

## INTRODUCTION

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This book is about the process of change in some government bureaucracies of cities, counties, and states in the United States. The bureaucracies are finance departments, comptrollers' offices, controllers' offices, departments of administration, and the like. These agencies are ubiquitous because the accounting and auditing functions are needed in all local governments, but they are hardly known to the average citizen because their activities are routine and rarely excite controversy. We can only begin to describe finance departments and similar agencies in this Introduction, but because the entire book concerns these organizations, the reader should have a sense of familiarity with them by the end.

This book is also about organizational theory and research. Theory, of course, is a body of abstract principles meant to apply to a variety of organizational forms and settings, and research is a procedure for testing propositions. The research study that generated this book was grounded in theory, or better, a theory that might be labeled the Weberian,<sup>1</sup> administrative, or closed-system model of organizations. As the study progressed, the theory became somewhat less plausible, but so did all organizational theories. The discussion of theory like the description of finance departments is necessarily sketchy in this first chapter, but it becomes more

developed as we progress. If the reader finds the results of the research as consistent and convincing as I perceive them, then his skepticism of theory—or at least of theories purporting to describe all organizations without reference to their histories and social or institutional contexts—will grow with his understanding of finance agencies.

The place to begin is in the basement of a Reconstruction-era city hall in the spring of 1972 where I am interviewing a finance director. He is a man in his mid-sixties of southern extraction. His daughter is present and taking notes. During the interview, a two-way radio remains on and occasionally interrupts when a dispatcher sends fire equipment to answer a call. The finance director has made a hobby of monitoring fire calls. He was instrumental in campaigning for a professional fire department in his city and is proud of his accomplishments. He is also proud of his own finance department and finds it well organized and efficiently run. Part of the interview went as follows:<sup>2</sup>

*Interviewer:* Mr. B., I came here to see you partly because your department is a bit unusual. You have sixty-one employees, but twenty-eight of them, nearly half, are in the data-processing division. Can you explain to me why so many of your people are in data processing compared to your other divisions?<sup>3</sup>

*Finance director:* There is no secret about that. The computer does all of our accounting and payroll work, of course. But it is also used for other things. You see, we have a large military installation nearby, and there are many temporary residents of the city. Because there's so much turnover, we have to send utility bills monthly—the city supplies electricity and water. In addition, we have to collect traffic tickets very, very quickly or lose much of the revenue from them. We use the computer to send out notices after fourteen days. We are also about to computerize all of our hospital records.

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*Interviewer:* Will you need more people or a larger machine?

*Finance director:* The present computer—I think it's a 360/40 will be replaced by a larger one, a 360/50, which is faster and has greater capacity. And since we want to move to three-shift operations, some more computer operators will have to be hired.

*Interviewer:* You mean that more than half of your people will be in data processing?

*Finance director:* That's right.

*Interviewer:* Do you anticipate any changes—other than the new computer and three-shift operations—in your department?

*Finance director:* No, none at all.

I later talked with the head of the data-processing division and covered some of the same points. His answers were initially like his boss's, but he sensed my disbelief. The following is from memory.

*Data-processing manager:* Would you turn off the tape recorder please?

*Interviewer:* I'll be glad to.

*Data-processing manager:* Look, the truth is that I'm going to the city manager the day after tomorrow to ask that data processing be made a separate department.

*Interviewer:* Good luck. But why?

*Data-processing manager:* Partly because we're growing—with three shifts we'll have at least thirty-one people—but mainly because much of our work no longer has anything to do with finance.

*Interviewer:* Can you tell me more about this?

*Data-processing manager:* Sure.

The head of data processing went on to explain that much of what used to be purely financial work has become increasingly managerial, extending beyond the traditional limits of

finance administration. He cited several examples of how this shift has occurred, but most vivid was his account of how the chief of police began using information from parking tickets.

*Data-processing manager:* As you know, we've computerized our traffic tickets—we write about 100,000 a year—in order to dun violators within fourteen days.

*Interviewer:* What information is on the ticket?

*Data-processing manager:* There's the date, time, location, and type of violation, tag number of offending vehicle, and there's the officer's star number. We put all of these into the machine. Now our police chief who looks a bit like Broderick Crawford came to me one day and asked, "Bill, I'd like to know who my productive officers are. Can you give me a listing of citations by officer?" I said, "Sure enough, Chief" and had it for him by evening. The next morning the chief was back at 8:00 A.M. and requested a listing of citations by officer and location. "Sure enough, Chief." He was back at 7:00 A.M. the following morning wanting a listing by officer, date, location, and time. That took a lot of paper. The next morning at 6:00 A.M. he held a meeting with his patrolmen. He had discovered that virtually no parking tickets were being written between 2:00 and 4:00 P.M., and that most between 1:30 and 2:00 in the afternoon were in the vicinity of movie theaters. The chief told his men what movies they had been watching and that it would have to stop. It did. And to keep things honest, I now send the chief a productivity report on his officers every month.

