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At the CENTRE or IN CONTROL?

Central Agencies in Search of New Identitiesⁱ

Introduction

The New Zealand public management model is a product of 1980s and 1990s enthusiasm for replacing hierarchy and centralised bureaucracies with contracts and market-like methods for delivering public services. Fervour for change from tradition is illustrated by the titles of these books published in 1992, a high-water mark for public sector reform in New Zealand: *Liberation Management* (Peters, 1992), *Reinventing Government* (Osborne and Gaebler, 1992) and *Breaking through Bureaucracy* (Barzelay, 1992).

New Zealand central agencies – the Treasury, the State Services Commission and Department of the Prime Minister and Cabinet – have at different stages since 1988 been

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active ‘reinventors’, ‘liberating’ other agencies from detailed financial and personnel controls, but at times also viewed by other public sector agencies as bastions of bureaucracy.

Central agencies internationally have responded in contrasting ways to public sector reform (Peters, 1998):

- central agencies are often the source of reform, and drive reform efforts; and
- central agencies have a difficult time reforming themselves, and are generally the least reformed parts of government.

In New Zealand, the Treasury was the dominant reformer of the 1980s, with the State Services Commission a reluctant starter, forced to join after the appointment in 1985 of reformer Rod Deane as its chairman. The only central agency to remain untouched has been the small coordinating policy group of the Department of the Prime Minister and Cabinet, maintaining effectively a political ‘fire-fighting’ role.

More than most jurisdictions, New Zealand has devolved responsibility for managing people and resources to chief executives of line agencies and to Crown entity boards. In the process, central agency roles have changed from being hierarchy-based control functions in a unified bureaucracy to their being agencies which have needed to learn how to, in the words of one senior manager, ‘cajole, encourage, nudge, inspire and bring along others’.ⁱⁱ

The State Services Commission, the former personnel ‘control function’, once the employer of 60,000 public servants,ⁱⁱⁱ has experienced a series of identity crises as it has adapted to a much reduced role as the employer and performance manager of public service chief executives. More recently it has been given new roles in e-government, leadership development, and standards-setting for the wider state sector. The new roles have come to ‘involve sticking our necks out and saying which way will lead towards a

better world’, rather than taking the safer road of ‘waiting to criticise people for having gone the wrong way.’^{iv}

The Treasury, which reinvented itself by devolving responsibility for routine accounting through the financial management reforms of the late 1980s and early 1990s, has faced different identity challenges since its ‘glory days’ as the driver of reform. That period of major influence and large budgets associated with asset sales was followed by the less exciting routines of managing the new, devolved system of accounting and budgeting. Particularly since the election of the Labour-led government in 1999, the one-time reform leader has been kept in its place by a Cabinet dominated by leaders who were opposed to the recipe for change in the late 1980s. The scepticism of the minister of finance, Michael Cullen, showed initially with his unwillingness to have a Treasury adviser in his Beehive office, and more recently with his response to the Treasury’s 2005 post-election briefing papers. Recommendations for tax cuts in the briefing were dismissed as being the usual ‘ideological burp’ from Treasury.

A strong economy has also diminished the influence of the Treasury, creating concern among senior managers about complacency in the organisation. Instead of the driver being financial crisis, as during the 1980s, the challenge is to pursue new opportunities. To quote one central agency manager:

This is a really exciting time for New Zealand, when as a country we’re really establishing a sense of nationhood. It’s a time when there are huge opportunities as well as huge risks out there in an economic and financial sense. A really strong Treasury at the centre – strong in the sense of the advice that it can give and the services it can deliver – can make a real difference.

In the view of a different manager, the ‘very benign economic and fiscal position’ has meant that ministers have not really required assurance about performance, and have found it quite easy to ‘provide more money’ when symptoms of performance issues developed. That situation has changed more recently as ministers have become increasingly sceptical about what the ‘more money’ approach has achieved.

The New Zealand central agency least affected by the late 1980s reforms has been the Department of

