

Managing the public service institution

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SERVICE institutions are an increasingly important part of our society. Schools and universities; research laboratories; public utilities; hospitals and other health-care institutions; professional, industry, and trade associations; and many others—all these are as much “institutions” as is the business firm, and, therefore, are equally in need of management.¹ They all have people who are designated to exercise the management function and who are paid for doing the management job—even though they may not be called “managers,” but “administrators,” “directors,” “executives,” or some other such title.

These “public service” institutions—to give them a generic name—are the real growth sector of a modern society. Indeed, what we have now is a “multi-institutional” society rather than a “business” society. The traditional title of the American college course still tends to read “Business and Government.” But this is an anachronism. It should read “Business, Government, and Many Others.”

All public service institutions are being paid for out of the eco-

¹ Government agencies and bureaus are also “service institutions,” of course, and have management problems which are comparable to those of the institutions I have mentioned. But because they also partake of a general “governmental” purpose, not usefully defined in management terms, I shall not be dealing with them in this article. I shall feel free, however, to include such quasi-governmental organizations as the TVA or the post office in my discussion.

conomic surplus produced by economic activity. The growth of the service institutions in this century is thus the best testimonial to the success of business in discharging its economic task. Yet unlike, say, the early 19th-century university, the service institutions are not mere "luxury" or "ornament." They are, so to speak, main pillars of a modern society, load-bearing members of the main structure. They *have* to perform if society and economy are to function. It is not only that these service institutions are a major expense of a modern society; half of the personal income of the United States (and of most of the other developed countries) is spent on public service institutions (including those operated by the government). Compared to these "public service" institutions, both the "private sector" (i.e., the economy of goods) and the traditional government functions of law, defense, and public order, account for a smaller share of the total income flow of today's developed societies than they did around 1900—despite the cancerous growth of military spending.

Every citizen in the developed, industrialized, urbanized societies depends for his very survival on the performance of the public service institutions. These institutions also embody the values of developed societies. For it is in the form of education and health care, knowledge and mobility—rather than primarily in the form of more "food, clothing, and shelter"—that our society obtains the fruits of its increased economic capacities and productivity.

Yet the evidence for performance in the service institutions is not impressive, let alone overwhelming. Schools, hospitals, universities are all big today beyond the imagination of an earlier generation. They all dispose of astronomical budgets. Yet everywhere they are "in crisis." A generation or two ago, their performance was taken for granted. Today, they are being attacked on all sides for lack of performance. Services which the 19th century managed with aplomb and apparently with little effort—the postal service, for instance—are deeply in the red, require enormous and ever-growing subsidies, and yet give poorer service everywhere. In every country the citizen complains ever more loudly of "bureaucracy" and mismanagement in the institutions that are supposed to serve him.

Are service institutions manageable?

The response of the service institutions to this criticism has been to become "management conscious." They increasingly turn to business to learn "management." In all service institutions, "manager development," "management by objectives," and many other concepts

and tools of business management are becoming increasingly popular. This is a healthy sign—but no more than that. It does not mean that the service institutions understand the problems of managing themselves. It only means that they have begun to realize that, at present, they are not being managed.

Yet, though “performance” in the public service institutions is the exception rather than the rule, the exceptions do prove that service institutions can perform. Among American public service agencies of the last 40 years, for instance, there is the Tennessee Valley Authority (TVA), the big regional electric-power and irrigation project in the Southeastern United States. (TVA’s performance was especially notable during its early years, in the 1930’s and 1940’s, when it was headed by David Lilienthal.) While a great many—perhaps most—schools in the inner-city, black ghettos of America deserve all the strictures of the “deschooling” movement, a few schools in the very worst ghettos (e.g., in New York’s South Bronx) have shown high capacity to make the most “disadvantaged” children acquire the basic skills of literacy.

