief financial officer and is responsible for tax administration, statewide accounting and claims payment, treasury operations and a range of other responsibilities.

In 1991, the Legislature faced a major budget shortfall and asked the Comptroller to conduct a government expenditure review as part of a twin effort with a revenue system review conducted by what was called the Connolly Commission, a traditional blue-ribbon panel. Managing the performance review fell within my job description among the "other duties as assigned." I had not previously worked on a performance review—and indeed we made the whole enterprise up as we went along.

Despite the shaky beginnings, the process was a success, identifying savings of \$4 billion over two years and recommending a number of improvements in government. As a result, the Legislature made it a biennial process. It also served as a partial model for the National Performance Review headed by Vice President Al Gore in 1992, and for the California Performance Review, which Governor Schwarzenegger commissioned in 2004. I worked on both of those projects on loan from the State of Texas, first as Assistant Director for Agencies on the NPR and as Co-Executive Director of the CPR.

I should mention that in California, we found the Little Hoover Commission's work invaluable and even proposed relying on the commission to achieve our vision of a reorganized state government, which unfortunately didn't come to pass for reasons that I believe were mostly external to the CPR.

With that background—and despite all of the battering of my head against the wall government bureaucracy since that original review—I have retained a few basic beliefs.

The first is that government matters. It is not an afterthought or a drag on the economy. It provides useful services that are needed in a modern society.

The second is that even the best organizations accumulate bureaucratic "detritus" over time and can become bogged down and unresponsive. The times change faster than state agencies normally do.

Technologies can change; customer expectations can change; and political realities can change. Modern government must be in a state of constant recreation to keep up with the change and to be successful. It must continually evaluate its own operations in terms of current realities.

The third belief is that the effort to improve government is not a pointless exercise as some critics suggest. Instead, the effort to improve the quality of service should be relentless. Government organizations can be better than they are. Most organizations—public or private—can be better than they are. It is just a matter of investing time and discipline into innovation and improvement.

Of course, it is true that government doesn't have the profit motive to spur innovation, but that doesn't mean that the people who work in government—and those who lead government agencies—can't be as committed to providing services equal in quality to private sector organizations. I have found that state employees are, for the most part, dedicated people who would rather do good work of which they can be proud rather than be trapped into doing the bad work so often attributed to them.

Performance reviews are one way to avoid the pitfall of bad service. As we modeled them, performance reviews are evaluations that challenge the purpose, operations and policies of government. A review can be applied to an entire government, a single agency or a program involving multiple agencies. Its goal is to find ways to save money, increase efficiency, eliminate waste and improve customer service.

These were actually novel concepts in 1991. The Comptroller's original assignment from the Legislature was to find ways to reduce spending, but we decided early on that a slash-and-burn approach to the budget made no functional sense if one of our goals was—as it should be—improving government. You can cut budgets with relative ease, but ham-handed effort cuts can produce a depressing cycle where government performance becomes secondary to meeting budget objectives and the old trope that “government can't do anything right” becomes a self-fulfilling prophesy.

In the performance reviews in Texas, nationally and in California, our guiding principles were:

- Put People First
- Save Taxpayers Dollars
- Be Visionary and Innovative
- Be Accountable and Efficient
- Be Performance Driven

As you can see, performance reviewers keep “customers” central to the review's purpose and objectives. Their focus extends beyond immediate problems to anticipate the future needs of government and its citizens. A performance review should help articulate the management philosophy an organization needs to meet these challenges.

In each of the performance reviews, we tried to listen not just to administrators and legislators but to line employees and the people who are the beneficiaries—or at times victims—of what a particular agency or program does. Listening to customers is done for obvious reasons—to determine

how they found their interaction with the government. We listen to line employees on the assumption, which is surprisingly true in almost every case, that they know what is wrong with the processes of government and often have good ideas about how to fix those problems.

The performance review process—buttressed by my experience as a state agency administrator—taught me the value of focusing on customer expectations, even when the “customers,” as in the case of the taxpayers who had to undergo tax audits, who often would just as soon not be “served” so well.

In the performance reviews, a basic tenet was to evaluate each program from the ground up, starting with the customer or client experience and working up to more global issues like policy making. We were not interested first and foremost in making the job easier for the government but instead in making the service or responsibility as easy and straightforward as possible for the people being served.

