
Strategic Approach To Managing Downsizing

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Statistics Canada **did** experience real and significant budget cuts over a period of at least twelve years--not in comparison with the amounts that it requested, but in comparison with what it received in preceding years. Just during the last four budget years, the cuts in constant dollars exceeded 10 percent of our budget. During the same time period, the government-wide budget reductions amounted to 23 percent!

There are three points that I want to make about this set of numbers. First, that losing 10 percent of our budget just in the last four years certainly had significant impacts on Statistics Canada's programs, but I will not elaborate on these here, since the particular judgements we made about program priorities are of no general interest. What I do want to emphasize is that budget reductions, the "spirit of the times," are not a passing phenomenon: we have lived with them in Canada essentially since 1978. So, coping with them effectively requires and deserves a comprehensive strategy. Throughout the last decade, we had to develop such a strategy designed to pay due attention to both the short- and long-term viability of the Canadian statistical system. And this leads to my third point: our strategy was largely responsible for our lower budget reductions than those sustained by most other departments.

The following are components of such a strategy:

- squeezing out all possible gains in efficiencies;
- generating revenue;
- maintaining a perspective on essential long-term priorities;
- minimizing the size of the cuts through effective support-seeking; and
- establishing prerequisites for an effective

priority-setting process.

■ Efficiency Measures

Clearly, the least painful way of generating savings is through efficiencies. It is, therefore, our duty to do our utmost in that regard. But it is also to our advantage to be able to demonstrate the magnitude of the efficiency savings and the measures utilized to generate them: it can enhance the credibility of the agency's management--often an important determinant of the size of budget cuts.

The following are some of the concrete measures taken in Statistics Canada to improve our operating efficiency.

- We identified that considerable savings can be achieved in survey operations by evening out operational peaks and valleys. Consequently, we pooled all clerical and other support functions from subject matter divisions into a large operations division. The new management of the division undertook to deliver savings of 30 percent in four years on all resources transferred--12 percent in the first year. In addition to workload balancing, other measures used to achieve this level of savings included improved use and standardization of technology, a major emphasis on training, and management expertise.
- A side benefit of the centralization of operational activities was the freeing up of considerable subject matter resources, heretofore largely devoted to the supervision of operational activities. These resources were redeployed to analytical activities and to marketing (revenue generation).
- We improved the management of scarce resources by, among other measures, introduc-

ing internal cost recovery for services. In effect, we gave each project manager financial control over all the resources utilized by the project: resources needed for collection in the field, for mailing costs, for head office operations, for telephone charges, for computing, etc. The key objective was to encourage managers to optimize the allocation of resources, irrespective of bureaucratic constraints--such as the distinction between salary and non-salary costs, mainframe versus microcomputer costs, or between internal computing costs versus mailing or field collection. This facilitated substantial "re-engineering" that, in turn, freed up significant resources.

- ❑ The pursuit of efficiency objectives is encouraged through a specific feature in our planning system: every organizational entity has to put forward a multiyear plan for resource savings averaging 1 percent per annum. In so doing, they can request up-front investments that might be needed to generate those savings. The investments are one-time and have to be "paid back" through ongoing savings in three years or less. The committed savings are automatically deducted from organizational budgets in the years for which they were committed.
- ❑ Full use is made of opportunities to exploit administrative records. In this respect, our centralized character helped us--it contributed to the prestige that was occasionally needed to convince the relevant authorities to effect key changes to certain administrative records systems that were needed to render them fully exploitable for statistical purposes. This is an ongoing effort receiving a great deal of management attention and has already resulted in several significant re-engineering successes.
- ❑ Furthermore, like in all other statistical systems, we, of course, made full use of information technology. The devolution of control to managers over the allocation of their resources was a helpful factor here.

■ Revenue Generation

The generation of net revenue, just as efficiencies, is a "painless" approach to meet budget reductions. There are two quite distinct forms of revenue generation: through information dissemination and through the conduct of cost-recovered surveys. Almost all of the gross dissemination revenue is "net" in the sense that it covers the full cost of the activity--something that was previously a substantial net expenditure. As far as cost-recovered surveys are concerned, some 25-30 percent of gross revenues earned represent contributions to operating overhead.

