# 1

# Introduction

## 1.1 A global problem

Evidence is mounting that governments around the world are failing their communities. The causes of this global failure of government are manifold and interrelated, ranging from the rise of a political class, the associated growth of lobby groups, a growing plurality of voters, a mismatch between the length of the electoral cycle and today's wicked public policy problems, subordination of the public service and, quite simply, governments that are lost in pursuit of self-interest. Poor government is accompanied by the addition to its structures of a growing number of task forces, royal commissions, government 'coordinators', tsars, commissioners, ombudsmen and standing committees. These various ad hoc additions to the fabric of government are placed on top of structures that are already marked by poor governance. This is underpinned by the absence of a discernible political or moral compass or courage. Good public policy today has few friends in conception and execution.

For decades, government structures have grown in a higgledy-piggledy manner, driven in part by common economic imperatives but following the ideological fashions of the day and without proper regard to the impact on their operational efficiency or their ability to measure and deliver results. For nearly 40 years, fads in government style have been incompletely grafted onto an evolving environment that is not always receptive to their charms and while the previous fad is still in the process of being bedded down. The associated poor governance is manifested by an obsession with the aggregate financial dimensions of government;

the near impossibility of assessing outcomes at program, policy and departmental levels; and a failure to identify, evaluate, and address root causes in a systematic manner.

At the same time, most of today's 'new' problems already have a home. The majority of the government-appointed task forces, royal commissions, standing committees and advisory boards are products of governments wanting to be seen to be in control, but rarely does any such body have a mandate to resolve problems. Worse still, each new examination invariably identifies a failure of successive governments to implement the recommendations of previous such bodies, which might have diminished the need for the latest round of band-aids. These layers of coordination, administration and investigation dilute the accountability of those already charged with addressing the real problems. Consider, for example, the impact of over 35 separate 'significant' and supplementary reviews into the Australian Government's Department of Defence since 1973. A 2015 report identifies a long and unfortunate history of gaming the system, lack of integration, lack of accountability, substitution of process for outcome, underpinned by an absence of leadership (Peever 2015). The publication of the committee's final report under the title *Creating one Defence* points clearly to the core problem.

Major political parties have been seduced by the increasing number of electronic targeting and marketing tools that enable them to focus on the swinging voter rather than the community at large, and have lost sight of the big policy picture and their communities along the way.[1] The demise of good government has been aided by broad-based societal and technological changes that have added to the challenges. Voters around the globe have withdrawn their support from the major parties, encouraging minor parties and the growth of new political splinter groups, both within and without the major parties themselves. Governments have become self-serving custodians in residence, window-dressing and pursuing containment strategies rather than solving problems, whilst rewarding themselves handsomely for their failure.

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[1]    Press reports following the victory of Donald Trump in the 2016 US election suggested that the company supporting the Trump election campaign, Cambridge Analytica, amassed up to 5,000 data points on every American adult as part of a program to pinpoint Trump voters. See Fergus Hunter, 'Cambridge Analytica, the "psychographic" data firm behind Donald Trump, eyes Australian move', *Sydney Morning Herald*, 12 January 2017, www.smh.com.au/politics/federal/cambridge-analytica-the-psychographic-data-firm-behind-donald-trump-eyes-australian-move-20161212-gt926e.html.

## Box 1.1 A 'First principles review of Defence'

In August 2014, the Minister for Defence appointed a team to undertake a 'First principles review of Defence', the team being led by a former managing director of Rio Tinto, David Peever. The Peever review team was tasked by the Australian Government to ensure that the Department of Defence was 'fit for purpose' and 'able to deliver against its strategy': their findings were published in 2015. Some extracts from this final report make interesting reading:

> There is general agreement about the nature of the problem. The current organisational model and processes are complicated, slow and inefficient in an environment which requires simplicity, greater agility and timely delivery. Waste, inefficiency and rework are palpable …

> Defence is suffering from a proliferation of structures, processes and systems with unclear accountabilities. These in turn cause institutionalised waste, delayed decisions, flawed execution, duplication, a change-resistant bureaucracy, over-escalation of issues for decision and low engagement levels amongst employees …

