

Better Public Services

DRAFT ISSUES PAPER:

Leadership for Improved Results

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This paper explores options for improving leadership and leadership development across the public service and wider state services. It also comments on some of the issues involved in implementing possible changes.

This paper is part of a series of background papers prepared by the Secretariat for State Sector Reform to support the work of the Better Public Services Advisory Group and, as such, does not represent the views of the Advisory Group.

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Executive summary

Leadership will be a critical driver in addressing the issues facing the state services. There is a considerable gap in leadership terms between what we have and what will be needed, including leadership of culture change across the system to support greater innovation and continuous improvement.

The state services need leaders able to pursue objectives over the medium to long term, and more able to lead across agency boundaries to that end. The imperative is to find and develop leadership capability to transform public service delivery so as to improve results for New Zealanders.

The aim needs to be both to improve the quality of leadership, and raise the number of actual and potential leaders in the system. Underlying processes, for example in employment arrangements and legislation, need to support the aim of leadership development.

The future focus will be on establishing and ensuring sound foundations for sector (or cross-agency) work. We also need to ensure that we have durable arrangements for leading key functional aspects of the system, like ICT or procurement, to performance excellence. This implies a shift away from leadership on a single-agency basis towards a range of leadership types at a higher than agency level. At agency level, the emphasis will be on leading service transformation for better results at lower cost.

To operate a system with multiple types and levels of leadership will require an identified overall leader with an overview of leadership roles and leadership development across the system. There are various options for providing this, one of which is that the State Services Commissioner becomes the formal Head of State Services. This paper works out some of the implications of this option by looking at what statutory provisions might be required to implement it. Legislation could be amended with the aim of providing for the Head of State Services to have a role in relation to the appointment of sector leaders, of functional leaders and in the flexible deployment of chief executives and senior leaders across the system. There is considerable work to decide how these proposals could be implemented if they were to go forward.

Problem definition and case for change

Early work in the context of the Better Public Services programme identified that the state services are not well equipped to meet the challenges of the next 20 years. Barriers to progress include weak customer focus in public services, lack of coordination, poor economies of scale, slow pace and little innovation.

Addressing these barriers will have implications for a range of dimensions of the system including how agencies see their roles, how public organisations relate to the community and how agencies interrelate with one another. And these will have implications for how organisations and groups of organisations are led.

In order to address the barriers, it is likely that, in future, agencies will need to be better attuned to the needs and aspiration of communities, and more agile in quickly designing and implementing responses to complex and changing needs. Agencies will have to transform and reinvent themselves to do this, changing internal cultures to support greater innovation for continuous improvement. Agencies of the state services also will have to operate much less as a collection of individual agencies, in pursuit of their own individual objectives, and much more as a coordinated and collaborative system focused on the results that will make the biggest difference to New Zealanders' lives. This also has implications for organisational cultures which have been focused on single-agency endeavours.

All financial projections tell us that the state services will have to address these challenges in an environment of continuing constraint where the imperative is to "do better with less". There will have to be a move away from a culture where value-for-money is just a secondary consideration and towards an environment where organisations and individuals are motivated to continuously innovate and improve.

This environment and its challenges has implications for how we develop and deploy leaders across the public service and wider state services. Already we are seeing weaknesses being exposed in the leadership of the state services. The summary analysis of the 14 Performance Improvement Framework (PIF) reviews undertaken so far suggests that there are gaps in key capability areas:

- strategic leadership – especially in vision – strategy – purpose and in culture and values
- leadership for transformation – people development, review (using information to drive change), and
- integrative leadership – sector leadership and contribution.

At a global level, the PIF results suggest that currently:

- leadership teams are enmeshed in the components of the business, rather than taking a governance role
- leaders are responsive to Ministers but are weaker in their ability to provide more strategic advice that is robust over time, and that will meet the needs of Ministers and the public in the future
- leaders do not work effectively across organisational boundaries, and

- leaders are not using information effectively to drive their business, and lack the metrics to determine the effectiveness and efficiency of their business model and operations.

These observations are broadly consistent with other assessments which have been made, such as earlier findings on the patchiness of the key strategic human resources and organisational development competencies which are needed to drive change within agencies.¹

Moreover, there are concerns about the number of suitable leaders available. Additionally, while the total number of agencies in the public service may decrease owing to consolidation and efficiency drives, the number and type of leadership roles in the system overall, including in Crown entities, is likely to increase in the medium term.

What type of public sector leadership is needed in the future?

The previous major reforms of the public management system were designed to drive particular leadership behaviours and areas of focus, and were successful in achieving these shifts. In particular, leaders and agencies became highly responsive to Ministers and immediate priorities, have better processes in place to manage finances, deliver core outputs and operate well under clear accountabilities.