Several themes in these conversations will recur throughout this book. One is that finance officials tend not to anticipate much change in their organizations. Their orientation is

toward accounting, and they view innovations such as electronic data-processing and sophisticated budgeting techniques as new means of attaining old ends. This attitude is well founded. Bureaucracies, as will be argued, are generally not in the business of promoting change. Their work, which consists mainly of enforcing rules, and their members' career orientations tend entirely in the opposite direction. A second theme is that when change occurs, it is determined not so much by internal processes in bureaus as by external events. In the example above, the data-processing director concluded that his boss had failed to take advantage of the managerial potential of the computer once he saw how the police chief used it. Whether or not he was right is unclear. On the one hand, the data were not being fully utilized; but at the same time it is questionable whether, from the finance director's perspective, it was desirable to mix fiscal with managerial functions. A characteristic of bureaucracies, I shall argue, is that most decisions result from administrative or political judgments rather than technological imperatives. For this reason, and contrary to stereotypes, bureaus tend to be very open or vulnerable to their immediate environments. A third theme, one not directly evident from interviews with the finance and data-processing directors, is that increasing bureaucratization of public agencies through additional rules and layers of hierarchy results in part from their openness to the environment. This has some implications for the scope and structure of bureaus at all levels of government and also for their capacity to respond to genuine needs for change arising externally. These implications will be pursued in the last chapter.

### **A description of finance agencies**

Before turning to organizational theory and procedures for testing theory, the subject of the next two chapters, a descriptive account of the setting and work of finance agencies is in order. Finance agencies of local and state gov-

ernments are almost always located in city halls, county administration buildings, or state capitols. They are almost always alongside the office of the head of government—the mayor, manager, or governor. Sometimes these quarters are old and drafty—I spotted a spittoon in one—and sometimes, especially in growing suburban areas, they are in modern low-rise structures spread across government “campuses.” The proximity of the finance director or comptroller to the head of government is not accidental. In theory, the chief financial officer is the chief executive officer’s advisor in all fiscal matters, which excludes little of the business of city, county, and state governments. In fact, some finance officers have immediate and frequent access to their superiors, but some have little access or are forced to compete with others for their boss’s ear in fiscal matters. We shall explore reasons for differences in influence of different financial officers in the chapters to follow. Interestingly, at least in cities and counties, finance offices often serve the public directly as well as the head of government. Many, for example, are responsible for collection of taxes and fees as well as, in some instances, parking and traffic fines. The functions performed by finance agencies, then, range from fiscal planning and advice that cannot be accomplished following fixed procedures to operating cashiers’ windows where virtually no discretion can be permitted.

When one enters a finance department, he is struck by its similarity to other administrative organizations. Virtually all work, save for reception, is done at desks, most of which are in undivided offices, some behind partitions, and a few in the private offices of the department head, his deputy, and the division chiefs. Almost half of the nonsupervisory employees in public finance agencies are women, but almost all division and department heads are men, and few are minorities. For many of the women employees, their jobs are means of earning needed second incomes to support their families. For the men, there are incentives of civil service

tenure and benefits, advancement within the organization and, in recent years, numerous opportunities for employment in other localities. Work hours, including lunch breaks, are fixed. And, whereas the frenetic process of a stock brokerage or exchange floor is never observed, there are periods of intense activity, especially when budgeting and fiscal year deadlines are approaching. My impression is that the staffs of local-government finance agencies are highly competent, but also somewhat conservative in appearance and demeanor, with the exception of data-processing personnel. Their political views, when expressed, are similarly conventional. The one finance director whom I remember expressing strong opinions on public issues had been appointed partly for his political views and was not actively involved in the management of his department. In short, finance agencies typify in most respects the medium- to large-sized administrative bureaucracies found at all levels of government; and their appearance and organization may not differ substantially from administrative bodies in the private sector.

Work routines in finance agencies are not easily described, because there are very many of them and they vary somewhat across jurisdictions. The core function, accounting, for example, can require checking of a request for payment (usually originated by another department head) for appropriateness, for availability of funds, and for evidence that the goods or services to be paid for were in fact delivered or rendered. Depending upon the size of the request and its nature (e.g., whether or not a contract is involved), more than one approval may be needed. Treasury and debt administration, also core finance functions nowadays, are not so easily routinized because they entail money-management decisions that are largely in response to changing marketing decisions. Data processing and budgeting activities are partly routine, but they also demand technical skills of a highly specialized nature for those in supervisory positions.

