



Save Oregon

A Plan for Incentivized Cost Reduction in State Government

A well developed, comprehensive, state-wide cost reduction program can institutionalize cost reduction into state government providing an ongoing means of controlling the growth of government spending. Many attempts at cost reduction have only addressed some of the components of a comprehensive program or have failed to provide sufficient incentive to participate in the program for either suggestors or implementers. In fact, most programs fight a loosing uphill battle for the implementation of cost reductions due to the lack of incentives for the managers that would have to actually implement them. Development of such a program must be done in a carefully, planned manner to insure success. This paper reviews cost reduction, outlines a comprehensive plan for a state government system and provides a call to action to make such a program a reality.

This is a comprehensive program where

- Everyone works together
- Centrally managed and reporting high up
- Leverage all groups together to achieve cost reduction and avoidance at all levels

A state-wide program, administered from the state level, would have a much greater impact than a set of similar programs each administered at the agency level. The whole can be much greater than the sum of the parts.

Why typical cost reduction programs fail to deliver?

- Limited scope – sub-enterprise
- Unwilling/uninterested evaluators and biased evaluations
- Incentives to not suggest or accept suggestions as opposed to taking/accepting/implementing
- No “teeth” to actually take the reductions

Why a cost reduction program needs incentives?

- Expand the feedstock by encouraging suggestions from all sources
- Facilitate the unbiased evaluation and implementation of ideas
- Facilitate cross organizational cooperative cost reductions
- Create a financial viability for supplier reductions

What is a comprehensive cost reduction program?

- An integrated single program
- Includes both cost reductions and cost avoidances
- Designed using a purpose down approach
- No constraints on the source or scope of a suggestion The suggestor would be decoupled from the evaluation
- Analysis, administration, incentives and implementation funding would be generated out of the savings captured by the program
- Eliminate issues associated with who has to spend their budget to obtain the savings for the enterprise

What is an incentivized cost reduction program?

- Includes various forms (although typically financial) of incentives to all the participants of the program. These are needed to change culture and help institutionalize cost savings
- Facilitates cost reductions
- Generation of ideas
- Evaluation
- Selection
- Implementation

The general nature of these incentives would be

- Originators would receive incentives for making suggestions and financial awards for suggestions that are implemented.
- Evaluating departments will be compensated for their evaluation efforts so that they can perform rigorous unbiased evaluations.
- Managers making suggestions that reduce their department budget and/or staff would be rewarded and not penalized.
- Managers of departments being reduced by cost reduction suggestion that they are asked to evaluate would not be penalized for a favorable evaluation.
- Organizations that had to spend money so that another organization could save money for an overall net savings, would be funded from the savings
- Suppliers and contractors could make capital investments to reduce agency cost would receive a financial award to achieve their hurdle rate

Who pays for all these incentives?

- Properly structured, an incentivized cost reduction program should be self-sufficient, generating enough savings to pay for itself.
- If such a program is not able to succeed in this manner, then either the enterprise has reached equilibrium and all that can be reduced has been (unlikely) or it is not comprehensive enough to cover the overall program administration costs.

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Has this ever worked before?

- B-2 Stealth Bomber Program saved \$464 million with just an incentivized cost reduction program.
- An incentivized comprehensive cost reduction program is a new combination of many successful techniques.

How do you make this all work?

- Enabling legislation – Legislative enablement required
- Seed money for startup as a loan recoverable from the savings
- A single central Cost Reduction Program Office (CRPO)
- Well defined program scope, goals, procedures and guidelines
- CRPO reporting to the Governor and dotted line to the Legislature – A key to the success of this program is that it must report as high up in the executive branch as possible.
- Communication – The CRPO should be charged with producing and maintaining an extensive communication program ensuring that the cost reduction program is well understood, marketed, and reported
- Ongoing program of metrics collection – Metrics on the program are vital to its management and the measurement of success.
- Periodic program health check – Using the metrics, once past the start up period, the program should be monitored and subject to periodic health checks based on the metrics.

More on the CRPO

- Responsible for development of the processes to be used
- Marketing and evangelizing the program
- Communicating and reporting the program to all concerned/interested
- Providing cost reduction consulting services to other local government agencies around the state
- Managing the evaluations of the cost reductions
- Supporting subordinate agency sponsored program offices
- Training and coaching the evaluators
- Working with potential participants both within and outside of the state government
- Documenting and tracking the suggestions
- Insuring that the savings are actually realized

Call to Action

- A comprehensive incentivized state-wide cost reduction program has significant potential for reducing the cost of state government while improving services.
- To be a success, such a program must be carefully designed using system design methodologies and implemented following a well defined plan.
- This is not a technology solution.
- It is a management solution augmented by technology and should be approached in that context.

Components of the Program

- State employee suggestion program
Include all state employees and would pay out a portion of the savings as financial incentives to those making valid actionable suggestions. All employees at all levels should be eligible to participate and should be encouraged to make suggestions that affect any aspect of state government, not just their own organization, department or agency.
- Incentivized budget reduction
Department and agency management would be incentivized to reduce the cost of providing the services of their department or agency without adversely affecting the services they provide. Managers would not be penalized by downsizing their departments or budgets.
- Incentivized contract reductions
Reward state contractors that come up with ways to reduce contracts that they have been awarded to provide goods and services. Help contractors make capital improvements that would result in immediate and longer term cost reductions for the state.
- Citizen suggestion program
A single incentivized statewide program for citizens to make cost saving suggestions and also receive recognition and financial rewards funded from the savings their ideas generate.

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