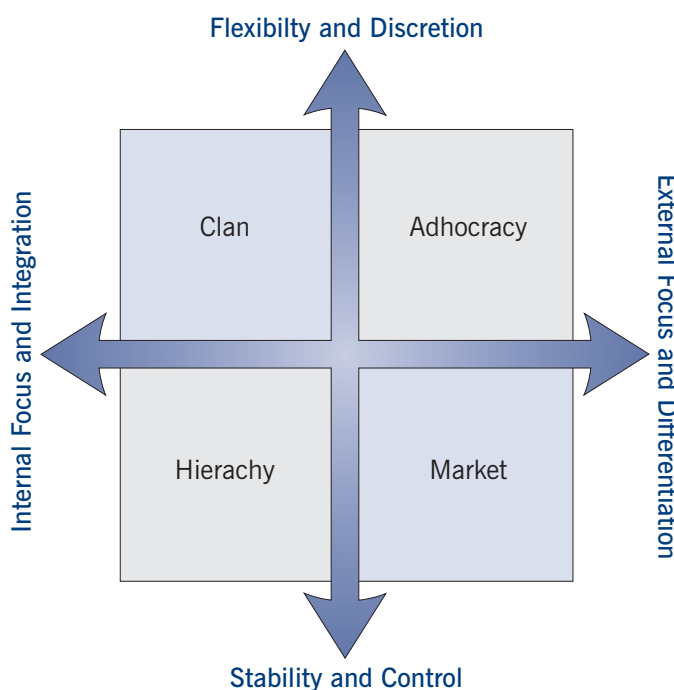
the Prime Minister and Cabinet, which has the same sized policy unit as it had in the late 1980s. It has avoided following the path of counterpart agencies in Britain and in Australia, where political pressure for prime ministers and premiers of Australian states to be presidential in style has resulted in large, White House-style offices. Despite recommendations that longer-term strategic thinking be part of its function, the department largely focuses on reacting to the political priorities of the prime minister and using its power of position as a coordinator of whole-of-government issues.

Among the identity challenges that have emerged for central agencies during a period of decentralisation, the most significant leadership issue is well captured by Sapolsky (1967), who observed that innovative organisations work best with central authority that is too weak to interfere with spontaneous creativity, yet strong enough to embrace and oversee the implementation of creative ideas. In its reforming zeal to liberate and reinvent government systems, New Zealand may have succeeded with the first requirement but seriously weakened the ability of its central agencies to deliver on the transfer and implementation of good practices. Much of the current debate about the role of central agencies results from this tension.

Competing organisational values

The challenges facing central agencies are usefully interpreted through the lens of the ‘competing values’ framework (Cameron and Quinn, 2006). The pre-1988 public service emphasised hierarchical structures and a clan-like focus on lifetime employment. Internal focus and integration, coupled with stability and control, were major features of a public service model in place since 1912. The State Sector Act 1988, with its delegation of flexibility and discretion to chief executives and opening up of public service roles to external competition, was a radical move towards external focus and differentiation of public sector tasks. The reformers’ goal was to shake up a service characterised as unresponsive and bureaucratic, and improve performance through clarity about roles and pressures from contract and market-like mechanisms. In place of bureaucratic and clan management would come results-focused market and network modes of delivery, and an influx of managerial skills from the private sector. (See figure 1.)

Figure 1: Competing values model



Source: Cameron and Quinn (2006).

Instead of being control units at the centre of a large bureaucracy, the renamed ‘central’ agencies would have new roles exercising steering and monitoring functions at the centre of what Davis (1997, p.226) described as ‘a transparent universe of subcontractors, organised around statements of goals and strategic plans, concerned not with some nebulous public good but with meeting performance indicators set out in an agency agreement’.

The decentralised model adopted by New Zealand can be viewed as drawing on what was seen as 1980s best practice, embedding in legislation the most popular organisational form of the era. The models of the late 1980s were conglomerates, with small corporate offices using what Goold and Campbell (1987) described as a ‘financial control’ model to manage market-like relationships with diverse and often unconnected businesses. The business world was to learn through the subsequent performance of some diversified conglomerates,^v run at arms length using financial controls, that this was not necessarily a recipe for long-term success.

The values of contracts and networks were at their most dominant during the creation of the outputs-based budgeting system during the early 1990s, illustrated by this technique used by Treasury officials to prompt departments to prepare meaningful output statements:

Imagine your department is not here any more. It’s gone. The government wants to buy those services in the private sector. What should they contract for? How would you write the contract? (Norman, 1997, p.9)

A core message of the competing values framework is that organisations can have too much of a good thing if they seek to adopt ‘one best way’. Effective and sustainable management requires a balancing of the competing values and seeking solutions that use the strengths of each. Contract and market models for the health sector and market rents for public housing proved politically unpopular, and Labour-led governments since 1999 have favoured clan-style responses of collaboration and the building of public sector capability over market solutions of competition and contracting to networks of providers.

The political rebalancing of competing values has affected central agencies significantly since 1999. Initially, political concerns focused on fragmentation of services and whether ethical standards were sufficiently consistent across the decentralised public sector. The ‘Review of the Centre’ (SSC, 2002) was established to respond to these concerns. Three years later, the political concern was about whether central agencies were sufficiently clear and coherent in their messages, leading to the 2006 review of the role of central agencies in ‘promoting and assuring state sector performance’ (Treasury, 2006).