> Previous reviews and interviews with stakeholders indicate Defence operates as a loose federation where the individual parts from the highest levels, then down and across the organisation, are strongly protective of their turf and see themselves meriting more favour than other parts of the department. The centre is weak and not sufficiently strategic. (Peever 2015, p 13)

As the subject of such regular 'significant' reviews (over 35 since 1973) and many more supplementary reviews, according to the Peever review team, Defence has established destructive opportunities to game the system and resist change. The core recommendation of the Peever review was to integrate departmental operations and establish one integrated system, termed 'the One Defence approach'. In turn, the review team recommended the establishment of a new 'One Defence business model', comprising seven 'first principles' and 76 accompanying recommendations. The first principle, embracing 19 of the 76 recommendations, was to establish a strong, strategic centre to strengthen accountability and top-level decision-making.

Defence is the most complex and technically challenging department from a leadership and management perspective within the government of Australia, and most other governments for that matter.[1] It involves the determination, equipping and maintenance of both individual and integrated land, sea and air capabilities; it is geographically dispersed and also requires the integration of the two major – public service and military – employee streams; it must implement a strategy that makes long-term capability commitments but simultaneously maintains an agility to meet rapidly changing international circumstances; and it must maintain an intelligence capability that supports its planning horizons of 30 or 40 years as well as emerging situations.

In its breadth and complexity it can be viewed as a microcosm of the broader public sector challenge embracing some of the more complex strategic and management issues across this sector and needing 'transformational' change in structures, capabilities, systems, culture and alignment to become fit for purpose. Complex organisations require strong leadership, a point that the Peever report makes in many different ways by highlighting the existing organisational shortcomings, and envisaging integration of operations running from strategy through enhanced control of resources to monitoring of organisational performance. Indeed, the 76 recommendations were put forward as an integrated whole, not to be cherry-picked (and they were not with 75 of the 76 being accepted 'in principle' despite a change of government in the meantime). The reader should have no difficulty aligning these and other recommendations in the Peever report with the broad thrust of this book and its arguments for change across the broader public service.

[1] It is presently being overtaken in this regard by the establishment of the Department of Homeland Security, which was announced in July 2017.

Source: Peever 2015.

Solutions to this failure can be found with those who would wish to, indeed claim to, govern – namely our politicians. I focus, however, on the public service and the role that it plays, rather than on 'the government'. I do not suggest that the public service holds the solution in its hands, far from it. But I do believe that, with judicious changes to public policy, combined with a public service that grasps the competitive nettle, it can be an important part of the solution to the poor government being experienced today.

Underpinning such a view is one that the public service must become a *public* service. Today it receives very little attention in the public domain outside of the reported cases of maladministration and inappropriate personal behaviour. This position should be addressed, in the public interest, and the Australian Public Service (APS) should be encouraged to actively build its brand both within and outside of government. Redressing this invisibility is part of the broader solution from a public policy perspective. Because the public service has not recovered from losing its way, and all sense of self, over 30 years ago, learning lessons from history so as to understand the antecedents of our present problems, avoid repeating the mistakes of the past, and be better able to determine the way ahead should be the starting point for change.

International academic researchers have observed that there was a stable style of government in many countries for much of the 20th century, but that a turning point occurred from the late 1970s with the arrival of the New Public Management (NPM) reforms, led by governments

in the United Kingdom and New Zealand, paving the way for private sector inspired change to sweep the democratic world. This 'revolution' followed growing fiscal pressures on governments and a long period in which the public service was a partner in government around the globe. The revolution was encouraged by the emergence of wicked problems and materially aided by the development of cost-accounting techniques in the private sector in the latter decades of the 20th century, thereby enabling the more effective allocation of overhead and joint service delivery costs to programs in the public sector (matching costs with 'outputs'). State and national governments imported this 'revolution' to Australia through the mid-1980s and the early 1990s.[2]

The NPM reforms reflected prevailing practices in the private sector. Its two phases were characterised by the terms managerialism and marketisation: the former focused on the management of the public sector's underlying belief in the universal applicability of professional management and the latter on the use of markets for the delivery of services.[3] Government departments were held to account for 'outputs', not just sound process and good financial accounting; authority within the public service was decentralised; and accountability was pushed down to lower (departmental) levels. As a consequence of these changes, one public service became many in culture, employment and focus. The placement of the department at the apex of public service activity occurred at the expense of the collective ('the centre') and established service to minister(s) as the primary focus of departmental activity. This opening-up of traditional public service activities to competition, and the consequent development of competitive markets in policy advice and service delivery, led the public service to relinquish its pre-eminent position in both fields.

