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OVERSIGHT AS PRACTICED IN SUCCESSFUL ORGANIZATIONS:

INSIGHTS FOR EPA

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TABLE OF CONTENTS

	<u>Page</u>
<u>EXECUTIVE SUMMARY</u>	1
I. <u>INTRODUCTION</u>	4
A. Why Is Oversight an Important Issue?	4
B. Study Methodology and Focus	5
II. <u>FINDINGS: OPERATING PRINCIPLES OF OTHER ORGANIZATIONS</u>	9
A. Basic Operating Philosophy	9
B. Role of the Central Office to Ensure Success	13
C. Defining Purpose, Methods, and the Work	15
D. Maintaining Support and Motivation	18
III. <u>CONCLUSIONS: IMPLICATIONS FOR EPA</u>	32
A. Limitations on Translation	32
B. Opportunities for Improvement	35

EXECUTIVE SUMMARY

This report describes how successful organizations approach oversight, and suggests some opportunities for application of that approach by EPA. It is based on interviews with officials in six private companies and two federal agencies, and was prepared as resource material for the Deputy Administrator's Task Force on State/Federal Roles.

CONTEXT FOR THE FINDINGS AND CONCLUSIONS

In EPA, "oversight" of delegated programs usually means the review and evaluation of state programs to ensure that requirements of federal law and policy are met and progress is made toward specific program goals.

However, it became clear in the interviewing process of this study that oversight defined as review and evaluation was too narrow a focus. The companies and other agencies interviewed could only discuss the function and mechanics of evaluation within the larger context of ensuring the success of their field units. Thus, both the findings regarding other organizations and the conclusions for EPA address issues beyond review and evaluation methods.

HIGHLIGHTS OF FINDINGS

1. Successful decentralized organizations have mechanisms to ensure quality control and adherence to central office policy by the field units. But they accomplish this through a comprehensive approach that ensures the success of the field units and the constant improvement of the field work.

This comprehensive approach weaves together a number of separate activities into a solid fabric of continual support and motivation for the field units. This usually includes some combination of the following activities:

- o tracking or monitoring
- o formal evaluation or auditing
- o training
- o constant communication
- o on-site consultation
- o technical assistance
- o staff details or exchanges
- o financial assistance
- o incentives

No one activity by itself is sufficient to ensure success. In the organizations studied, these activities reinforced each other, forming a consistent performance and support system for the field units.

2. While different successful organizations use different combinations of activities and techniques to support and motivate their field units, they express the same attitude: in the long run, the success of the organization depends on the success of the field units; therefore, supporting the field units must be a top priority of the central office.
3. These organizations recognize that the human aspect of the work is critical to its success. This was evidenced in the priorities placed on constant communication and on highly motivated, top quality employees.
4. Formal evaluation or auditing is important, but it is not sufficient to ensure quality control and the success of field units. Success needs to be worked on every day, and evaluation needs to focus on improving the operational work.

SOME IMPLICATIONS FOR EPA

EPA is not a business, and our mission is somewhat different from that of the other federal agencies. Nevertheless, there are important operational similarities. The principles and methods observed in other organizations can provide insights on opportunities for improvement in the way EPA does its work -- especially for program activities delegated to state agencies. Such opportunities include the following:

1. EPA headquarters, EPA regions and states need to agree on the general approach and attitude needed for EPA's oversight of state programs, and to begin working collaboratively, for each EPA program, on the details of how to ensure the success of state programs. We need to encourage existing successes, and work toward improvement in other areas.
2. EPA needs to increase its on-going support to states with delegated programs, in terms of:
 - o training for state personnel;
 - o travel to state offices for consultation and problem-solving; and
 - o technical support for state programs.

3. EPA needs to improve its capacity to provide quality technical and program assistance, through:

- o improving the access of states to EPA's existing expertise;
- o increasing the operational field experience of EPA staff who provide technical assistance; and
- o improving the quality and quantity of EPA expertise.

On-going support to states and internal capacity-building in EPA will, of course, only be useful if the EPA program staffs have determined clearly what specific work the states need to be doing and what constitutes successful programs and performance.

I. INTRODUCTION

A. WHY IS OVERSIGHT AN IMPORTANT ISSUE?

In the past few years, the Environmental Protection Agency has been delegating major operational responsibilities for environmental programs to state agencies. This means that EPA's work is shifting away from day-to-day program operations and toward oversight of state programs and provision of assistance to states.

In an earlier study of EPA's progress in delegating program responsibilities to the states, we found that there was confusion among both state officials and EPA staff about EPA's role after delegation. Lack of a clearly defined oversight role was slowing the progress of delegation, and making oversight difficult to carry out in a consistent way.

There was resistance to delegation by some EPA personnel who were concerned that losing direct control of operating activities might lead to a reduction in program quality, and who saw no alternative means of EPA influence over the states. This was resulting in slower delegation by EPA. After delegation, the concern about losing control of program quality was resulting in oversight activities in which EPA staff "second-guessed" state judgments on individual permit actions.

State officials interviewed in the delegation study generally welcomed EPA oversight of state programs after delegation. However, they were concerned that the Agency's oversight role needed clarification. While the states' uncertainty about EPA oversight did not create an obstacle to their seeking delegation, by far the strongest incentive to seek delegation was the prospect of less intervention by the federal government in state environmental programs. Nevertheless, the states viewed EPA oversight of state programs after delegation as important for two reasons. First, they believed that EPA has a responsibility to ensure that minimum national standards are being met across the country. Secondly, states wanted some assurance that their neighbors would not be using relaxed pollution control regulation as a strategy for attracting industrial development.

As a follow-up to the delegation study, we began work on several studies to address how the Agency can best meet its post-delegation responsibilities. This report presents the results of one of those studies, which looked for ways to improve EPA's oversight of delegated state programs.*

* Report prepared by Ellie McCann, manager of the study, Program Evaluation Division. The study team which conducted interviews and assisted with the analysis included: Joe Retzer, Lew Crampton, Tom Kelly and Jerry Emison in EPA; and Joe Nay, John Waller and Bill Foskett of the Performance Development Institute.

B. STUDY METHODOLOGY AND FOCUS

In this study, we wanted to examine alternative ways of conducting oversight in order to develop the most effective methods for EPA. Our approach was to interview senior managers in private and public organizations who perform similar tasks in overseeing geographically dispersed, relatively autonomous operating units.

The objectives of the study were: (1) to provide information on oversight methods of successful organizations which might offer insights for EPA staff in conducting oversight; (2) to provide resource material for the Deputy Administrator's Task Force on State/Federal Roles; and (3) to identify ideas or issues which might be pursued in more detail in future work.