This is unlikely to be enough in the future. Government and public expectations of the state services have grown, and the challenge of the future is to address, within a smaller resource base, more difficult issues which either require major innovative shifts in how single agencies operate or which cannot be addressed on a single-agency basis.

Consequently, now and into the future, chief executives will have to work across government, as well as leading their own agencies. A shift in the public management model will be required: from decision-rights usually at agency level, to instances where decision-rights sit at sector or system level. Leaders will need to be supported with a clear mandate and resources, including by consolidation of presently separate agency budgets.

The leadership capability development required can be summed up as a shift to:

- leading vision and strategy
- leading integration, and
- leading transformation of delivery.

Leading vision and strategy

A strategic leadership approach is focused on performance and the achievement of results over the medium to long term. This does not mean that delivery of immediate

¹ Assessment of Strategic Human Resource and Organisation Development Capability, State Services Commission, May 2009.

services and priorities is any less important, just that this is done with an eye to their contribution to the future.

In this area of leadership, there is a strong emphasis on the ability to motivate and inspire others to work towards longer-term goals. There is also a strong emphasis on culture change in organisations and on identifying and growing talent.

Leading integration

An integrative leadership approach is focused on harnessing and directing people, resources and processes across organisational boundaries to achieve specific results.

Leadership in this area includes the ability to identify and manage interconnected issues, to make trade-offs and to build support across agencies.

Integrative leadership is likely to be needed both across related agencies (those working towards the same results on behalf of government) and across areas of functional expertise, such as ICT or procurement, where decision-making is currently dispersed and uncoordinated, with unnecessary cost and duplication as a result. Integrative leadership is also increasingly needed in the policy and regulatory functions where some of the critical future issues for New Zealand, such as water quality, require an integrated approach.

Leading transformation of delivery

This leadership approach is focussed on fundamental change to the agency. This is summarised as working *on* the business rather than *in* the business.

This requires sophisticated analysis and use of management information, research and evaluation to assess performance, identify opportunities for improvement and monitor progress.

In the current environment of rising demand and expectations and reduced funding, improvement needs to be more than incremental and one-off. We need leaders who can move beyond a simple “value-for-money”, cost-cutting paradigm as this is not sustainable over the medium term. Transformation of current service delivery and policy is needed. Innovation and calculated risk-taking will be needed to achieve the required year-on-year efficiency and effectiveness improvements in the public sector.

What will future public sector leaders be leading?

The trends and possibilities outlined above imply a considerably more differentiated model of leadership than that which has sufficed in the past. The future environment is likely to be one in which new types of leadership roles emerge, and leaders may well have multiple roles not confined to a single agency.

This implies considerable change in decision-rights. The “*Decision-rights for Achieving Improved Performance*” issues paper has explored the issues raised by the highly devolved nature of our public management system, the consequent difficulties this raises for coordination across the system and the wide range of ways in which decision-rights can be configured at a higher than single-agency level. One way of changing the allocation of decision-rights is by defining new options for leadership where these are needed.

System leadership

If we move to have multiple types of leadership roles in the system then this raises the question of how these leaders are appointed, how they receive their mandates, who manages their performance in their roles and how we ensure that the multiple leadership roles neither clash with each other nor stifle appropriate autonomous decision-making by individual chief executives on agency-specific issues. In this latter connection it is very important that we do not lose the efficiency and effectiveness gains which emerged from the state sector reforms of the 1980s and early 1990s.

This raises the issue of how the system will be led overall. If leadership is to be no longer linear and exclusive (with each departmental chief executive exclusively responsible for leading one organisation), then there is a question of who is going to be responsible for steering the overall system. This includes defining the mix of leadership roles and associated accountabilities. There is another major related issue which concerns how potential leadership talent is to be identified and developed across the system. That is, a new kind of system leadership role is going to be needed.

Central to this system leadership role will be leadership of culture change across the system. In an environment which places greater emphasis on citizen voice, achievement of cross-cutting results and achievement of functional excellence, the culture of the system will need to shift to encourage innovation in how agencies engage with communities and innovation in inter-agency collaboration and coordination. Effective leadership at a system level will be needed to model and embed organisational cultures that support these aims. There will be a need to define and communicate the behaviours needed for collaboration, innovation and continuous improvement; ongoing reinforcement of these behaviours in engagement with chief executives and senior leaders; and defining and encouraging the kind of organisational changes needed to support and entrench culture change.