These reforms have enabled the development of a broad-based political class in which community activists, elected representatives, ministerial staffers, consultants, public servants and lobbyists move seamlessly around the public and private sectors. The growing influence of the political class over the formation of policy has been matched by the growing influence of private for-profit and not-for-profit organisations over the

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2    I speculate on what triggered this 'revolution' in Chapter 10.
3    'Managerialism' can also be viewed in terms of a theory of state where the organisation replaces the individual as the dominant social unit, and in associated political terms as a set of beliefs that both links good government with 'rational' management, viewing it as a form of governance. What is important is the underlying valuation of generic managerial skills in application to the public service, and the conclusions that might be drawn from this global 'managerialist' experiment.

implementation of policy. This has been accompanied by the evolution of government philosophies from the 1980s version of 'the private sector does it better' (e.g. outsourcing and executive employment contracts), to concepts of partnering and networking with a wide variety of commercial and community-based organisations that are already involved in the delivery of government projects and services.

Unfortunately, the development of a more distributed form of government has not been matched by governance frameworks, and a lack of political will to properly account to the Australian public for resource use has undermined the capacity of the public service to contribute to accountable government. Arguably, when the overarching duty of government through the public service was a responsibility to deliver due process and sound financial accounting, then it was ably acquitted. But since the purported focus on performance measurement has moved on from accounting for financial inputs (under old/traditional administration) to outputs (under NPM) to outcomes (under joined-up and networked government), the public service has failed to deliver.

National auditor-general reports from a range of countries, including Canada, the United Kingdom, Australia and New Zealand, attest to this conclusion.[4] Today, the public service in these countries is stalled somewhere between the phases of effective financial accounting and the development of meaningful output and activity measures. This is despite the last 30 years of progressive complementation of financial audits with performance audits as the primary public administration performance assessment tool of state and national auditors-general.[5] Most importantly, what has been lost in all of these changes is strategic oversight of government policy across its conception, implementation and consequent performance. The current position is of public policy for sale, mounting electoral cynicism and, confronted with this, voters expressing

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4    See, for example, a speech by then retiring Auditor-General Ian McPhee in May 2015 in which he identified 'performance measurement for programs, and outcomes, particularly assessing impact' as one of four remaining 'soft' areas in government administration in Australia. The other three were: risk management, taking a narrow view of responsibilities and implementation under pressure. Interestingly he identified companion strengths to include governance frameworks, public sector reform and values, and collegiality/accountability. What emerges is the picture of a public service that is good at the bigger picture management dimensions but not so good at converting it to effective operations on the ground (McPhee 2015). This issue is discussed in some detail in Chapter 3.
5    Hehir (2016) catalogues the Australian evolution from financial to performance accounting.

their discontent by increasingly turning away from the major parties to independents and the minor parties, and regularly electing single-term governments.

The failure in regard to governance – across the spectrum, from policy formation through to effectiveness – is symptomatic of a broader failure: the fragmentation of our system of government accompanied by political lack of interest in the bigger (policy) picture. For example, governments today see their policies in terms of impacts on the swinging voters in marginal electorates: long gone are the days when a vision for the country and a small and stable set of high-level policies would win a succession of elections. Today voters are presented with fragmentation of government service delivery, brought about by increasing use of external service providers and reliance on markets; fragmentation of our political parties; and the ongoing organisational fragmentation of the public service.[6] Each of these has important implications for the operations of the public service, especially at a time when our system of government needs a large injection of cohesion. The unifying focus must be the final consumer and the broader public value created around the act of final consumption of government services. Considering the role of government as the primary customer of the public service is a useful perspective from which to view the different standpoints of good public policy and public service strategy.