What is it that the few successful service institutions do (or eschew) that makes them capable of performance? This is the question to ask. And it is a *management* question—of a special kind. In most respects, the service institution is not very different from a business enterprise. It faces similar—if not precisely the same—challenges in seeking to make work productive. It does not differ significantly from a business in its “social responsibility.” Nor does the service institution differ very much from business enterprise in respect to the manager’s work and job, in respect to organizational design and structure, or even in respect to the job and structure of top management. *Internally*, the differences tend to be differences in terminology rather than in substance.

But the service institution is in a fundamentally different “business” from business. It is different in its purpose. It has different values. It needs different objectives. And it makes a different contribution to society. “Performance and results” are quite different in a service institution from what they are in a business. “Managing for performance” is the one area in which the service institution differs significantly from a business.

Why service institutions do not perform

There are three popular explanations for the common failure of service institutions to perform:

- 1) Their managers aren't "businesslike";
- 2) They need "better men";
- 3) Their objectives and results are "intangible."

All three are alibis rather than explanations.

1) The service institution will perform, it is said again and again, if only it is managed in a "businesslike" manner. Colbert, the great minister of Louis XIV, was the first to blame the performance difficulties of the non-business, the service institution, on this lack of "businesslike" management. Colbert, who created the first "modern" public service in the West, never ceased to exhort his officials to be "businesslike." The cry is still being repeated every day—by chambers of commerce, by presidential and royal commissions, by ministers in the Communist countries, and so on. If only, they all say, their administrators were to behave in a "businesslike" way, service institutions would perform. And of course, this belief also underlies, in large measure, today's "management boom" in the service institutions.

But it is the wrong diagnosis; and being "businesslike" is the wrong prescription for the ills of the service institution. The service institution has performance trouble precisely because it is *not* a business. What being "businesslike" usually means in a service institution is little more than control of cost. What characterizes a business, however, is focus on results—return on capital, share of market, and so on.

To be sure, there is a need for efficiency in all institutions. Because there is usually no competition in the service field, there is no outward and imposed cost control on service institutions as there is on business in a competitive (and even an oligopolistic) market. But the basic problem of service institutions is not high cost but lack of effectiveness. They may be very efficient—some are. But they then tend not to do the right things.

The belief that the public service institution will perform if only it is put on a "businesslike" basis underlies the numerous attempts to set up many government services as separate "public corporations"—again an attempt that dates back to Colbert and his establishment of "Crown monopolies." There may be beneficial side effects, such as freedom from petty civil service regulation. But the intended main effect, performance, is seldom achieved. Costs may go down (though not always; setting up London Transport and the British Post Office as separate "businesslike" corporations, and thereby making them defenseless against labor union pressures, has led to skyrocketing costs). But services essential to the fulfillment of the institution's purpose may be slighted or lopped off in the name of "efficiency."

The best and worst example of the "businesslike" approach in the public service institution may well be the Port of New York Authority, set up in the 1920's to manage automobile and truck traffic throughout the two-state area (New York and New Jersey) of the Port of New York. The Port Authority has, from the beginning, been "businesslike" with a vengeance. The engineering of its bridges, tunnels, docks, silos, and airports has been outstanding. Its construction costs have been low and under control. Its financial standing has been extremely high, so that it could always borrow at most advantageous rates of interest. It made being "businesslike"—as measured, above all, by its standing with the banks—its goal and purpose. As a result, it did not concern itself with transportation policy in the New York metropolitan area, even though its bridges, tunnels, and airports generate much of the traffic in New York's streets. It did not ask: "Who are our constituents?" Instead it resisted any such question as "political" and "unbusinesslike." Consequently, it has come to be seen as the villain of the New York traffic and transportation problem. And when it needed support (e.g., in finding a place to put New York's badly needed fourth airport), it found itself without a single backer, except the bankers. As a result the Port Authority may well become "politicized"; that is, denuded of its efficiency without gaining anything in effectiveness.

"Better people"

The cry for "better people" is even older than Colbert. In fact, it can be found in the earliest Chinese texts on government. In particular, it has been the constant demand of all American "reformers," from Henry Adams shortly after the Civil War, to Ralph Nader today. They all have believed that the one thing lacking in the government agency is "better people."