In addition to earned revenues, a businesslike dissemination program is the source of more fundamental benefits, as well (Fellegi, 1996 and Fellegi, 1991)--it results in a reorientation of staff toward effective client service. The character of the service expected when one is giving away information practically free simply cannot be compared with what is demanded when realistic rates are charged. This involves a reorientation of dissemination and is based on a much greater than traditional effort to try to meet the real and evolving requirements of clients--at realistic prices. Such an approach has had a fundamental impact on the service orientation of our entire staff, as well as on our product line. Parenthetically, I want to emphasize that a businesslike approach is fully compatible with serving the "public good" (Fellegi, 1996). We are currently generating over \$12 million in revenue through the dissemination of print and electronic products. This is equivalent to about 5 percent of our budget.

A second component of our revenue generation program consists of conducting cost-recovered surveys. Through this activity, we currently generate gross revenues equivalent to about 15 percent of our budget. In addition to the contribution to overhead, we derive even greater benefits--the public availability of information that would not otherwise be funded; the satisfaction provided to important clients, typically major government departments, whose statistical needs could not be met within our regular budget; the knowledge gained from conducting often quite complex and experimental surveys; and the contribution they make to the maintenance

of a strong and flexible operational capacity.

■ **Priorities That Are Essential to Respect**

Important as it is to make sound decisions about the programs that must be cut, it is even more important to ensure that certain longer-term priorities do not suffer as a result. As I said on another occasion (Fellegi, 1996), "Statistical offices exist to provide current statistical information. But their long-run survival and prospering depend, first and foremost, on their ability to evolve and adapt. Therefore, particularly at a time of budget cuts, special attention must be paid to those structural priorities, which contribute to survival--even at the price of significant reductions of current output." I identified in that paper four categories of such long-term priorities:

- continuing to support innovation and experimentation, including analytic activities;
- maintaining professional infrastructure;
- keeping the operational infrastructure in good repair; and
- ensuring a strong capacity for client-sponsored surveys.

I have already touched upon the need for a strong capacity for client-sponsored surveys. Let me say a few words about the other long-term priorities.

Continued support of innovation and experimentation is essential, both for the long-term maintenance of program relevance and for keeping an edge on the expertise of designing and conducting complex surveys. It is the basis for maintaining an awareness of the changing environment around us and of the corresponding changes that should be made in the statistical information system; keeping alive a spirit of innovation and experimentation in order to test and develop more effective and efficient ways of conducting our business-- i.e., to take new surveys, to ensure the quality of existing ones, to improve our analytic output, to render our dissemination more effective, etc.; and, finally, keeping alive a program of implementing, at least in pilot mode, important new surveys that would be required to meet

the emerging requirements and can subsequently be "marketed" in order to secure the required new funding. In summary, innovation and experimentation are essential to ensure that we do not become "brain dead"--a condition that is always important but never more so than in the Darwinian world of downsizing.

The maintenance of an effective professional and operational infrastructure is, of course, the essence of our ability to absorb future additional resources effectively when the time comes, as it will, that the need for new information outweighs the imperatives of budget reduction. But it is also needed to generate efficiencies and to ensure continuing reliability and timeliness. Yet, during significant program cutbacks, it takes some courage and persistence to maintain such activities as a good business register, a strong methodology or classification capacity, or an outstanding training program.

■ **Seeking Support**

Up to now, I touched upon the issue of how to cope with budget cuts that, at least implicitly, are assumed to be large. But is the size of these cuts totally beyond our control? In our experience, seeking a reduction or reversal of a budget cut that has already been decided is seldom effective. By contrast, the approach that seems to work better is to have a strong continuing program of consciously trying to anticipate and meet the statistical information service needs of a variety of user groups, including the key ones of policy departments, parliamentarians, business, major nonprofit think tanks, and the general public. Once again, time and space restrictions prevent me from an exhaustive description of the variety of mechanisms that can be employed to cement an effective support for the statistical system. These are outlined in my Morris Hansen Lecture (Fellegi, 1996). For now, the main point to be emphasized is that we are clearly not completely helpless recipients of some predestined budget cuts. Key intragovernmental components of such a strategy are:

- a **strong analytic program** that regularly highlights the insights (not just the data!) derived from the statistical system;
- an ongoing program of **personal communica-**

tion aimed at key government decisionmakers and designed to acquaint them with the direct relevance of statistical information to the programs for which they are responsible;

- bilateral and regular contacts** with all key departments that are major users or suppliers of data; and
- concerted efforts to have a reputation for being **well-managed agencies**.