## 1.2 The position today in Australia

While this is a generalised global description of events and problems, it applies directly to Australia, which has actively participated in the global evolution of the various styles of government over the last 30 years. Indeed, not only has the southern hemisphere not been left behind by these international developments, but our neighbours in New Zealand have been at the forefront of change over recent decades, and have dragged Australia along. Those public servants in the mid-1980s to the mid-1990s who were actively involved in implementing changes to the public

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6    In *The next government of the United States*, Donald Kettl paints a disturbing picture of one 'logical' outgrowth of this fragmentation, namely of the US public health system's reliance on external providers, such that patients are handed from one contractor to another, never coming into contact with anyone from 'the government', and with no one in charge of their case (Kettl 2008).

service at state and federal levels within Australia will readily recall the appointment of New Zealanders to bring their intellectually impoverished cousins the message of reform with an almost religious fervour.

In her 2015 essay 'Political amnesia: how we forgot how to govern', Laura Tingle points to the damage done to the quality of government in Australia by the reforms of the 1980s, specifically the loss of institutional memory and the consequent political amnesia. Tingle also points to a contributing cause associated with the election of a Labor government under Gough Whitlam in the early 1970s, when distrust of the public service ushered a new class of player into the political game – the ministerial adviser (Tingle 2015).

While the Whitlam government might have started the slide, subsequent bipartisan support for the market-based reforms of the 1980s indicated the strength of the global movement and of its enthusiastic local adoption.[7] Indeed, the Liberal-led Coalition government elected in 1996 enshrined a number of Labor's earlier changes in a new public service Act in 1999, and these have remained largely untouched to this day. Tingle observes the consequences of these changes as,

> We have not just lost frank and fearless advice; we have lost the memory of how policy has been made before, of the history of the groups and issues with which government must interact every day. Government in the broader sense of the word, therefore has lost much of its capacity to remember and thus learn from past mistakes. (Tingle 2015, p 17)

Philosopher Simon Longstaff has considered the impact of these changes with regard to the realignment of public service and government interests, suggesting that the quality of democratic government took a turn for the worse in Australia in the 1980s, which has materially impacted on community trust in, and regard for, the legitimacy of our parliamentary institutions (Longstaff 2015). Chapter 2 incorporates the legacies of these changes with a sketch of the evolving government styles and their impacts over the last 40 years. This sets the scene for a more detailed examination of the sorts of management capabilities and tools that might be employed to improve public service and government performance today.

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7    Indeed, a focus on the concept of achieving private sector productive efficiency levels, arguably at the ongoing expense of effectiveness, has been present in political debate on public service performance since well back into the 20th century. See, for example, APSC (2004).

Governments might be failing their constituents around the globe, but a threshold question is, where does Australia stand today in the performance tables, and how deep are our problems? Data embracing a global perspective on the performance of the Australian Government and a voter perspective, point to some important questions regarding the 'structural' – institutional and organisational – foundations of good performance (the necessary pre-conditions for such performance), as well as the available activity-based evidence.

Few sources for a view of the current Australian position are more important than information regarding the impact of government on competitiveness, as wealth creation provides the resources that enable a country to pursue its social and environmental objectives. At the highest level of country performance – as evidenced by the World Economic Forum's *Global competitiveness report 2016–2017* – Australia ranks in the low 20s (of 138 countries), ranking 21 in 2015–16 and 22 in 2016–17, with our overall performance noted as 'remarkably consistent but never stellar' (WEF 2016).

When it comes to the specific contributions of government, Australia ranks reasonably well, with its highest ranking for judicial independence (10), diversion of public funds (15), irregular payments and bribes (17), favouritism in decisions of government officials (22), transparency of government decision-making (23) and public trust in politicians (23). Australia performs poorly, however, in important administrative areas, including wastefulness of government spending (52), business costs of terrorism (55) and the burden of government regulation (77). Australia also performs poorly in some policy areas, including incentives to work and invest (effects of taxation on incentives to work (111), and invest (96)), and business start-ups (105th in days taken to start a business).