Comparisons with Australia

Observations in this article about the changing roles of the New Zealand central agencies are part of a wider research project about the roles of central agencies across Australia and New Zealand, a comparative study made

possible through the creation of one of those new ‘clan-like’ structures, the Australia and New Zealand School of Government (ANZSOG).

In comparison with Australia, New Zealand has adopted a distinctly decentralised model of government organisation, with a weak centre being a notable feature. Table 1 compares New Zealand, with 4.2 million people, with Victoria, a state with a population of 5.2 million. Victoria opted in the early 1990s to have eight mega-ministries reporting to ministers, in contrast to nearly 40 departments/ministries in New Zealand. A distinctive difference between New Zealand and Australian jurisdictions is the relatively strong role of the New Zealand State Services Commission as the employer of public service chief executives. Equivalent organisations in Australia had even stronger identity crises as personnel controls were delegated, and chief executive appointments made by politicians working through departments of prime minister or premier rather than personnel commissions.

Table 1: Expenditure on central agencies in New Zealand and Victoria (NZ\$)

	New Zealand ^{vi}	Victoria ^{vii}
Treasury	\$52.5 million	\$271 million
Department of Prime Minister/Premier	\$15 million	\$620 million
State Services Commission (New Zealand), State Services Authority	\$58 million (42% for e-government)	\$11 million

Effects of financial constraint

A tracking of the financial fortunes of New Zealand central agencies over the past 20 years (see Table 2) shows most notably a relative reduction in the power of the Treasury. Current or former Treasury officials who experience nostalgia for the agency’s reforming role in the late 1980s and early 1990s remember an era when the agency was well funded operationally, and also had significant funds for the sale of state assets, which are not included in these operating figures.

Treasury-driven decentralising of accounting functions to line agencies, and advocacy of contestable funds, effectively reduced the future role of the organisation. The delegation of analysis roles to organisations such as the Ministry of Health, the Tertiary Education Commission and the Foundation for Research, Science and Technology also reduced Treasury’s range of coverage. Treasury officials might believe, as one suggested, that ‘there’s something in the water at Treasury’ which makes for more rigorous analysis than the other bodies might provide, but the trend has been away from scrutiny at the centre towards scrutiny at a sector level. While still one of the largest policy analysis organisations, the Treasury also has competition for advice. The Ministry of Social Development has been built up by Labour-led governments to provide a

social policy counterweight to economic advice. The Ministry of Economic Development was reshaped by a minister from a left-wing minority party in coalition with the Labour Party, a strong opponent of the 1980s and 1990s economic policies. It has also developed as an alternative source of advice about business and economic development.

The reducing influence and subsequent revival of the State Services Commission is evident in declining real budgets during the 1990s, once transition issues associated with reform were dealt with. The striking change has been since 1999, with the addition of a major new role as the initiator of e-government – networked services across government – accounting for 42% of the commission’s total budget in 2006-07. New commitment to clan-style management has resulted in major investment in staff development, particularly a Leadership Development Centre providing action-learning programmes for potential chief executives, and the Australia and New Zealand School of Government, which was established in 2003 with the aim of creating a smaller, southern hemisphere version of the Kennedy School of Government at Harvard University in the United States.

The Department of the Prime Minister and Cabinet, with its role of managing Cabinet processes, plays a central agency role through its 12-person policy group. This organisation has lived out the observation of Winston Churchill that ‘We shape our buildings, and afterwards our buildings shape us’.^{viii} The Beehive, which houses the Cabinet, has had the practical effect of limiting the potential size of an advisory group, with successive prime ministers and chief executives opting for informal and readily accessible advice within the Beehive over creating a large and specialised advice base. While the department has taken on special projects, most notably the health changes of the early 1990s, but also crime prevention and more recently housing affordability, it has retained its basic size and identity throughout the 20 years.

Discussion of the role of the centre and financial trends of the past 20 years needs to include reference to an agency which for more than 100 years was at the centre of government and exerted strong bureaucratic control over government engineering and construction. Engineers were effectively exiled (largely on the basis of advice from economists) from the centre of government in 1986, when the Ministry of Works and Development was converted into a state-owned enterprise, and later privatised. The dominance

of large-scale issues among the major current challenges for government and its central agency advisers suggests that this market solution might have removed core capability from the public sector. During a period when climate change, urban transport, the future of Auckland, reinvestment in rail and electricity generation capacity are among the major government agenda items, a lack of capacity for managing large projects is a major issue for New Zealand compared with jurisdictions such as Queensland or/and Hong Kong which have agencies that coordinate infrastructure development (Michael, 2008). (See table 2 below.)