■ **Prerequisites for an Effective Priority-Setting Process**

While it is difficult to identify generally applicable themes for substantive program cuts, I would like to highlight several prerequisites for the program reduction to be based on sound information and for it to yield the expected economies.

First of all, one must be clear that priority decisions are ultimately subjective. It is all the more important, therefore, that every effort be made to have a balanced and comprehensive picture of the substantive information requirements of different client groups. This, in turn, requires considerable, ongoing, and organized effort--one that is, furthermore, tailored to the needs and characteristics of the different clients. But it is not enough to have well-maintained channels of communication with different client groups to hear their own views on what statistical information they think they need. It is just as important to have a strong internal analytic program within statistical agencies, designed to help understand the substantive issues with which policymakers are grappling and the contribution of different kinds of statistical information to the public policy process. The consultative mechanisms used by Statistics Canada, as well as our analytic program, are described in Fellegi, (1996).

Second, there must be an effective planning system (Fellegi 1992) that meets a number of requirements. It should synthesize and highlight the results of the consultative and analytic processes mentioned above. But it must also bring forward, subject matter by subject matter, the relatively lowest priority activities. This is

necessary not only to meet the budget reduction objectives, but also to facilitate "probing along the boundary" of statistical programs--e.g., is everything we are currently doing more important than any of the potential new programs? And, last, it must provide--with every new project proposal, as well as with every potential contingency--detailed cost estimates.

The question on costs brings me to my third prerequisite for an effective priority-setting process. Realistic cost estimates can only be generated by an organization that is used to dealing with project costs on a daily basis. In my experience, most statistical offices have an inadequate cost accounting system. Budgets and current costs are typically well accounted for in terms of line organizations--which is, of course, necessary for the good functioning of line management. But priority decisions are typically made in terms of projects or parts of projects, not line organizations. The availability of detailed project costs is, therefore, a key precondition for the assessment of the budgetary impacts of alternative courses of action. Such detailed estimates cannot be generated just for purposes of planning; they must be regularly available and used. Statistics Canada is managed in a matrix mode--in addition to the usual line-management structure, every project has a project manager with full authority and responsibility for project outcomes and costs. The project management structure necessitates a corresponding matrix accounting of costs, reinforced by an extensive system of full cost charging for internal services. Without our detailed cost information system, we would have been severely handicapped in our task to meet precise budget reduction targets.

The fourth and last prerequisite relates to our ability to harvest the estimated savings. This depends on a number of factors, the most important of which relates to people. It is Statistics Canada's stated policy that we will not lay off staff for reasons of redundancy so long as our overall budget cuts can be accommodated within the range of normal attrition. In addition to the obvious humanitarian reason, the policy is designed to ensure that worries about job losses do not lead to an overall behavior pattern of extreme conservatism. This approach indeed works very well. But it can pose problems when particular projects are eliminated or severely curtailed;

the required reduction in the number of staff working on the affected projects is typically much larger than the normal attrition of the area concerned. However, for many years now, we have developed a human resource policy that systematically encourages and facilitates regular and large-scale rotation of staff within the organization--at all levels. This has resulted in a pool of staff that is both multiskilled and unafraid of moving about in the organization--relying upon our overall no layoff policy for basic job security. And management can decide on program cuts without having to worry about whether the estimated savings can, indeed, be harvested.

■ Conclusion

Today, following twelve years of more or less unrelenting budget pressures, Statistics Canada is generally recognized to be in better shape than it was in the late seventies before the budget pressures began. No Chief Statistician will admit--and I really do not believe it is true--that this has happened because of the budgetary pressures. Yet, the measures presented here were portrayed as elements of a coping mechanism. I think the measures described and those referenced are elements of a strategy necessary for the management of statistical systems at the end of the twentieth century. But, while not conceived and implemented as a means of coping

with our budget cuts, these systems and approaches played a fundamental role in preserving the vitality of the Canadian statistical system--and, as such, have significantly contributed to the maintenance and deepening of Canadians' understanding of the main social and economic forces at work in our country.

■ References

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