Sector and cross-agency leadership

Two further issues papers – “*Results*” and “*Sectors: Organisational Arrangements to Deliver Results*” – make the case for the continuing importance of results as a focus of public sector activity, and for the particular centrality of cross-cutting results which will require extensive inter-agency collaboration if they are to be achieved. Those papers

also make the case for much more robust sectoral governance and leadership arrangements for defining and delivering results.

It is likely that, in future, both the Government and the public will continue to place greater emphasis on effective action on intractable issues – such as the incidence of crime, or of low health status and poor educational outcomes in some segments of the population. These are the kinds of issues which cannot be addressed by single agencies acting in isolation from others. Consequently, it is likely that in future there will be more instances in which sectors or clusters of agencies become the basic unit in driving forward results-oriented initiatives and strategies. This will require focused sector and cross-agency leadership. This type of focused sector leadership may be formalised in a variety of ways including sector boards and sector lead chief executives.

Functional leadership

Given the small size of our public sector, there is likely to be scope for greater specialist functional leadership to be exercised. Functional leadership will be needed across the system to drive best practice, set common standards, collect data, identify opportunities to increase value and provide expertise to support activity across government.

Some existing functional leadership is providing significant value, but progress is slow as participation is voluntary.

- In ICT, the institution of a Government Chief Information Officer, located in the Department of Internal Affairs, has changed the market in networking and infrastructure through well-structured programmes and commercial expertise. Maximising opportunities provided by cloud technology could enable truly innovative solutions across government but will require a strong commitment of scale to interest global vendors.
- Initiatives in the procurement area, led by the Ministry of Economic Development, have proven significant savings are achievable and have introduced innovative procurement options to drive greatest value for government.
- In property, the Ministry of Social Development has proven significant value in having oversight of property requirements following the Canterbury earthquakes. This stopped agencies artificially bidding up property prices and brokered shared accommodation arrangements.

Conversely, there are, across the system, examples of issues created by lack of functional leadership. This includes the field of commissioning (including procurement, contracting, contract management, etc.) where there is:

- huge variation in prices for goods and services across government
- inconsistent practices causing unnecessary duplication across agencies and for service providers (eg, multiple audits for service providers contracting with more than one funding agency)
- lack of commercial legal expertise causing unnecessary risk aversion within agencies thus blocking innovation and creating huge cost and inefficiency
- lack of capability in using more effective contracting models (eg, higher value, but more complex approaches, such as outcome-based contracts or alliance and

partnerships based approaches)

- lack of strategic direction for government. Improvement programmes working in isolation (eg, Government Procurement Reform Programme, High Trust Contract and Integrated Contracts, Code of Practice for contracting with Voluntary and Community Organisations, PPPs), and
- lack of standard address formats including regional boundaries:
 - geospatial information can't be captured consistently with different addressing formats, and
 - funding agencies have different geographical boundaries, creating inconsistency for the service delivery organisations they contract with and the citizens and businesses they serve.

Similarly, in the ICT field we see:

- huge variation in cost and quality of ICT across government
- lack of standard business models for ICT and lack of standard data formats making information-sharing difficult and expensive (eg, the Inland Revenue Department and the Ministry of Social Development are mining data to identify benefit fraud/consolidating transaction services for citizens/releasing data to citizens – these all need common standards to achieve)
- silos in the funding of ICT preventing government-wide agreements with global providers which, for the New Zealand Government, would be a valuable pilot
- lack of central oversight meaning strategic ICT decisions within agencies are taken by individuals without consideration of the system as a whole and are only acting in the best interest of one agency
- scarce ICT expertise being spread too thinly across the system, and
- opportunities to develop exportable ICT skills by selecting strategic partners are being missed.

And in the project, programme, portfolio management (P3M) area there is evidence of:

- low capability in the function across government
- lack of standard methodologies making it difficult to see returns on investment
- programmes becoming more complex as they involve more agencies
- fiscal constraints making it difficult to “throw money” at problems. If cost can't increase, either quality or time are compromised, and
- scarce P3M expertise being spread too thinly across system.

Proposals to develop functional leadership would go further than developments to date by expanding the mandate and powers of formally appointed functional leads. For example, it may be advisable to:

- in the **ICT** area, give the Government Chief Information Officer power to mandate standards, and possibly have sign-off authority on agency ICT

strategies and ICT spend over a defined amount. This would ensure a system-wide view is maintained

- in *procurement*, expand the chief executive of the Ministry of Economic Development's role to cover all aspects of commissioning from best-sourcing analysis, market engagement, strategic partnerships, commercial legal support, contract development and contract management, and
- in *property*, give the Property Management Centre of Expertise sign-off on agency property strategies to ensure a system-wide view is maintained.