When considered as a whole, the 114 separate indices paint the picture of a country that has clean processes and is reasonably well governed, but is perhaps over-governed and, in some areas, poorly governed (weak policy and administrative waste). Part of this assessment can be attributed to the burden of three tiers of government and the overheads carried by a small and fragmented economy. There is little reason on the surface, however, why Australia should rank so poorly in terms of the wastefulness of government spending, and the lack of incentives to work and invest. One would expect that, given Australia's distance and scale handicaps, these would be areas of government policy and practice in which it

needed to be better than the rest, rather than worse than most. Whilst the processes of government might be clean – 'stellar' even – this data raises questions about the quality of government policies and the efficiency of their administration.

Data published by Transparency International in the form of the 'Corruption Perceptions Index 2016' provides some insight. This index is taken from a somewhat larger collection (168) of countries and is largely compatible with the *Global competitiveness report* indices on a broad measure of public corruption (13). The data suggest that the quality of Australia's public institutions underpin this ranking, but with a key gap in the absence of a national anti-corruption body, leaving Australia as a middling performer on the global stage within the group of developed countries.

Table 1.1 Transparency International: 'Corruption Perceptions Index 2016'

| Country | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Denmark | 1 (90) | 1 (91) | 1 (92) | 1 (91) | 1 (90) |
| New Zealand | 1 (90) | 1 (91) | 2 (91) | 4 (88) | 1 (90) |
| Australia | 7 (85) | 9 (81) | 11 (80) | 13 (79) | 13 (79) |
| Canada | 9 (84) | 9 (81) | 10 (81) | 9 (83) | 9 (82) |
| United Kingdom | 17 (74) | 14 (76) | 14 (78) | 10 (81) | 10 (81) |

The first number in each row represents that country's global ranking, while the bracketed number is their score on a scale from 0 (highly corrupt), to 100 (very clean).

Indeed, this 'middling performance' is associated with a steady four-year slide in Australia's ranking (from 7 to 13), including against a small group of countries – the United Kingdom, New Zealand and Canada – with whom it shares a common style of government and history, and measured against whom it is now worst in class. Other evidence to support a view that the performance of the Australian Government is declining can be found in the PISA rankings, which report the OECD's 'Programme for International Student Assessment'. The last published (2015) results (published three-yearly) point to a steady and continuing decline in the performance of Australia's national secondary education system, with results in mathematics, science and reading continuing the decline from 2000.

Nonetheless, a close examination of these different indices points to the need for careful interpretation of any of these comparative international measures, as some are absolute while others are relative. In the case of the PISA results, the scores are absolute and the published results show that Australia's absolute scores declined as well as its ranking(s). The Transparency International scores are also absolutes (and Australia's absolute scores have declined there as well).

In the case of the WEF, the scores are relative to the best rather than absolutes. This difference is important because absolutes and the trend in absolutes is often more important to the political performance of governments than the relative rankings. Thus, the public will regard Australia's rise or fall in ranking as irrelevant if government waste is seen to be on the rise. What may, therefore, be most important is a country's current, relative to its historical, performance. This dimension is especially important when it comes to the Australian public's perceptions of the broader functioning of our society as well as of the performance of the government of the day – which shape the environment within which public servants work.

A rising tide of community cynicism towards government performance is observable in Australia. This is most likely associated with growing public concern about incompetence and, perhaps, corruption, in key public and private institutions. This cynicism has been fuelled by a flow of media stories over the last three years about the lack of accountability of political parties for the donations received; politicians living and travelling lavishly at the taxpayers' expense; corruption in government departments; government interference in the management of its 'independent' entities; systematic underpayment of workers in the hospitality and related industries; private sector abuse of market power, international bribery, deceptive and misleading conduct by large corporations; cynical government attempts to claw back revenue; abuse of the vulnerable by religious (and charitable) institutions; and regular government reports (e.g. parliamentary committees, royal commissions, expert committees) indicating basic failings in public administration. Banks (and other financial institutions), property developers, convenience stores, supermarket chains, religious institutions, charitable institutions, political parties, individual state and national politicians, governments, government departments, and manufacturers all take a hit in this blame game.

Perhaps the biggest hit to community trust in Australia's institutions was delivered by the Royal Commission into Institutional Responses to Child Sexual Abuse, with the commission receiving written and oral submissions over a period of nearly five years and presenting its final report to the Australian Government in November 2017. Moved from state to state, the commission heard repeated harrowing tales of abuse, with over 8,000 personal stories being told in private sessions and with over 4,000 individual institutions being reported as places where abuse occurred. The commission subsequently made some 2,575 referrals to authorities (including police). In its final report, the commission determined that institutional abuse had occurred for generations and described this as heartbreaking and a national tragedy.