Your staff asked which particular tools were best for this purpose. My response is that we tried them all—interviews, simple observation, focus groups, surveys and “mystery shopping,” where someone goes into an agency seeking help and evaluates the response. In the Comptroller’s office, we monitored calls to our phone bank to identify trends in taxpayers’ questions and to insure the quality of service. Every person walking into one of our field offices was asked to complete a three-question survey on their experience. These data, minimal as they were, were gathered, evaluated and followed up on. My favorite response on one of these surveys was: “The auditor dressed like a clown, but he was fair.”

We tried every approach at one time or another because measuring customer sentiment is one of the most difficult aspects of government management. It is relatively easy to “count widgets”—to determine how many payments are processed or returns are audited, but trying to determine what people are really thinking about your services is another matter. But it is essential to successful management and should be required as a part of any government performance management system.

In the Comptroller’s office, filled as it was with accountants, we developed detailed performance metrics for all of our operations. The Comptroller’s office is very process-oriented—lots of audits, lots of payments, lots of money flowing through state’s accounts, lots of interaction with the public. We collected something like 10,000 metrics a month, which sounds like an absurd number, but you have to remember, we were the state’s tax agency, accounting agency, treasury and local government service organization. Each manager had indicators to which he or she paid attention. From this massive list, I distilled a handful of measures that mattered—or as I thought of them then: “Things that could get me fired.” Since the Comptroller of Public Accounts is a statewide elected official in Texas, one of the key indicators that things were going well was the metrics for customer satisfaction. It’s bad enough to have the customers unhappy; it is death to have the voters displeased.

The trick from a management standpoint is never to ignore a problematic trend—or really any pattern that moves off trend unexpectedly. Our philosophy could basically be boiled down to three commandments: “No surprises,” “Fix the problem not the blame,” and “You can’t fix a problem you don’t know about.”

I also believe that agency management needs to be wide open to communication with its employees. This is often a difficult thing, especially in very large agencies where layers of management can accumulate and mute communication channels. Our philosophy in the performance reviews and in management matters was that those who delivered the service—who manned the fort so to speak—were generally the most knowledgeable about the problems and potential solutions.

We created a process called Renaissance based on a system in use at the time by General Electric. We identified individual internal processes and used a mix of our own employees to evaluate the processes and make recommendations. The recommendations were brought to management in open forums, openly discussed and, if possible, approved or disapproved on the spot. It was not only a useful way to sharpen our own practices but a great way to encourage employees to speak up when they saw something wrong. My notion was that I didn't want to be—or have my boss be—the emperor in his new clothes, which aren't clothes at all, walking around naked and foolish.

Technology gives us a way to flatten organizations if it is done right. I maintained a question-and-answer blog on our agency internet that allowed anyone to ask any question anonymously. Once people became comfortable with the notion that the blog was truly anonymous—and that took time—I answered all sorts of questions and took all sorts of comments. Over time, I answered more than 14,000 questions and comments and had to use lunch hours and evenings to keep up with the flow. In some cases, the results were humorous: Our biggest complaints in order were: people talking loudly on the phone, burned popcorn in the break rooms, people wearing too much cologne, and people who failed to clean the office refrigerator at the end of the week. In other cases, people raised serious issues, and their input acted as a sort of distant early warning system for problems and an indispensable tool for communicating up and down the organization—once everyone recognized that we were focused on improving performance and working conditions, not in punishing mistakes.

One of the issues that frequently came up was how our services were being received by taxpayers. Line employees have to live with the consequences of our bad decisions, and once we started a flow of communication, we were able to identify “hot spots” and then determine if there were ways to address them.

Technology can also greatly improve customer service in a direct sense, something that should be obvious to all modern governments. People are accustomed to working on line, and obviously vast amounts of information can now be made available to the public through the Internet. Texas, for one, has very tough open records policies and much is made of transparency, but simply dumping information on the Internet without context or without evaluating its direct value to our customers is shortsighted. You need to focus first on making information and services available that people actually want as oppose to what sounds good in press releases.