We interviewed officials in six businesses and two federal agencies. In making the selection, we looked for a variety of successful, well-managed organizations, seeking a mixture of private and government organizations and both service and product companies. The companies selected are considered by the business community to be successful in terms of profitability and/or good management. In addition, the companies have some operating similarity to EPA, with multi-state operations and relatively autonomous operating units. The federal agencies are generally regarded as highly successful in carrying out their respective missions. The agencies also have good reputations for working with states and have some functions similar to EPA. The following organizations were selected:

- o Allstate Insurance (Northbrook, IL): Successful long-term performance in the assessment and management of risk, where decisions binding to the company are made in the field by individual agents.
- o Centers for Disease Control (Atlanta, GA): Reputation for excellent relationships with state health departments, and high credibility among health professionals and the general public. Both CDC and EPA have environmental health programs, state grants programs, and a cadre of scientific experts.
- o Federal Highway Administration (Washington, DC): Good working relationship with state highway departments, and has similarities to EPA's construction grants program.
- o Frito-Lay Corporation (Dallas, TX): Reputation for excellent management of far-flung operations. Also provides variety to the selection since it is a product company rather than a service organization. Focused on the delivery and sales operations.

- o Hospital Corporation of America (Nashville, TN): Reputation for financial success in building new hospitals and taking over existing hospitals to manage. Similarity in its very autonomous field units, and its cadre of technical experts (physicians, nurses, etc.) who provide the health care services.
- o Marriott Corporation (Silver Spring, MD): Reputation for long-term excellent management and profitability. Focused mainly on the "inns," which although part of the Marriott system are owned and operated by an investor or franchisee. Their autonomy is greater than that of the hotels.
- o National Bank of Washington (Washington, DC): New operating policy has turned the branch banks into individual profit centers, placing new and higher performance demands on the field units. Focused on the loan activities of the branch banks.
- o Quality International (Silver Spring, MD): Primarily a franchise hotel operation, with very autonomous units. Recent changes in management and programs are being recognized in the business community as successful.

The focus of this study was on the relationship between the central office and the field units where the operational work is accomplished. For the federal agencies, the field units were considered to be the corresponding state agencies. (See Figure 1 on page 7.)

Clearly EPA is not a business, and no oversight system from another organization is transferable intact to EPA. Nevertheless, there are important similarities between EPA and these selected organizations because each has geographically dispersed and somewhat decentralized operations.

The following definitions are used in this study:

- (1) Field Unit: the offices or persons that carry out the front-line operational work.

Figure 1 shows the range of field units to be discussed in this report.

- (2) Central Office: all offices in the organization other than the field units. Regional offices are therefore considered part of the central office because they do not perform the operational work.

It should be noted that for EPA operational activities which are not delegated to the states, the regional offices function as field units rather than as part of the central office. However, in this study we are looking for similarities to EPA's role in delegated programs, in which the regional offices function as part of the central office.

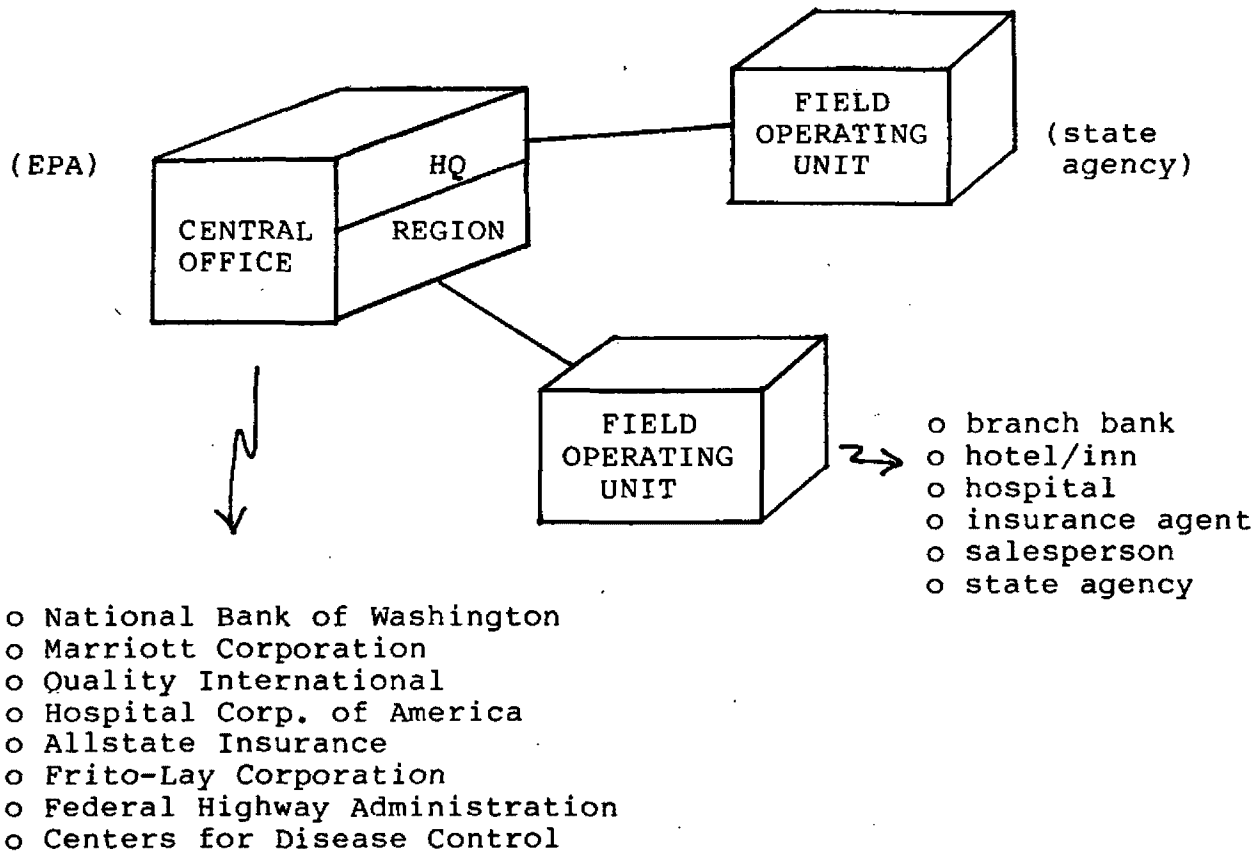


Figure 1: Study Focus on Similar Relationships Found in Other Organizations

(3) Oversight: review and evaluation of field unit activities for the purpose of quality control.

To the extent that it has been defined or developed in specific EPA programs, oversight usually means "program audit" of state programs for quality control to ensure that requirements of federal law and policy are met. The companies and federal agencies interviewed do not generally use the word oversight when discussing quality control of the field work. In this report the term oversight is only used when discussing auditing or evaluation in EPA.

It became apparent in the interviewing process of this study that the issue of review and evaluation was too narrow a focus. We found that the corporate and government officials interviewed could only discuss the mechanics of evaluation within the larger context of ensuring the success of their field units. The rest of this report discusses both evaluation approaches and the overall relationship between the central office and its field units, since the two issues were found to be inextricably connected. However, the findings regarding other organizations and the conclusions for EPA address issues beyond review and evaluation methods.

