

BUSINESS

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Give up, carve it up, clean it up. Five business leaders asked to review Cook County's finances find plenty of frustration, but not all are sure private-sector practices offer a fix.

Can this county budget be saved?

By Greg Burns | Tribune senior correspondent

Drawing on decades of experience as a business executive, Harry J. Seigle has a simple idea for tackling the fiscal problems of Cook County government: Throw it into bankruptcy.

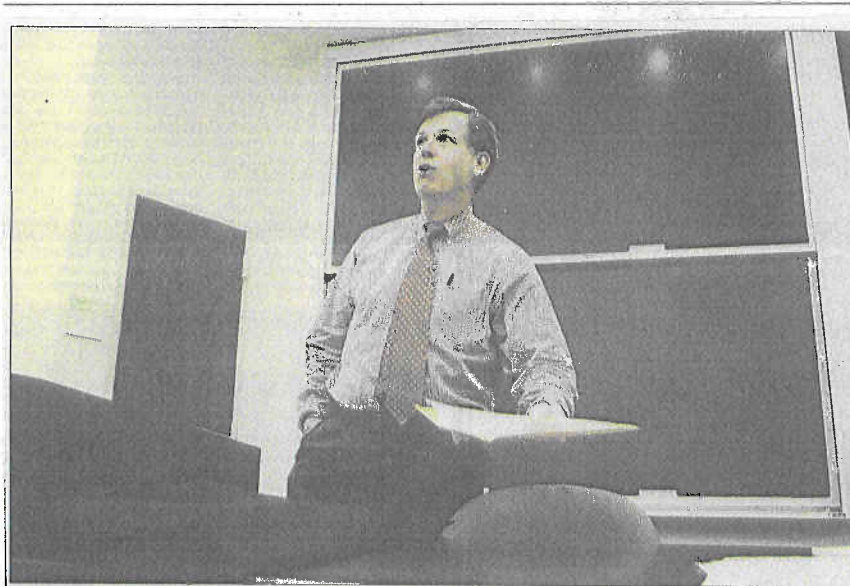
Seigle wouldn't "rush to the courthouse," he said, but the building-supply entrepreneur believes the county requires such "fundamental" changes that only the most drastic measures will work.

Just as United Airlines parent UAL Corp. and other corporations have turned to bankruptcy in times of trouble, a rare municipal reorganization might be just the ticket for controlling what he considers runaway costs. "That's the only lever you have," he said.

Declaring bankruptcy would ruin the county's credit rating, among other severe consequences, making such a move doubtful. But with a historic tax hike looming in Cook County, passions are running high. It's often suggested that government would be better off operating like a business, with a premium on efficiency and results. And no one disputes that business executives such as Seigle often think differently than elected officials.

Seeking a fresh perspective, the Chicago Tribune consulted five local business leaders to determine how sophisticated financial practices might help the county manage its latest fiscal crisis.

To find out what the local business leaders had to say—and the county's response—go to **PAGE 10**



Former Baxter CEO Harry Kraemer Jr. teaches the last session of his leadership class Nov. 29 at Northwestern University. Tribune photo by Candice C. Cusic

ANOTHER VIEW

Business tactics can't always apply

Harry Kraemer Jr. describes himself as "probably one of the only CEOs who thinks government shouldn't be run like a business," but he has plenty of company in the academic world.

Apart from obvious differences such as the profit motive and the prominence of shareholders instead of voters, scholars cite more subtle distinctions that strain the comparison, too.

"The problem is that government doesn't have one simple objective the way business does," said Robert Reich, former labor secretary under President Bill Clinton and author of a book, "Supercapitalism," that urges

Americans to rebalance the roles of business and government.

"Government is run for many different stakeholders," he said. "Outcomes have to be brokered. Means are not all that clear even when objectives are agreed upon."

Given examples such as Enron Corp. and the private-contractor scandals in Iraq, Reich added, "I'd be careful before we say businesses are run better."

Beyond that, judging government by its economic efficiency makes sense for routine tasks such as purchasing, but not for services such as police investigations or

child protection, according to Richard Box, a University of Nebraska professor who has studied the issue. "Efficiency may not be as important as values such as fair treatment, social justice, responsiveness to citizens, environmental sustainability and so on," he said.

Even the communication styles differ, Box noted, saying the autonomy and secrecy common in the private sector could undermine the democratic process in a public sector dedicated to openness and transparency.

Paula Worthington at the University of Chicago doubts government ever could mimic business because the in-

centives vary so much.

Instead of making money, "You have people leaning on you to create jobs and raise salaries. There's no pressure to say no," said Worthington, a lecturer at the Harris Graduate School of Public Policy Studies. "It is a different set of incentives."

In general, though, she still sees lessons that apply to both worlds, as does Kraemer, the former chief executive of Baxter International.

"At the end of the day, it's all the same," Kraemer said. "You're dealing with people. You're dealing with diverse views. You're prioritizing. You're setting direction."