Finance agencies may also have responsibility for property assessment, itself another specialized activity, management of government-owned property, and the purchasing function. The reader, no doubt, has some sense of the nature of these activities. The diversity of activities taking place within finance agencies, importantly, is a challenge for both the observer who wants to describe them economically as well as for the administrator who wishes to manage them simultaneously. Indeed, the diverse and occasionally disparate nature of finance functions provide some impetus for change in these agencies.

*Organizational forms for the finance function*

There are three basic organizational forms for the finance function in cities, counties, and states—the comptroller’s office, the department of finance, and the department of administration. Sometimes the term controller or auditor is used in place of comptroller, but the organizational forms associated with these names are essentially similar. The comptroller’s office is the oldest form for the finance function, the finance department is of more recent origins, and departments of administration have begun to emerge only recently. The three types of local government finance agencies should be described briefly using materials drawn from interviews, observation, and informal discussions with a large number of finance directors in both their offices and at professional meetings of the Municipal Finance Officers Association.

*The comptroller’s office.* One city comptroller suggested that the organization of his office reflected a “Depression mentality,” and most of his colleagues agreed. By this he meant that the comptroller’s job is regulation of expenditures—limiting budget requests, limiting disbursements to amounts and for purposes budgeted, debiting accounts when obligations are incurred (as opposed to when paid), and minimizing long-term indebtedness. Some of the more aggressive comptrol-



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lers conduct detailed audits of local agencies, which generate some savings and, occasionally, publicity. The comptroller's main activity, then, is bookkeeping. He is involved in policy only when fiscal safeguards and regulations are needed. Not surprisingly, a comptroller's outlook is like that of a traditional accountant. Financial data are examined for internal consistency and are not linked directly, if at all, to the level of government services. Thus the scope of activities of comptrollers is not large, but what they do is essential and cannot be reduced much. All of this would suggest little change in comptrollers' offices over time save for a growth trend due to accounting requirements of new programs, particularly federal categorical grants and, now, revenue sharing.

*The finance department.* If the comptroller's office is a creature of the Depression, then the finance department reflects the perspective of the 1940s and 1950s. The finance director, like the comptroller, is responsible for accounting and auditing of government funds, but these functions are subsumed under an organizational structure that includes a number of other activities such as revenue collection, purchasing, treasury management, investments, and the like. Although the finance director examines all expenditures to make sure that they conform to budget requirements, he is often more concerned with finding the resources needed for local-government services. The finance director issues all bonds and other obligations. Part of his job is to develop close ties with the banking and investment communities to ensure that funds will always be available when needed.<sup>4</sup> Needless to say, the finance director is more involved in policy than the typical comptroller, for he must determine whether funds can be raised for proposed projects and then find the money. This is especially the case where he has charge of budgeting.

The finance department was the logical outgrowth of the comptroller's office, and its functions were initially well defined. Almost all fiscal activities were consolidated in a single

office, and questions concerning fiscal policy were meant to be referred to the finance director. By the 1960s, however, the distinction between financial administration and the nonfinancial aspects of local government began to be questioned, and it has all but evaporated now. This is due in part to the replacement of line-item budgets that take no account of policy outputs with program or performance budgets that link outputs to expenditures. The introduction of large-scale computing has also blurred the line separating fiscal management from operations. Data once used only for financial purposes now have other applications. For example, assessment records showing dwelling type and construction (as well as value) are helpful to fire departments in dispatching equipment. As local governments move toward integrated data bases and as financial data are merged with other kinds of information, the separation of finance from other administrative activities becomes even more tenuous.

*The department of administration.* Departments of administration are relatively new. Almost all have been formed since 1960, and many comptrollers' offices now reorganizing switch to the administration rather than the finance model. The department of administration completes the subordination of accounting and auditing activities to other housekeeping functions, especially data processing. Unlike finance, the concept of administration leaves no ambiguity about the location of the computer and budgeting. Both fit squarely within its mandate, as administration connotes linkage of financial with nonfinancial data—of cash inputs with policy outputs. The personnel function is usually placed in administration along with property management and other activities that do not fit clearly in one of the operating departments of government. Indeed, his scope of responsibilities can make the director of administration a second city or county manager.<sup>5</sup> The functions of administration departments are broad and expanding at the present time because