II. FINDINGS: OPERATING PRINCIPLES OF OTHER ORGANIZATIONS

While all of the selected organizations conduct formal review and evaluation of their field units, the specific methods vary significantly, depending upon the mission or purpose of the organization, the division of responsibilities between the central office and field units, and the type of work carried out by the field units. However, there was a consistent pattern across all organizations in terms of why they conduct formal evaluations: to improve the field work, and ensure field unit success. We also found that formal evaluations alone are not considered sufficient to ensure continuing high quality work by the field units.

In addition, there was a consistent philosophy, or set of values, in each organization that formed the basis for the interaction between the central office and field units. While the philosophy varied somewhat among the organizations, the presence of a simple and clear philosophy was common to all.

This chapter presents the study's findings regarding how other organizations ensure the success of field units, and describes the overall relationship between the central office and field units. The following sections discuss basic philosophy and some important operating principles and methods used by the eight organizations interviewed. Illustrative examples are included. In some cases the quotes used are a condensation of much longer discussions.

Section A describes three specific values that were found to be an important part of the overall philosophy of all the organizations. Section B presents an overview of the role of the central office, in terms of the many central office activities that directly or indirectly affect the ability and motivation of the field units to successfully carry out their work. The last two sections discuss in more detail the approaches and methods for carrying out these central office activities. Section C looks at the activities that are prerequisites to successful performance of field units: defining organizational purpose, methods, and the work. Section D describes some principles and methods for keeping the work going in a successful direction, through activities that maintain support and motivation for the field units.

A. BASIC OPERATING PHILOSOPHY

An organization's philosophy sets the tone and direction for its internal relationships and its operating principles and methods. Although the exact philosophies varied among these organizations, the following values were considered extremely important by all eight organizations as a basis for auditing and for the overall relationship between the central office and field units.

1. The success of the organization depends on the success of the field units.

Senior managers in these organizations are aware that the work that ultimately makes the difference occurs in the field with the customer or client. This is true whether the work is providing hotel rooms, selling potato chips, building highways, or controlling diseases. Thus, the success of the organization, and of the central office, depends on the success of the field units in carrying out their work. The field units are, in an operational sense, the primary clients of the central office.

It follows that an important role of the central office is to enable and encourage the field units to succeed. This role was found to be both a fact and an attitude. The central office's supportive attitude toward field units accurately reflects operational reality and it motivates and influences day-to-day relationships in a useful way.

Marriott:

Fact - An independent hotel joins the Marriott system because the owner feels that Marriott knows how to run hotels a better way, and that in the long run his hotel will be more profitable.

Attitude of central office - "The only reason we're here is because operating hotels have problems."

Frito-Lay:

Fact - Sales of salty snacks off the retail shelf are the crucial point of Frito-Lay's entire operation, and the key to its success. The company therefore places heavy emphasis on maintaining a supply of fresh products for its route salesman and on finding possible new retail outlets for its route salesman to follow up on.

Attitude of central office - "Service to sales: what can we do today to help the route salesman?"

Centers for Disease Control:

Fact - States have always had the constitutional authority to protect the public health, and the CDC has always served a support function. "We cannot carry out our mission to ensure that the country is controlling diseases without the participation of state health departments."

Attitude of CDC - "The bottom line is service. Our people assigned to the states are out there to serve, and they know that. We're coming in to the state to solve a problem. But there are two different problems to solve. We can solve the technical problem. But it's something else to maintain a good working relationship with the people who are going to implement the technical solution."

2. High quality service and products are critical to the long-term success of the organization.

These organizations are interested in long-term success and profitability, as well as short-term profits, savings, or successes. They believe that the basic requirement for such long-term success is the provision of consistently high quality products and services.

Marriott: "We do it right! It may take more work, but it's worth it in the long run."

Allstate: "You are in good hands with Allstate."

Quality Inn: "We insist on ruthless cleanliness and exceptional service."

3. The human aspect of the work is critical to its success.

Five of the six companies are in the business of providing services: banking and insurance services, temporary lodging, and temporary health care. Frito-Lay provides a product to retail stores that is backed up with service. The Federal Highway Administration and the Centers for Disease Control primarily provide services to state agencies. We found that each of these organizations believes that the provision of high quality service or products depends in large part on highly motivated, top quality employees. This value is expressed in the priorities given to activities such as the following:

- o hiring and maintaining top quality employees;
- o extensive training of field staff who actually carry out the operational work;
- o promoting central office staff based on both their expertise and field experience;
- o keeping central office staff in close touch with field staff, either by working or traveling in the field; and
- o following up written communication to the field with on-site, face-to-face communication whenever possible.

These priorities reflect a strong emphasis on investment in human resources and on human interaction and motivation in implementing the work. Thus these organizations spend considerable time and resources on activities that are rather difficult to measure or evaluate in the short term, because they work toward the long term benefit.

Centers for Disease Control:

"We invest tender loving care in our employees. We provide lots of training: long term training at universities and lots of short term practical training. We have a very active employee development unit because it pays off. CDC attracts and keeps high quality employees by focusing on individual career development, esprit de corps, pride in and commitment to the work, and maintaining high standards. Talent attracts talent!"

Marriott:

"Our strategy for providing quality service to the customer recognizes that people count! Operationally, we put the employee first, the customer second, and the corporation last. Standard operating procedures are no good without the personal attention of good quality people to back up the SOPs. Priority on the employees makes the customers first and the operations profitable."

Frito-Lay:

From a trade publication: "The president of Frito-Lay has a preoccupation with the quality of the people in the organization - and that certainly has been one of the key elements in the company's three-fold earnings growth since he became president in 1975."

Quality Inn:

(Is there one factor that is most important in making oversight by the central office work, and that EPA should pay attention to?) "Yes: on-site liaison! Bulletins and memos are not enough. We use them too, but only 20% of the recipients ever read them, so we have to follow-up with on-site discussions. Hotel managers receive tons of paper from people trying to sell them things. We're just somebody else trying to sell them something. They're too busy trying to operate a hotel to have time to read all that paper. So we depend on our own personal follow-up."

These three basic values - successful field units, high quality service and products, and emphasis on the human element - tend to influence many other activities in the organization, including the approach to quality control of field operations.

B. ROLE OF THE CENTRAL OFFICE TO ENSURE SUCCESS

In this study we found that most of the activities of the central office seemed to focus, at least in part, on ensuring the success of the field units in carrying out their work. The following principles help to describe the wholistic view of these organizations regarding the direct and indirect influence of central office activities on the success of field units.