—Greg Burns

COUNTY:

Business ideas tried before

CONTINUED FROM PAGE 1

After reviewing Cook County's proposed 2008 budget in detail at the newspaper's request, several of these experienced corporate managers agreed that the basic problem is in the approach.

No way would a responsible enterprise merely pick up last year's budget and expand on it, as they perceive the county doing. A sound budget review involves justifying every expenditure every year, they said. That requires detailed financial information and a more accurate projection of long-term trends than the county generates, they said. Only then is it possible to cut low-priority personnel and programs while expanding the most vital services.

But not everyone criticized. Several gave the county and its murky finances the benefit of the doubt. Even including the proposed 2008 hike, the county's appropriation for health-care services is growing at a slower pace in recent years than costs in the private sector, noted Anna Rappaport, a consultant, actuary and 28-year veteran of Mercer Human Resource Consulting.

"Are they doing a really good job, or is something going on that you can't see?" she asked. "It's not transparent." Similarly, former Baxter



RON GIDWITZ, 67



HARRY J. SEIGLE, 61



HARRY KRAEMER JR., 52



ANNA RAPPAPORT, 67



PATRICK ARBORE, 71

Career highlights
Co-founder of GCG Partners, ex-chief executive of consumer-products company Helene Curtis Industries, which was sold in 1996.

Public service highlights
State Board of Education; Economic Development Commission of City of Chicago; City Colleges of Chicago; lost race for Illinois governor, Republican.

On the county budget:
"They don't do strategic planning, can't collect bills, can't project their business and don't do training. You don't find that in the private sector."

Career highlights
Heads the Elgin Co., a real estate and investing firm. Ex-president and chairman of Seigle's, the building-material supplier that his family sold in 2005.

Public service highlights
Illinois State Chamber of Commerce; Illinois Development Finance Commission; Ran unsuccessfully for Illinois comptroller, Republican.

On the county budget:
"You need a credible leader at the top who would support an administration to reduce expenditures in line with revenues."

Career highlights
Ex-CEO Baxter International; executive partner, Madison Dearborn Partners; clinical professor, Northwestern University Kellogg School of Management.

Public service highlights
Lawrence University Board of Trustees; many board and community affiliations. Split-ticket voter who leans Republican.

On the county budget:
"You get this incredibly quick gut reaction that it's crazy. Are the leaders taking a disciplined approach or are the leaders taking the easy way out by saying let's raise taxes? You don't know."

Career highlights
Actuary and consultant. Retired three years ago from Mercer Human Resource Consulting.

Public service highlights
Technical Panel, Social Security Advisory Board. Past president, Society of Actuaries. Non-partisan.

On the county budget:
"They can't take the same tools used in business and apply it without trouble. Sometimes you can, sometimes you can't."

Career highlights
Former chairman, Chicago Board of Trade; Principal, Shaktin Arbor Inc., trading firm; director and investor, First Chicago Bank & Trust.

Public service highlights
Ex-mayor of Harwood Heights; fundraiser for Chicago Mayor Richard Daley and Cook County Circuit Court Clerk Dorothy Brown, Democrat.

On the county budget:
"There's a lot of redundancy and bureaucracy. It should be streamlined."

Source: Tribune reporting Chicago Tribune

International Chief Executive Harry Kraemer Jr. said County Board President Todd Stroger might be correct that taxes are too low to cover essential government functions, but it's difficult to tell from the numbers available.

"If the only way to provide health care to the citizens that need it is to raise the taxes on people who can afford it, OK," said Kraemer, a Northwestern University clinical professor.

and senior official at Madison Dearborn Partners. "But I say it: 'What really are the priorities?' The bottom line is that you've got to get a process in place to determine that."

The absence of essential data and meaningful analysis presents an opportunity for improvement, said Ronald Gidwitz, former CEO of one-time personal-care giant Helene Curtis Industries.

As the budget process stands, it makes no sense to boost spending when the county can't identify and rank its needs, and the best response could well be a hiring freeze. "You stop adding people if you don't know you have the money to spend," said Gidwitz, a prominent state Republican who is active in leading Rudolph Giuliani's Illinois presidential campaign.

To Patrick Arbore, a banker, trader and lifelong Democrat, the budget reflects an inefficient overlap of responsibilities and supervisory roles, which contributes to excess bureaucracy, he said. Perhaps the county's clerical offices should combine, he said. "Maybe you don't need a clerk of the circuit court and a county clerk."

Similarly, the county's clerical functions could be more effective if outsourced to private vendors capable of introducing up-to-date technology, said Arbore, a former chairman of the Chicago Board of Trade. So far the county has failed to employ computers sufficiently, he noted. "It's all very old-fashioned. The business world is much better at information management."

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Cook County's response

The office of Cook County Board President Todd Stroger responded with this statement: "In preparing the 2008 executive budget recommendations, the Cook County budget and finance team exercised the most sound and prudent business practices. Our budget practices mirror other local governments like the State of Illinois and the City of Chicago.