But service institutions cannot, any more than businesses, depend on "supermen" to staff their managerial and executive positions. There are far too many institutions to be staffed. If service institutions cannot be run and managed by men of normal—or even fairly low—endowment, if, in other words, we cannot organize the task so that it will be done on a satisfactory level by men who only try hard, it cannot be done at all. Moreover, there is no reason to believe that the people who staff the managerial and professional positions in our "service" institutions are any less qualified, any less competent or honest, or any less hard-working than the men who manage businesses. By the same token, there is no reason to believe that business

managers, put in control of service institutions, would do better than the "bureaucrats." Indeed, we know that they immediately become "bureaucrats" themselves.

One example of this was the American experience during World War II, when large numbers of business executives who had performed very well in their own companies moved into government positions. Many rapidly became "bureaucrats." The men did not change. But whereas in business they had been capable of obtaining performance and results, in government they found themselves producing primarily procedures and red tape—and deeply frustrated by the experience.

Similarly, effective businessmen who are promoted to head a "service staff" within a business (e.g., the hard-hitting sales manager who gets to be "Vice President—marketing services") tend to become "bureaucrats" almost overnight. Indeed, the "service institutions" within business—R&D departments, personnel staffs, marketing or manufacturing service staffs, and the like—apparently find it just as hard to perform as the public service institutions of society at large, which businessmen often criticize as being "unbusinesslike" and run by "bureaucrats."

"Intangible" objectives

The most sophisticated and, at first glance, the most plausible explanation for the non-performance of service institutions is the last one: The objectives of service institutions are "intangible," and so are their results. This is at best a half-truth.

The definition of what "our business is" is always "intangible," in a business as well as in a service institution. Surely, to say, as Sears Roebuck does, "Our business is to be the informed buyer for the American family," is "intangible." And to say, as Bell Telephone does, "Our business is service to the customers," may sound like a pious and empty platitude. At first glance, these statements would seem to defy any attempt at translation into operational, let alone quantitative, terms. To say, "Our business is electronic entertainment," as Sony of Japan does, is equally "intangible," as is IBM's definition of its business as "data processing." Yet, as these businesses have clearly demonstrated it is not exceedingly difficult to derive concrete and measurable goals and targets from "intangible" definitions like those cited above.

"Saving souls," as the definition of the objectives of a church is, indeed, "intangible." At least the bookkeeping is not of this world.

But church attendance is measurable. And so is "getting the young people back into the church."

"The development of the whole personality" as the objective of the school is, indeed, "intangible." But "teaching a child to read by the time he has finished third grade" is by no means intangible; it can be measured easily and with considerable precision.

"Abolishing racial discrimination" is equally unamenable to clear operational definition, let alone measurement. But to increase the number of black apprentices in the building trades is a quantifiable goal, the attainment of which can be measured.

Achievement is never possible except against specific, limited, clearly defined targets, in business as well as in a service institution. Only if targets are defined can resources be allocated to their attainment, priorities and deadlines be set, and somebody be held accountable for results. But the starting point for effective work is a definition of the purpose and mission of the institution—which is almost always "intangible," but nevertheless need not be vacuous.

It is often said that service institutions differ from businesses in that they have a plurality of constituencies. And it is indeed the case that service institutions have a great many "constituents." The school is of vital concern not only to children and their parents, but also to teachers, to taxpayers, and to the community at large. Similarly, the hospital has to satisfy the patient, but also the doctors, the nurses, the technicians, the patient's family—as well as taxpayers or, as in the United States, employers and labor unions who through their insurance contributions provide the bulk of the support of most hospitals. But business also has a plurality of constituencies. Every business has at least two different customers, and often a good many more. And employees, investors, and the community at large—and even management itself—are also "constituencies."

Misdirection by budget

The one basic difference between a service institution and a business is the way the service institution is paid. Businesses (other than monopolies) are paid for satisfying the customer. They are only paid when they produce what the customer wants and what he is willing to exchange his purchasing power for. Satisfaction of the customer is, therefore, the basis for performance and results in a business.