It is possible for government websites to work as well or better than anything in the private sector, and this is an area where we need to do a better job of learning from the private sector. This is a place where the profit motive really does favor improvements in speed and usability, and as government administrators, we are fools if we don't learn from that wellspring of knowledge and innovation.

On the topic of the private sector, I believe there is much government can learn from the private sector. We tend to come to innovations about 5-10 years after the private sector, and benchmarking against businesses with comparable operations, though sometimes difficult, is a useful activity. We found it particularly helpful in the information technology arena, although government is often hindered less by innovation in this area than by simple lack of capital to invest in new technologies.

I do, however, think it is misguided to believe that the private sector is a perfect template for government. Government can be every bit as good as the private sector, but its goal shouldn't necessarily be to remodel itself as a knock-off of the private sector. Government is a business, but it is its own kind of business. You use many of the same tools to build a house and a boat, but no one thinks they're the same thing.

That brings me to the question of how you create lasting reform—can improvement be made and then sustained? I fear I am too old and have been in government too long to believe that anything lasts forever. More to the point, reform itself has a shelf life. What is new and innovative today will be out of date in a decade if not sooner. The trick isn't making sure the reforms last but making sure the impulse to innovate and improve lasts.

How might that be accomplished? I can think of a few necessary pre-requisites.

First, you need sustained commitment from the top. I have seen performance management efforts, total quality management efforts, zero-based budgeting efforts, activity-based costing efforts and a long string of other so-called management innovations flourish then fall by the wayside once management becomes bored with their novelty and stops investing interest in them.

This is true of customer service improvements. Outstanding customer service is not a piece of software that can be installed and upgraded over time. It is something that management must demand, employees must embrace and which must be rethought on a regular basis.

That was really one of the great values of the performance review in Texas and, I suspect, of the Little Hoover Commission's work here in California. Create a group whose job it is to ask tough questions about the status quo to and to look for new and better ways to provide services. Beat the bush for the best ideas public or private. Ask what other states are doing, what local governments are doing, what the best corporations are doing—and ask these questions regularly. Plagiarism in the service of good government is not a sin. As the legislation creating the Texas Performance Review said, “challenge the basic assumptions about government”—and it should have added: “Borrow” the best ideas you can find wherever you find them.

I also believe there are certain tools and metrics you can build into government systems to keep the focus on good service. Pass out cards and ask people how the service was. Monitor wait-times at field offices. Monitor how often people are cut off when they call agency phone banks or are on “hold” longer than a minute. You can monitor population trends to see where best to locate field offices. You can simply ask people what they think and care about the answers. Of course, that's all just so much data unless someone takes it and makes it into information and acts on that information.

It all comes back again and again to a focus and commitment to doing right by the citizens. It all comes down to wanting to create a government that is smarter, faster, more streamlined and accountable than what has come before or what is available elsewhere. That can be tough in an era of constrained resources. No state should know that better than California which has emerged from its own long, dark decade of troubles.

A natural question to conclude is whether it is possible to “have it all”. Can you really reduce the cost of government and make it work better? Is a high-quality customer service organization even possible today given the limitations on government? The answer to that is “yes” because of the nature of government itself. We tend to look at governments and agencies within governments as monolithic organizations designed to do certain tasks. But the reality is, if you zoom in on a particular service, a particular operation, what you find there’s both good and bad. The trick is to root out the bad and reinvest in the good—to make a bad product good and a good product better.

There is no magic bullet for making government services beloved by the general public. I’d say in the modern environment, people have been conditioned by almost 40 years of open contempt for government into believing that the entire enterprise is hopeless. But that shouldn’t be our default position as government employees or commission members. We need to prove the critics wrong.

The only way to improve that situation—to improve the relationship of government to the people—is for the agency and the government to deliver their services in as effective a way as possible—to have a government that, as the NPR put it, works better and costs less. We must continually scrutinize processes and be relentless in searching for innovations. One more set of axioms of effective management:

- Listen to customers
- Listen to employees
- Have faith in the work force
- Work collaboratively
- Refuse to settle for mediocrity
- Be consistent
- Always ask: What are we not doing? What *more* should we do?
What *less* should we do?

Thank you for your time and attention. Of course, I would be happy to answer any questions.