"To clarify, the Cook County budget process did not only use budget fiscal year 2007 as the basis for the 2008 Executive Budget Recommendation. While the official budget process began in July 2007, with departments reviewing all programs and determining the minimum level of resources needed to provide core services (see Department Request Column under every department/agency), the Department of Budget and Management Services (DBMS) worked as early as March 2007 to begin the review of existing county operations as it related to fiscal year 2008 expenditures. Based on these minimum levels, departments

were asked to justify every expenditure as well as to provide a three-year expenditure forecast that included agreed upon union contract salary increases and non-personnel costs based on the industry rate of inflation.

"In the 2008 budget book volumes two and three, each department and agency describes the mission, goal, objectives, major 2007 accomplishments, key 2008 initiatives and describe various programs—this is the basis for fully identifying performance measures/benchmarks that will be reported on a quarterly basis to the Board of Commissioners. We held the first county-wide performance measures training and reporting session in December, with other scheduled training to follow early next year.

"In 2008, a staggered hiring plan was presented in the Executive Budget Recommendation; this plan will be further analyzed by the Committee on Finance throughout its budget deliberations."

—Greg Burns

Quest for sound principles

Of course, not everyone believes business lessons apply in the public sector, and the executives concede the worlds are different, though not so much that management principles won't work in both.

In fact, assessing the county's performance from a business standpoint is nothing new. A series of prominent reports over the years has identified inefficiencies and proposed fiscal reforms, including at least two this fall.

The Cook County Bureau of Health Services Review Committee, a panel loaded with experienced hospital executives, recently laid out a blueprint for improving the county health-care system, its biggest single service along with law enforcement. Likewise, a 32-page budget analysis by Chicago's Civic Federation, an independent fiscal watchdog with many business figures on its board, also proposed improvements in corporate functions such as performance management systems and long-term financial planning—while pushing for deep cuts in the personnel costs that make up 62 percent of the proposed 2008 budget.

To a degree, Cook County officials already have adopted language and ideas from big business, though critics say they have failed to implement the concepts underlying them.

At public hearings the county has hosted on its current \$3.2 billion budget plan, its leaders sometimes sounded like CEOs reassuring shareholders their investments would pay off: "We don't waste anything," Cook County Chief Judge Timothy Evans said in November: "The money that we're asking for is money we will put to good use."

In seeking \$890 million a year in new tax revenues, Stroger said he has achieved "enormous operational efficiencies" during his year-long tenure, and has adopted "modern business practices." Stroger also points out that he has introduced "performance-based budgeting" using productivity benchmarks.

Seigle's idea for a Cook County bankruptcy filing would not solve its "revenue problem," Stroger spokeswoman Ibis Antongiorgi said in a statement Friday (see box above). "When any business, public or private, refuses to raise revenue while expenses continue to outpace income, then it is time for all stakeholders to consider drastic expenditure reductions. Cook County government needs additional revenue to pay its employees."

What's missing from Stroger's budget plan is specific-enough objectives, said Gidwitz, a director of Rush University

Medical Center, which works closely with the four county-run hospitals. "Where you can cut is the second question," he said. "The first question is, 'What do we need? What are the priorities and strategies?'"

'In need of a turnaround'

Starting with a blank sheet each year is "extraordinarily time-consuming the first time you do it," Gidwitz said. "You have to develop the tools. You need a long-term plan to establish priorities. That's what real organizations do, and that's not what these guys do."

Seigle, too, sees critical flaws in the budget process, starting at the top. "This is a company in need of a turnaround, and the leadership has done nothing to indicate they have any desire to deal with inefficiency," said the former chairman of Seigle's Inc., a distributor of building materials and contractor services that he sold in 2005.

"I would make my emphasis productivity and use basic productivity measures," such as the cost per recorded document at the Cook County recorder of deeds, said Seigle, a former head of the Illinois Development Finance Authority who ran unsuccessfully for Illinois comptroller in 1998.

Imposing stricter performance and productivity benchmarks would highlight "the featherbedding, the inefficiency and the corruption," he said, while also identifying hidden examples of "outstanding work and efficiency."

Yet not all the data systems and business models that work for the private sector would apply to government, Rappaport said. In health care, for instance, the county can track the services it provides, unit costs and doctors' diagnoses, she said. But it can't define its customer base of eligible patients, since it is a provider of last resort for a shifting population.

That "cost per person covered," a basic benchmark in the private sector, isn't available with any precision because, she said, "You can't say how many are eligible for service."

Kraemer thinks public anger over the county budget proposal may be misplaced. It "could be," he said, that those who can afford it should pay higher taxes to provide health care for the poor, among other services with critical social benefits. All things considered, he added, "I'm not of the view that taxes ought to be lower."

Arbor disagreed: "There's many ways the government can be more economical and manage their resources better."

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