1. Ensuring success requires central office provision of both leadership and direct assistance

Leadership includes the development of a clear organizational purpose and direction, translation of goals and strategies into workable operations, and tracking of field operations back to the goals and strategies so as to keep all the field units going in the same direction. Assistance includes the provision of specific tools such as instruction manuals or special equipment, and continuing support, such as training or technical assistance.

Centers for Disease Control:

"When we've identified a major new health problem, we work very hard at getting invitations for assistance from the states. At times assistance includes strong leadership, as well as collaboration, cooperation, and response."

2. Quality control and assistance are difficult unless someone has first carefully defined what the work consists of and what constitutes success.

Thus there are several central office activities that are prerequisites to successful performance of work by the field units:

- o Find the right idea that works, or the right approach to solving a problem, and describe it in terms of clear simple goals and strategies;
- o Simplify the work and delegate it to the lowest possible level; and
- o Define the expectations for work performance.

Once the work and the expectations are understood, it is then both useful and relatively easy to track the field operations back to the goals and strategies, and to support and motivate the field units in carrying out the work.

Marriott:

"We have a complete system for developing and operating a Marriott hotel, from landscaping through operations and renovation. We provide training, guidelines and standard operating procedures. We then use an audit check list that includes all functional areas, with a short list of probing questions for each one. The questions relate to the system they are supposed to be following."

3. One reason why the central office in these organizations can provide effective leadership and assistance to the field units is because the central office's senior managers have both technical expertise and extensive operational field experience.

Marriott:

"The majority of people at the top of Marriott started at the bottom getting operational experience. For example, the Vice President for training began as a hotel desk clerk."

Frito-Lay:

"About 75-80% of central office management staff came to that job with field experience. Those few 'conceptual support' staff hired by the central office without field experience are sent out to the field for a training period of six months to two years after a short initial stint in the central office. Even the analysts go out in the field and ride around in delivery trucks."

Centers for Disease Control:

"CDC employees start in the field with state agencies, as part of the CDC career ladder. This gives them an understanding of state problems. For CDC field representatives, the first career step is to work in a state venereal disease program. This gives them hands-on experience of what a public health program is really like. Even CDC's Deputy Director began his career as a venereal disease "case chaser" in a state health department."

4. A composite picture of the key elements and activities that are necessary for ensuring successful field units can be summarized as follows:
 - o clearly articulated mission or purpose,
 - o clearly defined work and work objectives or expectations,
 - o clearly defined responsibilities and areas of autonomy for the field units,
 - o constant two-way communication between central office and field units,
 - o frequent tracking of field activities,
 - o on-going technical and management support for the field units, and
 - o frequent evaluation of work performance measured against purpose and objectives.
5. Ensuring the success of the work and of the field units is not a static process. The work changes over time, in order to improve the quality, or to respond to market changes or new problems and challenges. But these organizations have a consistent operational approach to keeping the work going forward in a successful direction:
 - o watch for successes and keep them going,
 - o enable necessary adaptations, and
 - o monitor failures and correct them quickly.

Each of the key elements and activities necessary for successful field units is discussed in more detail in the rest of this chapter. Specific examples from the organizations illustrate not only the seven elements and activities, but also this operational approach to implementing them. The first three elements are discussed in Section C, while the last four are discussed in Section D.

C. DEFINING PURPOSE, METHODS, AND THE WORK

1. Clear organizational goals and values help to establish a common direction and motivation for the work. Often the development of clear goals in these organizations is the result of one person, or a few people, who had a long-term vision of what that organization could become.

Hospital Corporation of America:

From the HCA Newsletter: "From the outset, the fledgling company had a strong set of values that have evolved into a corporate mission. This mission, posted in every HCA hospital, is: 'Delivery of quality patient care at a reasonable cost.' In retrospect, HCA's approach to hospital management seems obvious: to bring modern management discipline to a troubled industry. But at the time, this was a new concept. The HCA founders believed patients and profits could reinforce each other."

Centers for Disease Control:

"CDC grew out of a success, but the subsequent direction was set in large part by the vision of one man." CDC began in 1942 as a wartime agency established to control malaria. At the conclusion of WWII, the Office of Malaria Control in War Areas had assembled a highly competent group of disease control specialists with effective working relationships with the states. To meet new emerging needs, the U.S. Public Health Service decided to establish a permanent organization with prominence in laboratory science, training, and epidemiologic investigation for assisting the states in vectorborne disease control. Then Dr. Joseph Mountin of the PHS conceived of the "centers of excellence" concept. Dr. Mountin envisioned several centers that would make available to the state health departments certain highly specialized competencies which few states could afford to maintain on their own staffs. Each center would concentrate on a broad segment of public health, e.g., communicable disease control, environmental sanitation, etc.

In 1946 the Office of Malaria Control in War Areas became the Communicable Disease Center, in large part following Dr. Mountin's organizational concept. The mission of CDC was to help states control communicable diseases, through provision of technical assistance and training where problems either exceeded the states' resources for their solution or were interstate or national in nature. Thus CDC has, since 1950, functioned as a federal service organization to provide specialized assistance to states. This pattern, expanded and tailored to meet changing needs, has persisted over the years.*

What is most impressive about CDC is that the agency has translated its mission into a very practical, consistent and action-oriented operational approach: "Solve

* Condensed from: "Centers For Disease Control," William H. Foege, JOURNAL OF PUBLIC HEALTH POLICY, March 1981.

the health problems in the field, using whatever means and resources are available. This includes working hard to get ourselves invited in by the states. Take action, and let the accountants sort it out later."

Marriott:

"There is a commitment to quality service because the man at the top is geared that way. Bill Marriott will periodically walk through hotels and pick up loose paper. When hotel managers are brought together in meetings, the absolute top people speak directly with them, from the president on down. If any hotel receives less than 92% positive guest comments, Bill Marriott is personally informed, and he demands an explanation. Bill Marriott picking up loose bits of paper or noting a drop in customer satisfaction ratings has a strong effect. There is interest and commitment at the top!"

2. A clear division of responsibilities between central office and field units ensures efficiency at all levels, and prevents unnecessary intrusion on local autonomy. In these organizations, the assigned responsibilities tend to reflect each organizational unit's area of special expertise.

Federal Highway Administration:

The states site and build highways, while the federal government enforces standards and finances highways.

Hospital Corporation of America:

The hospitals provide health care and are responsible for the quality of service, while the corporate office provides business and financial management.

Quality Inn:

The hotels provide lodging service, and the central office provides sales promotion, computerized reservations system, and quality control.

3. The operational work is simplified and standardized as much as possible in order to maximize efficiency and consistency. The work is then delegated to the lowest possible level, and areas of autonomy defined for the field units.

National Bank of Washington:

Branch managers are given authority to act independently in making loans up to a certain dollar limit. Above

that limit, loan actions must be approved by a review committee in the central office. Policy guidance is more or less strict according to the flexibility of the market. Consumer loans are very strict, while commercial loans are very flexible.