Service institutions, by contrast, are typically paid out of a budget allocation. Their revenues are allocated from a general revenue stream that is not tied to what they are doing, but is obtained by tax,

levy, or tribute. Furthermore, the typical service institution is endowed with monopoly powers; the intended beneficiary usually has no choice.

Being paid out of a budget allocation changes what is meant by "performance" or "results." "*Results*" in the budget-based institution means a larger budget. "*Performance*" is the ability to maintain or to increase one's budget. The first test of a budget-based institution and the first requirement for its survival is to obtain the budget. And the budget is, by definition, related not to the achievement of any goals, but to the *intention* of achieving those goals.

This means, first, that efficiency and cost control, however much they are being preached, are not really considered virtues in the budget-based institution. The importance of a budget-based institution is measured essentially by the size of its budget and the size of its staff. To achieve results with a smaller budget or a smaller staff is, therefore, not "performance." It might actually endanger the institution. Not to spend the budget to the hilt will only convince the budget-maker—whether a legislature or a budget committee—that the budget for the next fiscal period can safely be cut.

Thirty or 40 years ago, it was considered characteristic of Russian planning, and one of its major weaknesses, that Soviet managers, towards the end of the plan period, engaged in a frantic effort to spend all the money allocated to them, which usually resulted in total waste. Today, the disease has become universal, as budget-based institutions have become dominant everywhere. And "buying-in"—that is, getting approval for a new program or project by grossly underestimating its total cost—is also built into the budget-based institution.

"Parkinson's Law" lampooned the British Admiralty and the British Colonial Office for increasing their staffs and their budgets as fast as the British Navy and the British Empire went down. "Parkinson's Law" attributed this to inborn human perversity. But it is perfectly rational behavior for someone on a budget, since it is the budget, after all, that measures "performance" and "importance."

It is obviously not compatible with *efficiency* that the acid test of performance should be to obtain the budget. But *effectiveness* is even more endangered by reliance on the budget allocation. It makes it risky to raise the question of what the "business" of the institution should be. That question is always "controversial"; such controversy is likely to alienate support and will therefore be shunned by the budget-based institution. As a result, it is likely to wind up deceiving both the public and itself.

Take an instance from government: The U.S. Department of Agriculture has never been willing to ask whether its goal should be "farm productivity" or "support of the small family farm." It has known for decades that these two objectives are not identical as had originally been assumed, and that they are, indeed, becoming increasingly incompatible. To admit this, however, would have created controversy that might have endangered the Department's budget. As a result, American farm policy has frittered away an enormous amount of money and human resources on what can only (and charitably) be called a public relations campaign, that is, on a show of support for the small family farmer. The effective activities, however—and they have been very effective indeed—have been directed toward eliminating the small family farmer and replacing him by the far more productive "agribusinesses," that is, highly capitalized and highly mechanized farms, run as a business and not as a "way of life." This may well have been the right thing to do. But it certainly was not what the Department was founded to do, nor what the Congress, in approving the Department's budget, expected it to do.

Take a non-governmental example, the American community hospital, which is "private" though "non-profit." Everywhere it suffers from a growing confusion of missions and objectives, and the resulting impairment of its effectiveness and performance. Should a hospital be, in effect, a "physician's facility"—as most older American physicians still maintain? Should it focus on the major health needs of a community? Or should it try to do everything and be "abreast of every medical advance," no matter what the cost and no matter how rarely certain facilities will be used? Should it devote resources to preventive medicine and health education? Or should it, like the hospital under the British health service, confine itself strictly to repair of major health damage after it has occurred?

Every one of these definitions of the "business" of the hospital can be defended. Every one deserves a hearing. The effective American hospital will be a multi-purpose institution and strike a balance between various objectives. What most hospitals do, however, is pretend that there are no basic questions to be decided. The result, predictably, is confusion and impairment of the hospital's capacity to serve any function and to carry out any mission.