Agency leadership

Strong leadership and management of the service delivery, policy and regulatory activities of agencies will continue to be required in an environment of increasing expectations, rapid change and fiscal restraint. The focus will be on transforming the agencies and core functions to meet the challenges and expectations for public services. Leadership for transformation will require a focus on cultural change in agencies with frequent reinforcement of the behaviours required for innovation, including the ability to take calculated risks.

In this environment, chief executives will face a new level of challenge in leading their agencies to continuous improvement. The existing and established sources of support and advice for chief executives may struggle to meet the need. There is interest in the possibility of using boards to provide support for chief executives at agency level as well as sector level. This would include peer support and access to expertise in the way that private sector arrangements do. Boards already exist in many parts of the state in Crown entities where the board performs the functions that would be carried out by the Minister in relation to a public service department. Boards are unusual in the core departments though the Treasury has experimented with a Treasury Board. Other chief executives sometimes establish advisory boards in relation to particular functions or responsibilities. In future, a greater use of advisory boards may well become a feature of some departments as chief executives look to access the support they need.

What will change to meet these challenges?

Developing system leadership roles

The three Central Agencies – the Treasury, the Department of the Prime Minister and Cabinet and the State Services Commission – currently perform a range of system leadership roles. For example, amongst other things, the Department of the Prime Minister and Cabinet plays a vital role in coordinating the work of agencies in key areas, the Treasury undertakes an important role in testing the rationale for significant policy proposals and the State Services Commission undertakes the performance management of departmental chief executives. These leadership functions will remain and, in all cases, should be capable of further development.

However, existing Central Agency leadership, however developed, is not going to be sufficient to provide the support and coordination needed in a system with sectoral and functional leadership roles and a significant shift of decision-rights from the agency level.

Consequently, a major innovation at the system leadership level is needed to ensure that we have, at a single point, a comprehensive view of leadership including:

- all of the leadership roles in the system – functional, cross-agency, sector and agency
- definition of these roles and the associated accountabilities and powers – to ensure efficiency and effectiveness of the system and to avoid costly duplication or gaps
- an ability to identify and grow talent pools for the system as a whole
- an ability to more move talented individuals into critical leadership roles in a flexible and timely manner, and
- an ability to express a vision for culture change across the system and lead its implementation.

In the wider Secretariat for State Sector Reform work, three options have been considered for stronger system leadership. The options that have been explored are:

- strengthening the current arrangements
- establishing the State Services Commissioner as Head of the State Services, and
- using a State Sector Stewardship Board.

No agency currently has an ongoing, operational responsibility for advising or deciding on the distribution of decision-rights amongst the various “levels” of the system. For this reason, the system leadership role discussed in this paper is qualitatively distinct from anything which currently falls within the leadership responsibilities of any of the three Central Agencies. Consequently, the first option above, a strengthening of the status quo, is unlikely to provide the type of overall leadership required.

The option of a stewardship board is attractive for its ability to bring into the system, at a very high level, a range of skills and capabilities which might not otherwise be available. It could include a range of senior state services leaders and conceivably a mix of leaders and experts from other fields. The main drawback with a board would be the dilution of accountability if the board were to have a governance role. For this reason, it is preferable that any board have an advisory role only. But advisory to whom?

This leaves the option of the State Services Commissioner assuming a new additional role as Head of State Services. This would build upon the State Services Commissioner’s current role as employer of the chief executives of the departments of the public service. The State Services Commissioner would therefore retain responsibility for chief executive expectation setting, performance management, remuneration and incentives. These, appropriately exercised, would become key resources in the State Services Commissioner’s exercise of the function of Head of State Services.

Undoubtedly there are also risks in this proposal. Certainly, if implemented in a directive “command and control” manner, it will fail as the State Services Commission will not have all the information needed for good decision-making. Success would depend on a robust culture of collaboration both between Central Agencies and between Central Agencies and operational agencies. This is not a given, and the system must not risk losing the gains in department- and agency-level efficiency and effectiveness which were the product of earlier reforms. Also, any extension of the Head of State Services’ governance responsibilities into the Crown entity sector would have to be very carefully

handled as Crown entities are set up to perform those functions which, it is judged, should be performed at arms-length from the executive and under the governance of their own boards.

If the decision were made to proceed with the establishment of a Head of State Services, officials would need to consider ways of avoiding these risks. One way, as noted above, would be to set up an advisory board to the State Services Commissioner. However, the major risk mitigation would be in the framing of the statutory provisions to establish the role. For this reason, the balance of the present paper explores some of the issues which will need to be addressed in legislation for the State Services Commissioner to act in a formal role as Head of State Services, responsible for the overall performance of the state services and, to that end, carrying out the system leadership function outlined above.