Hospital Corporation of America:

The corporate office sets a limited number of objectives for each hospital - mostly straightforward business or financial objectives, and holds the hospitals accountable. But it leaves the specific approach to meeting objectives and solving problems to the local administrator. "The corporate office doesn't try to fix things that aren't broken."

Marriott:

The franchisee buys an established product: name, license, and a "system" or way of operating the hotel which includes general guidance and standard operating procedures. But personnel matters of the franchised inns are strictly the responsibility of the franchisee.

Centers for Disease Control:

"We push decision-making to the lowest possible level, while centralizing information. But we can successfully delegate technical decision-making because we recruit and maintain excellent staff. We also push the decisions out to the states as much as possible, and focus our energies on building the capacity of the states to make good decisions."

D. MAINTAINING SUPPORT AND MOTIVATION

1. These organizations ensure quality control through a comprehensive approach that ensures the success of field units and constant improvement of the field work.

This comprehensive approach weaves together a number of separate activities into a solid fabric of support and motivation for the field units. This includes some workable combination of the following activities:

- o tracking or monitoring
- o formal evaluation or auditing
- o training
- o constant communication
- o on-site consultation
- o technical assistance
- o staff details or exchanges
- o financial assistance
- o incentives

No one activity by itself is sufficient to ensure the success of the field operations. Each of the organizations studied uses a combination of activities to form a strong performance and support system for the field units. Every activity is focused on preventing and solving operational problems, and improving the operational work.

Quality Inn:

"Our time spent in the field is in a 40/60 ratio: 40% of the time is policing and 60% is consulting for business improvement. Quality control works because it makes good business sense. It is in the interest of the hotel licensee.

Marriott:

"Success of the hotels depends on a combination of auditing, training, communication, and incentives - i.e., bottom-line profit. We have high standards, but we achieve them through training and constant communication, even more than with standard operating procedures.

"We have a set way of doing things, accomplished by setting objectives, not in a cookie cutter fashion. We demand the same operational style. We can't be rigid because the hotels are serving different markets. Our SOP manuals are written in plain language, with some flexibility allowed. There are minimum directions needed to ensure consistency.

"Marriott has a huge support system behind its operating techniques! Every hotel system has similar SOPs. But Marriott's system works because we have the resources and commitment to implement the approach and the SOPs -- i.e., the quality product. This is done through high quality training and local responsibility. We give lots of responsibility to the hotel general manager, but he also gets lots of help.

The attractiveness of joining Marriott is easier financing, better resources, and the quality we insist on. In the management agreement, the franchisee pays the corporation to look over their shoulder. This is regarded as either a pain or a resource, depending on the experience of the franchisee. We use every method to get them to run a tight ship - we cajole, threaten, push, and hopefully sell the advantage of a quality product. A key ingredient is that Marriott has something worth selling to a franchise hotel. But there's a big trust issue! We have a better relationship with those hotels that have been in the system the longest: we've built trust, and they've seen the benefit of auditing for quality and therefore view it more as consultation than as a pain."

Centers for Disease Control:

According to CDC top officials, the agency has five major functions:

- (1) Epidemiology - surveillance and data collection.
- (2) Nations's back-up clinical laboratory - to verify state lab results and pursue rare diseases.
- (3) Training - especially for state employees.

"We train state trainers, and we train the individual health worker to keep him on the leading edge in both biology and management. A major part of our mission is capacity building in the public health community."

- (4) Operations - supporting the states.

"We get involved in issues where the federal government should take the lead, and we support state programs with people and money. Grants are thought of as operational programs, not just grant programs. If states weren't interested in a new program, the CDC promoted it, convinced them that the states need these programs. For example, we cannot require state immunization laws, so we use promotion. It helps to have a federal employee on-site in the states. We are unique in having federal employees who physically become members of state agencies, but maintain allegiance to CDC. CDC is a service organization, similar to the Agricultural Extension Service. Even without a grant program, CDC would have a concern as the federal government's oversight organization to ensure that the country is controlling disease. But we would still work with and through the state health departments."

- (5) Standard setting for public health departments.

"We set national standards, and national priorities and quantitative goals. Setting national goals is a collaborative process with the states, and assumes both state and federal resources. And we help the states set their own targets, through negotiation and analytical support."

From the receiving end, one state health department director listed the following kinds of support that CDC provides to state agencies, in order of importance to states:

- (1) Personnel - loans or assignments of federal employees to state agencies, including Epidemiologic Intelligence Service (EIS) officers and Public Health Advisors, to advise and assist the state epidemiologist and to run state grant programs.
- (2) Categorical Program Grants.
- (3) Technical Assistance - including laboratories, emergency response, and field research.
- (4) Conferences and training - in both technical and management areas.
- (5) Program evaluation - both formal (periodic) and informal (upon request).
- (6) Data processing and statistical support.

A senior CDC official agreed with the State Director's priorities. "Our field staff are the most important commodity that CDC has. They have the unique capacity of recognizing national goals and guiding states toward that, but they're also seen as state employees."

- 2. Contact by the central office with field units is so frequent as to be almost continuous. Such constant communication ensures timely response to the problems and needs of field units, and informal reinforcement of goals and values. On-site liaison efforts are seen as particularly important to ensuring quality control and the success of field units.

Quality Inn:

"On-site liaison is what makes oversight work. Our regional directors spend four days a week on the road visiting hotels."

Hospital Corporation of America:

"If I don't hear from a hospital during a month, I'll contact them."

Federal Highway Administration:

FHWA facilitates communication by locating a federal office in every state, usually next door or down the street from the state highway department. "If I find out something in an audit that I didn't already know, then I'm not doing my job." FHWA staff also have a lot of contact with state staff through professional engineering societies: "We're just like a big family."

Centers for Disease Control:

CDC facilitates communication and influence primarily through its assignment of personnel to state and local health agencies: "Oversight is so imbedded in state operations as to be invisible. We're out there all the time, and we know what's going on." About 15% of CDC employees currently work directly for state and local agencies. CDC also tends to "infiltrate" the public health community with former CDC employees who still identify with the agency, so the communication continues through permanent professional networks.

3. Part of the strategy for ensuring successful field operations is to avoid making big mistakes. These organizations test new ideas or activities before implementing them throughout the system. This is done in one of two ways:

- solicit reaction and ideas from field managers; or
- conduct a pilot with a few field units.

These organizations involve their field managers in planning new activities, since their participation, enthusiasm, and understanding are necessary to the success of any new effort or change of operations. The central office also counts on field managers to tell them when a proposed new product or strategy simply will not work in the field.

Marriott:

"Control of experienced franchisees may initially be more difficult, but we look for experienced hotel operators because they bring new ideas. Hotels are encouraged to develop and test new ideas, but the ideas are not instituted throughout the system until confirmed. Often the improvements to SOPs are suggested by hotel employees." A senior manager said, "I recently came up with a new sales promotion idea, but all the hotel managers I contacted told me it wouldn't work, so I dropped the idea."