Pleasing everyone and achieving nothing

Dependence on a budget allocation militates against setting priorities and concentrating efforts. Yet nothing is ever accomplished un-

less scarce resources are concentrated on a small number of priorities. A shoe manufacturer who has 22 per cent of the market for work shoes may have a profitable business. If he succeeds in raising his market share to 30 per cent, especially if the market for his kind of footwear is expanding, he is doing very well indeed. He need not concern himself too much with the 78 per cent of the users of work shoes who buy from somebody else. And the customers for ladies' fashion shoes are of no concern to him at all.

Contrast this with the situation of an institution on a budget. To obtain its budget, it needs the approval, or at least the acquiescence, of practically everybody who remotely could be considered a "constituent." Where a market share of 22 per cent might be perfectly satisfactory to a business, a "rejection" by 78 per cent of its "constituents"—or even by a much smaller proportion—would be fatal to a budget-based institution. And this means that the service institution finds it difficult to set priorities; it must instead try to placate everyone by doing a little bit of everything—which, in effect, means achieving nothing.

Finally, being budget-based makes it even more difficult to abandon the wrong things, the old, the obsolete. As a result, service institutions are even more encrusted than businesses with the barnacles of inherently unproductive efforts.

No institution likes to abandon anything it does. Business is no exception. But in an institution that is being paid for its performance and results, the unproductive, the obsolete, will sooner or later be killed off by the customers. In a budget-based institution no such discipline is being enforced. The temptation is great, therefore, to respond to lack of results by redoubling efforts. The temptation is great to double the budget, precisely *because* there is no performance.

Human beings will behave as they are rewarded for behaving—whether the reward be money and promotion, a medal, an autographed picture of the boss, or a pat on the back. This is one lesson the behavioral psychologist has taught us during the last 50 years (not that it was unknown before). A business, or any institution that is paid for its results and performance in such a way that the dissatisfied or disinterested customer need not pay, has to "earn" its income. An institution that is financed by a budget—or that enjoys a monopoly which the customer cannot escape—is rewarded for what it "deserves" rather than for what it "earns." It is paid for good intentions and for "programs." It is paid for not alienating important constituents rather than for satisfying any one group. It is mis-

directed, by the way it is paid, into defining "performance" and "results" as what will maintain or increase its budget.

What works

The exception, the comparatively rare service institution that achieves effectiveness, is more instructive than the great majority that achieves only "programs." It shows that effectiveness in the service institution is achievable—though by no means easy. It shows what different kinds of service institutions can do and need to do. It shows limitations and pitfalls. But it also shows that the service institution manager can do unpopular and highly "controversial" things if only he makes the risk-taking decision to set priorities and allocate resources.

The first and perhaps simplest example is that of the Bell Telephone System. A telephone system is a "natural" monopoly. Within a given area, one supplier of telephone service must have exclusive rights. The one thing any subscriber to a public telephone service requires is access to all other subscribers, which means territorial exclusivity for one monopolistic service. And as a whole country or continent becomes, in effect, one telephone system, this monopoly has to be extended over larger and larger areas.

An individual may be able to do without a telephone—though in today's society only at prohibitive inconvenience. But a professional man, a tradesman, an office, or a business *must* have a telephone. Residential phone service may still be an "option." Business phone service is compulsory. Theodore Vail, the first head of the organization, saw this in the early years of this century. He also saw clearly that the American telephone system, like the telephone systems in all other industrially developed nations, could easily be taken over by government. To prevent this, Vail thought through what the telephone company's business was and should be, and came up with his famous definition: "Our business is service."² This totally "intangible" statement of the telephone company's "business" then enabled Vail to set specific goals and objectives and to develop measurements of performance and results. His "customer satisfaction" standards and "service satisfaction" standards created nationwide competition between telephone managers in various areas, and became the criteria

² This was so heretical that the directors of the telephone company fired Vail when he first propounded his thesis in 1897—only to rehire him 10 years later when the absence of clear performance objectives had created widespread public demand for telephone nationalization even among such non-radicals as the Progressive wing of the Republican Party.

by which the managers were judged and rewarded. These standards measured performance as defined by the customer, e.g., waiting time before an operator came on the line, or time between application for telephone service and its installation. They were meant to direct managers' attention to results.