Legislative change

Of course, legislative change alone will not be sufficient to bring about the necessary shift in leadership and direction. The growth of collaboration, and the leadership practices and culture that support collaboration, will be equally, if not more, important. However, legislation will be important for framing the purpose, powers and decision-rights pertaining to the role of Head of State Services.

Sector leadership

Work to date suggests that the State Sector Act 1988 could be amended to provide for leadership boards in sectors. These would operate with formal accountability, of either the board or its chair, for all or part of the operations of the constituent agencies. The Head of State Services could advise Ministers on where sectors should operate and which of a range of organisational arrangements should apply. Alternatively, the Head of State Services could have a statutory power to decide him or herself on some matters related to sectoral leadership.

Functional leadership

Legislation should also provide for functional leadership arrangements. This is to remedy the issue, identified above, that the existing examples of functional leadership have been slow to develop in an environment where participation is voluntary.

The aim would be to appoint individuals to take strong and decisive functional leadership by:

- identifying opportunities to improve the function across government (eg, standardising systems) *including* where those opportunities cut across agencies' current decision-rights
- providing functional expertise and advice to chief executives and Ministers, and
- providing depth in functional skills and development paths to attract expertise.

It would need to be explored whether the Head of State Services would have the mandate to select and appoint functional leaders, or whether Ministers would do this on advice. There also needs to be careful consideration of how Crown entities may be included in functional leadership arrangements. This is a complex area in which it can be

hard to balance the autonomous “arms-length” character of Crown entities with whole-of-government considerations.

Deployment and development of senior leaders

It has been a longstanding ambition to have a robust system of leadership development which identifies talent early, and develops promising individuals for leadership roles. The intention is that they, through involvement in a range of organisations, become leaders who are naturally oriented towards the needs of the system and sectors, as well as to those of individual agencies.

This vision has not been realised from successive attempts to build a system of leadership development since the passing of the State Sector Act in 1988. That Act provided for the State Services Commission to oversee a Senior Executive Service which was supposed to develop present and future leaders for the public service. This was not a success and was removed from the law in 2005. It was replaced by different statutory provisions which are based on the shared responsibility of the Commissioner and chief executives for leadership development. This involved an obligation on the part of chief executives to “cooperate” with the Commissioner. After five years, leadership development has not achieved the momentum needed and, therefore, the option now is to look again at ways of giving the Commissioner greater authority in this area.

Current work is showing some promise. The State Services Commission has developed dialogue with chief executives on leadership development issues and a high degree of consensus has been achieved around the need to identify future talent, processes for doing this and the beginnings of a system for putting in place talent management for identified individuals. The question is whether this could be made more durable, and progress faster, with a different statutory underpinning. Such a change could be significant, as follows:

- a reallocation of decision-rights in this area, if desired, may require change in the employment status of senior leaders in the public service, possibly by having some senior leaders in departments employed directly by the State Services Commissioner
- there may need to be changes to the terms and conditions of employment of senior leaders with, possibly, standardisation of some elements of employment across agencies
- a range of other employment considerations would need to be worked through, including the need for individual agreements to facilitate deployment and redeployment decisions, and reward structures
- the balance of role and decision-rights between the Commissioner and individual chief executives will need to be precisely defined
- the employment arrangements of public services chief executives would need to change to support more flexible deployment amongst departments, and
- the State Services Commissioner’s mandate in matters of employment extends only to the public service and it is hard to see how these proposals could apply, if at all, in the Crown entity sector on anything but a voluntary basis.

Considerable further work will be needed to clarify how to proceed in this area.

Conclusion

In summary, this paper has argued that:

- leadership will be a critical driver in addressing the issues facing the state services
- leaders will be needed who are able to work towards results over the medium term and work effectively across agency boundaries to that end
- the emphasis will need to be on developing leaders, not only for demanding agency-level roles, but for higher-level functional and sectoral leadership
- a system with several types and levels of leadership will need an identified leader with an overview of leadership roles and leadership development across the system
- Leadership, in this context, will be very concerned with leading culture change and will involve, at both agency and system level, modelling and communicating the behaviours for a culture of innovation, collaboration and citizen engagement.
- of the three options for system leadership considered, the option of having the State Services Commissioner as Head of State Services is the most practicable, and
- there are risks in this proposal, among them the risk of losing the efficiency and effectiveness gains at agency level associated with previous reforms. These can be mitigated in various ways, most importantly in the legislation framing of the Head of State Services role, function and powers.