4. These organizations have realistic expectations. They do not expect perfection. They recognize human fallibility and the need to make adaptations. They also recognize that local conditions vary, and they vary the standards for individual field units accordingly.

Centers for Disease Control:

"CDC recognizes that we will not always have good relations with states. It changes over time. We just accept some dissent and live with it."

National Bank of Washington:

"Allow deviations and errors to occur, but not to re-occur. Give managers room to act; don't unnecessarily inhibit action with quality control. Correct patterns, not mistakes. When somebody screws up, that's too bad. Put a tracer on it so that the mistake does not get worse. But don't try to reverse the single error. Counsel the mistaken manager on reversing the trend or pattern that the error represents, and monitor to determine whether other such mistakes continue to occur before taking further action."

Marriott:

"Anybody who is functioning effectively and we therefore ignore, quickly becomes a problem! We must pay attention to all our hotels. They need frequent visits, constant checking of the property, and input. You need to maintain comfort on an operational level. If you stay away too long from the operation or group, they begin to stray from the program: it's human nature to want to do it their way. Field units need constant attention!"

National Bank of Washington:

"We use flexible standards for individual banks, because their local markets vary tremendously. We have high goals for each one, but they're not all the same. They have to make sense in terms of market reality. We'll compare a bank in a poor neighborhood with another bank in a different poor neighborhood, but not with one in a rich neighborhood."

Centers for Disease Control:

"We have different goals and expectations for each state because the incidence of disease varies among states. We set national goals for reducing the incidence of specific diseases, and then divide that quantitative national goal among the states. But it's based on the past distribution of the disease, and not every state has problems with every disease. It only makes sense to recognize local differences."

5. In all of these organizations, extensive on-the-job training and specialized, job-related courses are an integral part of the operations.

Federal Highway Administration:

All employees are expected to spend at least three years in the field, with multiple assignments in different states, before they move into the FHWA management system. It is a period of training in which the values of the organization are adopted.

National Bank of Washington:

"Training is a key to staff and functional development, and is the key to improved performance." Good performers get an increase in authority. Poor performers do not suffer a decrease in authority, but receive an increase in training and counselling. Training includes OJT, through apprenticeship assignments; formal/internal training through weekend sessions devoted to skill transfer; or formal/external training, in which outside experts use professional training curricula to impart attitudes and skills.

6. Technical assistance for field units is a major activity of all the organizations. It is a vehicle for quality control and for helping the field units become successful operations. Some companies insist on providing technical assistance; others offer it as a service.

Marriott:

Marriott has a package of technical services that will carry a hotel from initial development/redevelopment through on-going operations. These are services that franchisees are required to utilize to initiate Marriott's system. Many franchisees were reported to complain about the initial expense of the extensive assistance; but Marriott has found that as success is realized and trust develops, the resistance declines. "The hotels must purchase the technical assistance from Marriott: the investment makes them serious."

7. Tracking systems in these organizations are generally designed for operational purposes rather than for evaluation purposes.

In the organizations interviewed, tracking systems support review and evaluation by keeping the central office constantly informed on the status of the operational work in the field. This information is used by the central office to plan future strategies, changes in the work, or to spot current operational problems. Information from tracking systems is also used as input to formal performance evaluations of field units, or to indicate the need for a special targeted evaluation, but that's not the main focus of such systems.

Allstate:

Allstate is a very decentralized operation. They are able to bind risk quickly in the field, settle claims quickly on the spot, and successfully underwrite in a delegated environment. One reason is that much of the operations are "mechanized" - i.e., computerized and interactive, and the data in the computer is real and accurate.

"Unlike many companies, our computer is not a tracking system, it is our actual operating system." The central office receives weekly reports, which are used to modify operational plans and takes the next steps to improve the operations. These reports also provide a source of data to evaluate how well the operations are doing.

"We have very set standards for quality measures. These measurements take place all the time and are running in real time. They are non-speculative, operational data and measures. So if they go bad we know. Of course, a management problem might not show up in this way for 6-9 months."

8. Formal evaluation or auditing is important, but it is not sufficient to ensure quality control and policy implementation.

As the previous discussion shows, quality control must be continuous rather than episodic. In these organizations quality control is built into the basic operations and occurs continuously, through communication, consultation, training, tracking, etc., rather than being only problem-triggered or narrowly focused at particular parts of the organization or times of the year. Success needs to be worked on every day, and evaluation needs to be focused on improving the operational work.

The function of evaluation, like that of the other elements of a support and motivation system, is to help improve the field work and the success of the field units, by identifying problems, motivating improvement or maintenance of performance, triggering assistance and communicating values. Evaluation is an integral part of the operations of the organization.

9. We found in all these organizations that the success of evaluation depends primarily on the attitude and experience of those conducting the evaluation.

The central office conducts evaluations with a positive attitude of assistance and cooperation, not in an adversarial manner. While the central office takes the results seriously, and will make sure that major problems are corrected, the spirit and use of evaluation is to help sustain successes and improve the work, not to catch people making mistakes.

Marriott:

"The objective of an audit is to encourage the hotel general manager to do things correctly, not to catch them doing things wrong. We're trying to create an opportunity for correction."

National Bank of Washington:

Correct patterns, not mistakes. Make loans, review the results, and adjust future actions as necessary to improve the results. "Give line managers the authority to act independently up to a certain limit. Concur in actions above that limit; review a sample of actions within the limit for quality. The purpose of the review is not to reverse line actions, but to identify trends which may jeopardize overall performance."

Centers for Disease Control:

From a state health department director: "We consider program evaluation to be one of the services that CDC provides. It shows us where we need improvement, and we usually get help in solving the problems."

Quality Inn:

"If the hotel managers are experienced, they accept audits as good management tools. If they're not so experienced, they feel it's a pain in the neck. In the 1973-74 economic crunch our business went down. We needed more and different services, and we created the regional directors then. The audit checklist was a tool to help improve. We can't drop the regional directors now. The franchisees depend on them..."

Formal evaluations are effective in motivating change or maintaining quality performance in part because central office personnel conducting evaluations have both technical expertise and extensive field experience. Most of these organizations have highly experienced, senior personnel conducting evaluations. This allows for immediate and effective on-site consultation or targeted follow-up assistance. Being evaluated by experienced staff, who can effectively answer as well as ask questions, encourages the cooperation of field personnel. Finally, the use of experienced personnel to review and evaluate the performance of field units indicates the high priority the central office places on ensuring the success of the field units.

Allstate:

"Our folks get out to a region every month or six weeks for two days, for visits, discussions, to stay in touch, to get a feel for how things are going. We conduct 'walking around evaluation': management by evaluation and inspection. That is an especially informative way, but it requires a certain expertise and experience."