The commission's activities were accompanied by extensive local and national media coverage, from its inception on 12 January 2012, the appointment of commissioners on 11 January 2013, through to the completion of the final report. This coverage reflected the widespread geographic and institutional reporting of cases of abuse and the concomitant failure of state instrumentalities to protect vulnerable children. The commission's final report noted this failure to include police, child protection agencies, and the criminal justice system (both the civil law itself and investigation processes). No corner of Australia was left untouched by the widespread media coverage of the commission's reporting on this widespread failure to protect the vulnerable. The commission's activities also heightened national and local interest in some high-profile cases initiated outside of the royal commission's processes.

In the private sector, cases of the systematic underpayment of employees in the hospitality and services sector, often migrants or those employed on short-term visas, continued to emerge through 2016 and 2017. A joint ABC and Fairfax investigation found that a variety of franchisees had systematically underpaid their workers, thereby raising questions about the effectiveness of Australia's employment law and the Australian community's willingness and capacity to protect those least able to protect themselves.[8] It also raised questions about the sustainability of the business model(s) employed by a number of franchisors, and their

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8    See, for example, Liz Hobday, '7-Eleven wage underpayment claims taking too long: Allan Fels', *ABC News*, 31 Aug 2016, www.abc.net.au/news/2016-08-31/7-eleven-wage-claims-taking-too-long-allan-fels/7803008. See also Anna Patty, '7-Eleven compensation bill climbs over $110 million', *Sydney Morning Herald*, 13 June 2017, www.smh.com.au/business/workplace/7eleven-compensation-bill-climbs-over-110-million-20170612-gwpdfx.html.

business ethics in implementing franchise models that were unlikely to yield a satisfactory income for franchisees, who thereby barely met minimum award conditions for their employees.

The banking and financial services industry has also received an ongoing stream of poor media. Media reports of questionable practices and individual employee misbehaviour resulted in the prime minister and treasurer jointly announcing a royal commission into 'the alleged misconduct of Australia's banks and other financial services entities' on 30 November 2017.[9] This followed community, whistleblower, Opposition, and media pressure on the Australian Government to establish such a commission, and was preceded by the Australian Banking Association releasing research showing 'low levels of trust, confidence and transparency in the banking industry', and the heads of the big four banks (ANZ, Commonwealth Bank, NAB and Westpac) writing to the treasurer to acknowledge the desirability of an inquiry.[10] The operations of the banking, insurance, superannuation and financial services industry are of national relevance and the royal commission's phase of public hearings, beginning in March 2018, generated widespread media attention.[11]

The third area that has received much adverse publicity for its performance over the last few years is that of 'government'. Whether it has been state or federal government ministers resigning over their expenses claims (the Victorian Government managed to lose both its speaker and deputy speaker), their foreign connections, or the suitability of federal politicians to sit in federal parliament, 2017 was a year in which Australia's state and national politicians hit the headlines for the wrong reasons.[12] The impact of these events was added to by reports from the Australia Institute and the Australian Public Service Commission (APSC) on issues of corruption in the public service. This gave rise to the headline in the *Sydney Morning*

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9    See Malcolm Turnbull, 'Royal Commission – Banks and Financial Services', media release, 30 Nov 2017, pmtranscripts.pmc.gov.au/release/transcript-41355. See also 'Here's what we know about the banking royal commission', *ABC News*, 4 Dec 2017, www.abc.net.au/news/2017-12-04/banking-royal-commission-heres-what-we-know/9210214.
10    See Australian Banking Association, 'Banks set trust benchmarks', media release, 28 Aug 2017, www.ausbanking.org.au/media/media-releases/media-release-2017/banks-set-trust-benchmarks.
11    The royal commission directed its final report on 4 February 2019.
12    See, for example, Paul Karp, 'Sussan Ley quits as health minister as Turnbull outlines reforms to expenses', *Guardian*, 13 Jan 2017, www.theguardian.com/australia-news/2017/jan/13/sussan-ley-quits-health-minister-turnbull-outlines-reform-expenses. See also Lucy Sweeney, 'Sam Dastyari resigns from Parliament, says he is "detracting from Labor's mission" amid questions over Chinese links', *ABC News*, 13 Dec 2017, www.abc.net.au/news/2017-12-12/sam-dastyari-resigns-from-parliament/9247390.