Vail also thought through who his "constituents" were. This led to his conclusion—even more shocking to the conventional wisdom of 1900 than his "service" objectives—that it was the telephone company's task to make the public utility commissions of the individual states capable of effective rate regulation. Vail argued that a national monopoly in a crucial area could expect to escape nationalization only by being regulated. Helping to convert the wretchedly ineffectual, corrupt, and bumbling public utility commissions of late 19th-century populism into effective, respected, and informed adversaries was in the telephone company's own survival interest.

Finally, Vail realized that a telephone system depends on its ability to obtain capital. Each dollar of telephone revenue requires a prior investment of three to four dollars. Therefore, the investor too had to be considered a "constituent," and the telephone company had to design financial instruments and a financial policy that focused on the needs and expectations of the investor, and that made telephone company securities, whether bonds or shares, a distinct and preferred financial "product."

The American university

The building of the American university from 1860 to World War I also illustrates how service institutions can be made to perform. The American university as it emerged during that era was primarily the work of a small number of men: Andrew D. White (President of Cornell, 1868-1885); Charles W. Eliot (President of Harvard, 1869-1909); Daniel Coit Gilman (President of Johns Hopkins, 1876-1901); David Starr Jordan (President of Stanford, 1891-1913); William Rainey Harper (President of Chicago, 1892-1904); and Nicholas Murray Butler (President of Columbia, 1902-1945).

These men all had in common one basic insight: The traditional "college"—essentially an 18th-century seminary to train preachers—had become totally obsolete, sterile, and unproductive. Indeed, it was dying fast; America in 1860 had far fewer college students than it had had 40 years earlier with a much smaller population. The men who built the new universities shared a common objective: to create a new institution, a true "university." And they all realized that while

European examples, especially Oxford and Cambridge and the German university, had much to offer, these new universities had to be distinctively American institutions.

Beyond these shared beliefs, however, they differed sharply on what a university should be and what its purpose and mission were. Eliot, at Harvard, saw the purpose of the university as that of educating a leadership group with a distinct "style." His Harvard was to be a "national" institution rather than the parochial preserve of the "proper Bostonian" that Harvard College had been. But it also was to restore to Boston—and to New England generally—the dominant position of a moral elite, such as in earlier times had been held by the "Elect," the Puritan divines, and their successors, the Federalist leaders in the early days of the Republic. Butler, at Columbia—and, to a lesser degree, Harper at Chicago—saw the function of the university as the systematic application of rational thought and analysis to the basic problems of a modern society, from education to economics, and from domestic government to foreign affairs. Gilman, at Johns Hopkins, saw the university as the producer of advanced knowledge; indeed, originally Johns Hopkins was to confine itself to advanced research and was to give no undergraduate instruction. White, at Cornell, aimed at producing an "educated public."

Each of these men knew that he had to make compromises. Each knew that he had to satisfy a number of "constituencies" and "publics," each of whom looked at the university quite differently. Both Eliot and Butler, for instance, had to build their new university on an old foundation (the others could build from the ground up) and had to satisfy—or at least to placate—existing alumni and faculty. They all had to be exceedingly conscious of the need to attract and hold financial support. It was Eliot, for instance, with all his insistence on "moral leadership," who invented the first "placement office" and set out to find well-paying jobs for Harvard graduates, especially in business. It was Butler, conscious that Columbia was a late-comer and that the millionaire philanthropists of his day had already been snared by his competitors (e.g., Rockefeller by Chicago), who invented the first "public relations" office in a university, designed—and most successfully—to reach the merely well-to-do and get their money.