Quality Inn:

"Our Regional Directors provide quality assurance, along with on-site consultation and liaison with the hotels. It is critical that they are knowledgeable about the business. The minimum requirement for Regional Directors is five years of operating experience as a general manager of a hotel. Regional Directors average about 15-16 years in the hotel industry." We use a lot of judgment accumulated through years of experience. The sharp hotel managers, above 70-75%, are glad to see us come."

Marriott:

"Evaluation is not a full-time job, but it is done by knowledgeable, high-level headquarters staff."

Centers for Disease Control:

"We put our best people in the field."

10. It is important that an evaluation design reflects major rather than minor concerns of the central office.

Evaluation is both an active and reactive activity. The specific evaluation design (i.e., which measures, standards, how often, etc.) is determined by the nature of the operational work. But the evaluation also influences the work itself, by explicitly identifying for the field units the priority concerns of the central office.

Allstate:

"Rhetorically we have high goals, but we focus on a small number of items. Of 27 things we could watch, 3 to 5 are our bread and butter and maybe 5 to 7 more bear close watching. Everybody at Allstate understands this pretty well. So we can have both as long as everybody understands what each means and is used for."

National Bank of Washington:

"People should know that 'the bank is always watching.' This does not mean that every detail is scrutinized, but that there are three or so high priority areas in which the employee should expect careful review."

11. The following is a composite list of characteristics of evaluation or audit systems in these organizations:
 - o Objectives and standards for field units reflect their real operating environment, by allowing for variable local conditions.

- o Objectives reflect high expectations, and help stimulate action.
- o Measures reflect the fundamentals that are a basic part of the operations. There are therefore no surprises.
- o Measures are key indicators that make the biggest difference in the success of the operational work.
- o Measures include a mixture of types: long-term results measures and short-term procedural measures; direct and indirect; quantity and quality; objective and subjective.
- o Measurements used include those of third parties, such as clients, professional groups, or peer groups.
- o Measurement is efficient and non-burdensome. At least some information for evaluation is taken from existing information needed for operational purposes. Often only a small number of measures is used.
- o Reports required from field units as part of evaluation are useful to the field units as well as to the central office.
- o Written reports are augmented by personal observation. This involves frequent on-site contact with field personnel on a continuous basis, by experienced personnel.
- o Existing technical or professional standards are used whenever possible.
- o Evaluation is consistent and even-handed among field units, rather than overly responsive to those field units with the most problems. All field units need constant attention to stay on track, and those with persistent problems would tend to use up a disproportionate amount of resources from the central office.
- o Evaluations are frequent enough to find problems early, and thus are able to nudge change in the field units while the problems are still minor ones.

12. What happens when a field unit does poorly in an audit or evaluation? The answers vary, particularly between business and government organizations, but they all reflect again the positive attitude toward and use of evaluations: to sustain successes and improve the work, not to catch people making mistakes.

Centers for Disease Control:

"What happens if states don't comply with grant conditions or annual objectives? Legally we could defund, but there's no point because there's no one else to do the job. Our most viable option is to build up their capacity and conduct problem-solving analysis. The states know they have us over a barrel, because CDC can't carry out its mission without the state health departments. But they don't take advantage of that because they need our cooperation and assistance."

Marriott:

"Our ultimate clout is to pull the franchise. But we've never done this. There are legal problems. There might be a fight--you know, the big corporate monster beating up on the small businessman. We'd rather avoid that kind of problem by simply helping them improve their operation. About 10% of the time they want to do it their way, but 90% of the time they want to do it right. That's what we reinforce. There's no pat answer to solving the problem. We use a combination of blitzing (with a swat team of experts), convincing, and encouraging."

Quality Inn:

Quality Inn uses a carrot-stick approach. Quality Inn tries to make their system so attractive that members will respond positively to audits on key factors that are important to the value of their joint product. But any member hotel can withdraw or be expelled. Systematic attempts of assistance and upgrading are made before a member is expelled. Nevertheless, some are expelled every year.

National Bank of Washington:

"Good performers get an increase in authority. Poor performers do not suffer a decrease in authority, but receive an increase in training and counselling. Change people when it is not working, either through training or a job shift. Only in extreme or stubborn cases have we resorted to firing managers who can't or won't change."

13. Does everything work perfectly or easily in these organizations? No, of course not. But these systems and approaches and attitudes work much more often than they fail. And many of the organizations encourage risk-taking and learning from mistakes, as long as everything is still working toward the organizational purpose.

Centers for Disease Control:

"CDC and the states have the same constituency and the same goals. Nevertheless, there is often conflict on the method toward those goals, in terms of national and state priorities and levels of resources. But the areas of conflict are only on the margins, and we work things out."

National Bank of Washington:

"To introduce change you must be willing to shake up an organization. People must be taken out of dead-end jobs and forced into growth positions. This means emphasizing management skills over technical expertise as the basis of leadership assignments. It also means risking failure of an employee in a 'sink or swim' situation."

Marriott:

"When a new franchisee joins the Marriott system, it's often a painful start-up--lots of squeaks. But the resistance goes down as they see the benefits to them."

Allstate:

"We're all in this together. Let's try to do it. If it fails, let's find out. If it succeeds, let's find out. We'll all be involved in the next thing too."

14. Do these organizations have any advice for EPA? Some did:

Marriott:

"EPA needs to market its areas of excellence. The result is that it builds pride in the organization and improves service. You need to convince the states of the benefit of new programs; they have to want to participate."

Quality Inn:

"EPA should use on-site liaison with state agencies! Bulletins and memos are not enough. You need personal follow-up."

Allstate"

"Your list of priorities must not be too long and must not be too low. You need to constantly watch what is really important."

Centers for Disease Control:

"It would be very effective to have EPA assignees in state agencies to speed communication. They would be there to carry out national objectives, but also to help carry out local work.

"It took a long time to develop the good CDC/state relationship. But the time is ripe for the EPA/state relationship. It's a hot issue. The states are looking for leadership in the environmental area."

III. CONCLUSIONS: IMPLICATIONS FOR EPA

The purpose of this study was to provide information on the approaches of successful organizations to oversight of their field units. It is important to acknowledge that these ideas and principles are not news to many EPA employees--especially in the regional offices, which both receive and deliver certain support services. But this report serves to document these principles and values, and their operational importance to successful organizations.

This study also provides resource material for further discussion and detailed work needed to draw out both the limitations on translating these ideas to EPA and specific opportunities for improvement in EPA. A beginning has already been made in such discussions, by reviewing and discussing the results in a briefing to several audiences of EPA and state staff, including two EPA regional workshops and the EPA Task Force on State/Federal Roles. The following sections present more initial ideas on limitations and opportunities.