Leading from a weak centre

President Harry S. Truman predicted that when General Eisenhower took over from him as president, ‘He’ll just sit behind this desk and say, “Do this and do that,” and you know what will happen? Nothing.’ (Neustadt, 1990, p.10)

A major role for central agencies is to ensure that ‘nothing’ is not the response of the public sector system to political decision making.

In their roles as information gatherers and advisers, central agency officials have powers similar to those of ‘staff functions’ in large private organisations, of advising the chief executive of the organisation about possible courses of action. The military origin of ‘staff roles’ was that of the adviser on a hill overlooking the battle field, with a sufficiently wide range of vision to advise a commander (like General Eisenhower) about deployment of troops. As Bellman (1986) observes, staff groups are rewarded for initiating change and making improvements, whereas operations groups are rewarded for stability that comes from finding a best way to work and sticking to it in the interests of efficiency. Conflict is built into the organisation structure so that the military commander can choose which perspective is most appropriate at different times. In their interactions with line roles, staff advisers will be seen at their best as judges, teachers, shopkeepers, bookkeepers, craftspeople and ministers. At their worst they will be seen as policemen, eggheads, operators, bureaucrats or gadflies. The potentially conflictual relationship is summed up in the old joke that one of the greatest of lies is: ‘I’m from head office and here to help you.’

Staff roles are broad in scope but shallow in their depth, in contrast to those of line specialists, who have roles that

Table 2: Trends in central agency budgets using 2007 dollars

	1987-88		1990-91		1993-94		1999-2000		2006-07	
	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual
	(millions)		(millions)		(millions)		(millions)		(millions)	
Department of the Prime Minister and Cabinet	\$6,828		\$14,163		\$20,493		\$14,909		\$14,947	
State Services Commission	\$26,405		\$30,873		\$24,141		\$18,958		\$58,073 ^x	
Treasury	\$99,156		\$97,583		\$87,311		\$61,798		\$52,468	

Note: major one-off expenditures have been deducted.

are ‘narrow and deep’. Staff roles are invariably less easily measurable than those of line managers in charge of client transactions and processing routines. Staff roles operate with a longer time frame and are more generic, making it easier to move between organisations than it is for line staff with technical specialties.

The ‘wide and shallow’ brief of central agency advisers is well captured in this comment:

When we deal with any state sector agency on a specific issue, we know we’ll always be the person who knows least about that issue. We have to be the person in the room who is most interested in getting to the big picture in a way which engages with everyone. Effective central agency work requires combining analysis of the big picture with engaging other people. It is not just about analysis or the ‘schmoozing’ skills. We need a balance of both.^x

The frustration of central agency managers about motivating serious change from line agencies was evident from interviews. Central agency managers were concerned to get more of a sense of urgency for change.

One of those value-for-money questions was about how the large group of capital city policy advisers worked, seen as closer to a university model of the creation of new knowledge than that of a professional services firm.

If we want to get value for taxpayers’ money, rather than research to develop new knowledge, we should be a lot more rigorous. Project disciplines could bring about higher productivity and faster turnaround with no diminution of depth. But by and large we are running policy shops on what I would call an artisan model – relying heavily on individual expertise and individual professionalism and craftsmanship.^{xi}

The frustration of not being ‘in charge’ but waiting for orders from the commander is evident in the following comment about the reluctance of the current government to be actively engaged in strategic planning:

The Holy Grail for a public servant working in a central agency is to get ministers to say these are our priorities. Ministers are wary of doing that because as soon as you have a target you can miss something and to set targets politicians have to have real confidence that the bureaucratic machine will actually deliver.

The difficulties of implementation are well captured by the same manager in this analogy about what can happen to a ‘tsunami’ of change developed at the centre:

The middle managers take that aspirational goal and reinterpret it in terms of the work programme they already have. They break it down and pigeon hole it and before you know it, it’s like a wave on the beach. It just disappears into the sand – it’s gone.

This sense of frustration was well captured in the title of a classic book about public administration: *Implementation: how great expectations in Washington are dashed in Oakland* (Pressman and Wildavsky, 1973).

A period of crisis provides a staff adviser with considerable power, as occurred during the financial and political crises

of the 1980s and early 1990s. In less turbulent times, the options for action are usefully described as ‘sticks, carrots and sermons’ (Bemelmans-Videc, Rist, and Vedung, 1998). The budget process managed by the Treasury is a potential stick (and carrot, or incentive), but the logistics and administrative routines of the process effectively mean that budget decisions focus on a small number of political priorities, not a considered weighing of the performance of different agencies.