These founders' definitions did not outlive them. Even during the lifetime of Eliot and Butler, for instance, their institutions escaped their control, began to diffuse objectives and to confuse priorities. In the course of this century, all these universities—and many others, like the University of California and other major state universities—

have converged towards a common type. Today, it is hard to tell one "multiversity" from another. Yet the imprint of the founders has still not been totally erased. It is hardly an accident that the New Deal picked faculty members primarily from Columbia and Chicago to be high-level advisors and policy makers; for the New Deal was, of course, committed to the application of rational thought and analysis to public policies and problems. And 30 years later, when the Kennedy Administration came in with an underlying belief in the "style" of an "elite," it naturally turned to Harvard. For while each of the founding fathers of the modern American university made compromises and adapted to a multitude of constituencies, each had an objective and a definition of the university to which he gave priority and against which he measured performance. Clearly, the job the founders did almost a century ago will have to be done again for today's "multiversity," if it is not to choke on its own services.

Schools, hospitals, and the TVA

The English "open classroom" is another example of a successful service institution. It is being promoted in this country as the "child-centered" approach to schooling, but its origin was in the concern with performance, and that is also the secret of its success. The English "open classroom" demands that each child—or at least each normal child—acquire the same measurable proficiency in the basic skills of literacy at roughly the same time. It is then the teacher's task to think through the learning path best suited to lead each child to a common and pre-set goal. The objectives are perfectly clear: the learning of specific skills, especially reading, writing, and figuring. They are identical for all children, measurable, and measured. Everything else is, in effect, considered irrelevant. Such elementary schools as have performed in the urban slums of this country—and there are more of them than the current "crisis in the classroom" syndrome acknowledges—have done exactly the same thing. The performing schools in black or Puerto Rican neighborhoods in New York, for instance, are those that have defined one clear objective—usually to teach reading—have eliminated or subordinated everything else, and then have measured themselves against a standard of clearly set performance goals.

The solution to the problem of the hospital, as is becoming increasingly clear, will similarly lie in thinking through objectives and priorities. The most promising approach may well be one worked out by the Hospital Consulting Group at Westinghouse Electric Corpo-

ration, which recognizes that the American hospital has a multiplicity of functions, but organizes each as an autonomous "decentralized" division with its own facilities, its own staff, and its own objectives. There would thus be a traditional care hospital for the fairly small number of truly sick people who require what today's "full-time" hospital offers; an "ambulatory" medical hospital for diagnosis and out-patient work; an "ambulatory" surgical hospital for the large number of surgical patients—actually the majority—who, like patients after cataract surgery, a tonsilectomy, or most orthopedic surgery, are not "sick" and need no medical and little nursing care, but need a bed (and a bedpan) till the stitches are firm or the cast dries; a psychiatric unit—mostly for out-patient or overnight care; and a convalescent unit that would hardly differ from a good motel (e.g., for the healthy mother of a healthy baby). All these would have common services. But each would be a separate health care facility with different objectives, different priorities, and different standards of performance.

But the most instructive example of an effective service institution may be that of the early Tennessee Valley Authority. Built mainly during the New Deal, the TVA today is no longer "controversial." It is just another large power company, except for being owned by the government rather than by private investors. But in its early days, 40 years ago, the TVA was a slogan, a battle cry, a symbol. Some, friends and enemies alike, saw in it the opening wedge of the nationalization of electric energy in the United States. Others saw in it the vehicle for a return to Jeffersonian agrarianism, based on cheap power, government paternalism, and free fertilizer. Still others were primarily interested in flood control and navigation. Indeed, there was such a wealth of conflicting expectations that TVA's first head, Arthur Morgan, a distinguished engineer and economist, completely floundered. Unable to think through what the business of the TVA should be and how varying objectives might be balanced, Morgan accomplished nothing. Finally, President Roosevelt replaced him with an almost totally unknown young lawyer, David Lilienthal, who had little previous experience as an administrator.