A. LIMITATIONS ON TRANSLATION

A great deal of work remains to be done to translate these ideas, as appropriate, to fit EPA's specific situation. The two federal agencies studied look surprisingly similar in their operating styles to the companies, because they are primarily technical assistance agencies. These agencies and businesses are very different from EPA in a number of ways. Only CDC comes close to EPA's circumstance, in that CDC is now involved in the environmental arena and works closely with two regulatory agencies - EPA and OSHA. Some of the major differences include the following:

1. Regulatory agencies such as EPA have certain unique problems, mandates, and relationships with other organizations and groups, including states, that non-regulatory agencies do not face.

CDC/National Institute for Occupational Safety and Health:

NIOSH is one of CDC's six centers. It is a scientific research and investigation unit which (a) makes recommendations to the Occupational Safety and Health Administration in that agency's development of regulatory standards, and (b) responds to requests to investigate workplaces. NIOSH's clients have been OSHA, labor unions and corporations.

"NIOSH is different from the rest of CDC, in that our clients have not been primarily the states. We are just beginning the process of having field representatives in state health departments. The states deliberately dismantled state occupational health programs when OSHA was formed.

"The general philosophy of NIOSH is that states should be involved. But how states are involved depends on their existing relationships with other agencies. For infectious diseases, the responsibilities are very clear. But the role of state health departments and federal agencies are very unclear for occupational health and environmental health. Roles in these regulatory areas are complicated by turf battles among federal agencies and by the effect of political dogma. State health departments want help from the feds, but they don't know who to talk to. They see no clear mandates in their area of interest at the federal level, because regulation and enforcement are not the same as health care service.

2. The environmental protection area has its own unique characteristics, including intensely competing interest groups and more scientific and technical problems to solve than solutions currently exist for.

Centers for Disease Control:

"CDC recognizes we will not always have good relations with the states. In the area of infectious diseases, there was no confusion on objectives. Now, as we move into environmental areas, there is confusion ahead. Acute diseases you can see. But with chronic diseases, there is argument on what you can see. We've also never had anyone defend disease. But in the environmental area we are suddenly faced with companies defending pollution. The dynamics are entirely different."

"CDC does not do much basic research. Our labs try out new procedures from the scientific literature in order to solve problems in the field. We develop technical methodologies for use by state labs. But in environmental areas, we need operational research just to define the problems!"

3. The source of operational priorities for government agencies is very different from that of business.

The source of business revenues and corresponding priorities comes from the bottom - i.e., the field operations. The operational work drives the organization's priorities. But in government, the source of revenues and priorities comes from the top - from executive and legislative bodies. On-going operational demands and realities in government can be out of sync, or even in conflict, with current political priorities.

4. The states are not, in fact, operating units for EPA in a strict legal sense, given that they are not even part of the same organization.

While EPA and state agencies may have broad political missions and professional goals in common, they nevertheless have different priorities, methods, management planning cycles, and resources for accomplishing those missions and goals.

5. EPA is not a homogeneous organization.

Each of its programs, dealing with air, water, pesticides, etc., is unique. Each has different laws, regulations and standards, different technical and scientific problems to solve, different relationships with the states, and often deals with entirely different agencies in the same state. EPA is perhaps more analogous to a corporate conglomerate than to a single business operation. Yet the work of EPA's separate programs also directly affects each other - in terms of cross-media environmental impacts, competition for resources, working with the same state agency or on the same pollution site, etc.

In addition, EPA's regional structure operates so that policy-making as well as implementation is often decentralized. As a result, the regional offices are often unique in their approach and solutions to problems in the field.

6. None of the organizations studied have "delegated" responsibility and authority for implementing activities in quite the way that EPA is doing it.

In the companies, responsibilities were clearly divided between the central office and field units from the beginning. For the federal agencies, the states were in business first, and the federal agencies were created to supplement and support the states, who remained the primary service deliverers. In discussing this study recently with the EPA Task Force on State/Federal Roles, one member remarked: "The problem with oversight is that EPA staff are being asked to give away and then oversee programs they once ran themselves. The human response is to feel as if delegating amounts to shooting themselves in the foot. It's no wonder they're confused about what oversight means."

Despite these major differences in EPA's organizational structure, mission and type of work, there are nevertheless opportunities to apply the approach of these organizations to the way EPA carries out its work and relates to states. These opportunities are discussed briefly in the following section.

B. OPPORTUNITIES FOR IMPROVEMENT

While EPA is not a business, and our mission is somewhat different from that of other federal agencies, there are nevertheless important operational similarities. It was interesting to observe in the interviews with businesses a rapid shift in rhetoric as the discussion proceeded. It usually began with: "In business, if you don't agree with the program, you don't work." It usually ended with: "We have to convince the field units of the benefits to them; we have to sell them on new ideas." We believe that these ideas and principles from other organizations can provide insights on opportunities for improvement in the way EPA does its work, and especially for program activities delegated to state agencies.

This study and our discussions to date suggest the following principles for EPA management of delegated state programs:

1. The states are, in a broad sense, the implementation arm for federal environmental programs. Without them, EPA cannot achieve its goals of successful environmental protection programs and positive, measurable environmental results.
2. The EPA/state relationship must be clear and mutually beneficial. States must be actively involved in the development of regulations and programs that they must implement.
3. EPA needs to focus on the real work, and on defining priorities and success. Clearly describing the goals, expectations and work to be performed by the state agencies will increase their ability to successfully implement the programs.
4. "Oversight" as practiced by EPA (i.e., program audits) is not enough to ensure the success of state programs. There must be a more comprehensive approach to the support and motivation of state agencies.
5. Program audits are an essential management tool, but they must help to improve the work and the success of the state agencies, not just find mistakes.

Some specific opportunities for pursuing these principles might begin with the following:

1. EPA headquarters, EPA regions and states need to agree on the general approach and attitude needed for EPA's oversight of state programs, and to begin working collaboratively, for each EPA program, on the details

of how to ensure the success of state programs. We need to encourage existing successes, and work toward improvement in other areas.

2. EPA needs to increase its on-going support to states with delegated programs, in terms of:
 - o training for state personnel;
 - o travel to state offices for consultation and problem-solving; and
 - o technical support for state programs.
3. EPA needs to improve its capacity to provide quality technical and program assistance, through:
 - o improving the access of states to EPA's existing expertise;
 - o increasing the operational field experience of EPA staff who provide technical assistance; and
 - o improving the quality and quantity of EPA expertise.

On-going support to states and internal capacity-building in EPA will, of course, only be useful if the EPA program staffs have determined clearly what specific work the states need to be doing and what constitutes successful programs and performance.

The principles and ways of pursuing them suggested in this section are by no means an exhaustive list of opportunities for improvement available to EPA, nor have they been approved in any way by EPA's senior management. They reflect input from some EPA and state staff during informal discussions of the findings of this study. This is only a beginning. The intent here is to identify some ideas or issues which might be pursued in more detail in further discussions and future work.

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