The State Services Commission holds a proven stick and carrot with its management of performance contracts for chief executives, and the Department of the Prime Minister and Cabinet has the threat of prime ministerial intervention. Officials almost always turn up to meetings called by the department, one senior manager noted.

The major current strategy for influence by the central agencies, the state sector development goals (SSC, 2007), is perhaps closer in nature to a ‘sermon’. Developed initially by the State Services Commission, the goals were revisited in 2007, and a Treasury-focused value-for-money goal has been adopted as the focal point for central agency joint action. The goals seek commitment by public servants to ‘a system of world-class professional State Services serving the government of the day and meeting the needs of New Zealanders’. ‘Transformation’ will occur with services that deliver value for money, are networked, coordinated, accessible and trusted, and attract high performing staff to an employer of choice.

Culture shifts envisaged in these goals show the unfinished work of competing values, and the extent to which the move begun 20 years ago, away from a hierarchical and internally-focused clan is still a work in progress. Perhaps the major challenge with the development goals and the transformation envisaged in Table 3 is to stop them from becoming yet another ‘Wellington “bumper sticker”’.^{xii}

Table 3: Changing the focus

From	To
Output-focused	Results-driven
Command and control	Influencing and partnering
Wellington-driven	User-driven
Vertical management	Governing through networks
Emphasising expertise	Integrating expertise
Sharp boundaries	Permeable boundaries
Arms-length relationships	Partner and co-producer relationships
Rules and regulation	Alignment on results

Conclusion

William Shakespeare wrote, ‘uneasy lies the head that wears the crown’.^{xiii} The closest advisers to the wearers of the ‘crown’ in any political system are central agencies. When the wearers of the political crown are uneasy, as has been

happening in New Zealand during 2008 with opinion polls predicting political change, central agencies tend to gain new roles and influence. Central agencies come into their own when political leaders want or need change, just as staff advisers to generals gain influence when it is clear that proposals from line organisations to redouble existing efforts provide no solution.

In retrospect, the dominance of central agencies in the period between 1984 and 1999 was unusual, a product of a generation change in New Zealand politics, with new leaders, mostly in their forties, wanting radical change from the hierarchy and clan solutions well entrenched in the public service of the era. A pendulum swing towards market and network solutions in the 1980s and 1990s has more recently been modified by political opponents of such methods. During a period of political and economic stability since 1999, the central agencies have been limited in the extent to which they could play a 'change agent' role. Central agency work has been more process-focused, more routine. To use a final military analogy, central agencies have been like soldiers in peacetime – the equivalent of chimneys in summer,^{xiv} capabilities which need to be kept in a state of readiness.

The shape of the new central agency challenge is captured in the state sector development goals, devised by the State Services Commission and adopted as a central task for all three central agencies. These seek more critical assessment of performance as viewed by citizens, greater coherence of delivery, and renewed focus on value for money. The

goals require a balance between clan, hierarchy, markets and networks. But will the devolved management model in New Zealand, a product of 1980s corporate philosophy, be sufficient? Or will cohesion require tighter coordination on issues such as technology use, pay rates for public sector employees, and human resource management practices which make it easier for government to allocate staff to new priorities? Having shed the bureaucracy-based control roles 20 years ago, central agencies and their political masters are likely to increasingly engage in debate about whether reform has left them too weak to be effective catalysts for performance improvement within a decentralised system.

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- i This is an edited version of a paper presented at the 'After the Reforms' symposium in Wellington, 28-29 February 2008, hosted by the School of Government at Victoria University. The author wishes to acknowledge financial support for this research from the Canada-based Infrastructure, Government and Health division of KPMG International. A similar article will be published as part of a KPMG series on public sector performance
 - ii Comment of a central agency senior manager, from an interview conducted for this research project
 - iii About a quarter of total public sector employees
 - iv Comment of a central agency senior manager
 - v For example, the collapse during the 1990s of Brierley Investments Ltd, a corporate raised of the 1960s which by the late 1980s had become one of the New Zealand's largest companies, using a financial control model to hold together unrelated businesses
 - vi 2006-07 estimated actuals
 - vii 2005-06 actuals
 - viii A comment made in 1943 in support of rebuilding the bombed out House of Commons exactly as it had been, with too few seats for all members, making for a crowded debating chamber
 - ix Note this SSC budget includes \$22.26 million for new responsibilities for introducing e-government infrastructure
 - x Interview with a central agency senior manager
 - xi Interview with a central agency manager
 - xii Interview with a senior manager
 - xiii *Henry 1V*, Part Two, Act III, Scene I
 - xiv William Cecil, Lord Burghley (1520–1598), adviser to Queen Elizabeth I

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