Lilienthal faced up to the need to define the TVA's business. He concluded that the first objective was to build truly efficient electric plants and to supply an energy-starved region with plentiful and cheap power. All the rest, he decided, hinged on the attainment of this first need, which then became his operational priority. The TVA of today has accomplished a good many other objectives as well,

from flood control and navigation to fertilizer production and, indeed, even balanced community development. But it was Lilienthal's insistence on a clear definition of the TVA's business and on setting priorities that explains why today's TVA is taken for granted, even by the very same people who, 40 years ago, were among its implacable enemies.

The requirements for success

Service institutions are a most diverse lot. The one and only thing they all have in common is that, for one reason or another, they cannot be organized under a competitive market test.³ But however diverse the various kinds of "service institutions" may be, all of them need first to impose on themselves the discipline practiced by the managers and leaders of the institutions in the examples presented above.

1) They need to answer the question, "*What is our business and what should it be?*" They need to bring out into the open alternative definitions and to think them through carefully, perhaps even to work out (as did the presidents of the emerging American universities) the balance of different and sometimes conflicting definitions. What service institutions need is not to be more "business-like." They need to be more "hospital-like," "university-like," "government-like," and so on. They need to be subjected to a performance test—if only to that of "socialist competition"—as much as possible. In other words, they need to think through their own specific function, purpose, and mission.

2) Service institutions need to derive *clear objectives and goals* from their definition of function and mission. What they need is not "better people," but people who do the management job systematically and who focus themselves and their institutions purposefully on performance and results. They do need efficiency—that is, control of costs. But, above all, they need effectiveness—that is, emphasis on the right results.

3) They then have to think through *priorities* of concentration which enable them to select targets; to set standards of accomplishment and performance (that is, to define the minimum acceptable

³This may no longer be necessarily true for the postal service. At last an independent postal company in the U.S. is trying to organize a business in competition to the government's postal monopoly. Should this work out, it might do more to restore performance to the mails than the recent setting up of a postal monopoly as a separate "public corporation" which is on a "businesslike" basis.

results); to set deadlines; to go to work on results; and to make someone accountable for results.

4) They need to define *measurements of performance*—the “customer satisfaction” measurements of the telephone company, or the figures on reading performance by which the English “open classroom” measures its accomplishments.

5) They need to use these measurements to “*feed back*” on their efforts—that is, *they must build self-control from results into their system.*

6) Finally, they need an organized audit of *objectives and results*, so as to identify those objectives that no longer serve a useful purpose or have proven unattainable. They need to identify unsatisfactory performance, and activities which are obsolete, unproductive, or both. And they need a mechanism for *sloughing off* such activities rather than wasting their money and their energies where the results are not.

This last requirement may be the most important one. The absence of a market test removes from the service institution the discipline that forces a business eventually to abandon yesterday's products—or else go bankrupt. Yet this requirement is the least understood.

No success lasts “forever.” Yet it is even more difficult to abandon yesterday's success than it is to reappraise failure. Success breeds its own *hubris*. It creates emotional attachments, habits of thought and action, and, above all, false self-confidence. A success that has outlived its usefulness may, in the end, be more damaging than failure. Especially in a service institution, yesterday's success becomes “policy,” “virtue,” “conviction,” if not indeed “Holy Writ,” unless the institution imposes on itself the discipline of thinking through its mission, its objectives, and its priorities, and of building in feedback control from results over policies, priorities, and action. We are in such a “welfare mess” today in the United States largely because the welfare program of the New Deal had been such a success in the 1930's that we could not abandon it, and instead misapplied it to the radically different problem of the black migrants to the cities in the 1950's and 1960's.

To make service institutions perform, it should by now be clear, does not require “great men.” It requires instead a system. The essentials of this system may not be too different from the essentials of performance in a business enterprise, as the present “management boom” in the service institutions assumes. But the application will be quite different. For the service institutions are

not businesses; "performance" means something quite different for them.

Few service institutions today suffer from having too few administrators; most of them are over-administered, and suffer from a surplus of procedures, organization charts, and "management techniques." What now has to be learned—it is still largely lacking—is to manage service institutions for performance. This may well be the biggest and most important management task for the remainder of this century.

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