*Herald* on 11 January 2018, 'Perceived public service corruption sapped $72.3b from GDP: Australia Institute' and, in *Government News* on 12 January 'Significant corruption revealed in Australian Public Service'.[13] And, whilst the APSC played down the results of the 2017 employee census, reporting that '*only* 5 per cent of respondents reported having witnessed corrupt behaviour' (my italics), the Australian public might be forgiven for thinking that one employee would be one too many.

In sum, it is reasonable to conclude that Australia has a broad-based problem of ethics that is marked by large institutions' single-minded pursuit of self-interest at the expense of their congregations, members and customers (especially the weak and vulnerable), matched only by the rampant opportunism shown by our elected officials. Whilst many of the publicised human and systems abuses are not directly attributable to the public service, or government, the community at large will, more generally, hold government accountable for the totality of what goes wrong in our community, and is certainly entitled to hold governments directly responsible where there are clear failures of enforcement of laws. The community is also likely to hold their elected representatives responsible where the rules and laws themselves do not meet community expectations: communities are entitled to be especially angry with their politicians when, instead of foreseeing challenges ahead, they apply a band-aid to the latest disaster.

Indeed, the years 2016 and 2017 confirmed declining community regard for politics and politicians, as reflected in the post-election Australian Electoral Study published in December 2016 (Cameron & McAllister 2016). The study interviewed some 2,800 people in the three months following the July 2016 Federal election and found declining levels of interest in elections (only 30 per cent took a detailed interest). This was associated with a long-term declining trend in the proportion of voters who always vote for the same party (now 40 per cent, down from 72 per cent in 1967), diminishing trust in our politicians (only 26 per cent expressed confidence in the government), and sharply rising numbers who believe that politicians only look after themselves (74 per cent). These conclusions are broadly supported by data from the 2017 Edelman global Trust Barometer and a 2017 Australian Centre for Policy Development (CPD)

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13    See Hannah Aulby and Rod Campbell, 'The cost of corruption', The Australia Institute, Jan 2018, www.tai.org.au/sites/default/files/P381%20Costs%20of%20corruption%20FINAL_0.pdf; and 'APS values and the code of conduct', in APSC (2017b).

report. The Edelman barometer pointed to a continuing loss of faith in politics, business and media (in Australia, trust in government fell sharply from above to below the global average obtained from 28 countries), and the CPD report pointed to serious fault lines in Australia's democracy and an accompanying, encouraging, community appetite for reform.[14]

The most interesting conclusion from these studies is that, despite the recorded diminishing trust in democracy, our government and politicians – and despite continuing community disengagement from a lifetime of one-party voters – the electorate is increasingly interested in policy issues and reform. In the 2016 election, 59 per cent of voters made their decision based on policy issues (a strong upward trend) compared with 23 per cent on parties as a whole (trending down slowly), 9 per cent on leaders (trending down), and 9 per cent on the local candidates (slowly trending upwards). This growing preference was associated with a developing view that it makes little difference who is in power, and with a steadily rising share of voters who determine their voting decisions during the election campaign. One interpretation of these results envisages a direct link between the electorate's growing interest in policy matters and the rise of the minor parties, with the latter being used as a vehicle through which to reward political parties that focus on matters of importance to the electorate.

This evident cynicism towards politicians brings with it direct costs, as government activities are increasingly resisted by well-organised public campaigns, which extend decision-making processes; increasingly subject to the risk of class actions, which incur substantial legal costs; and face a balanced mix of judicial and community-based processes that diminish political output. This cynicism grows in the face of taxpayer funds being used to defend ill-considered government actions, particularly those that developed out of party political matters and should have been defended with party political funds.

Community cynicism also has an impact on the quality of government that is delivered, due to a reduction in the amount of time in any term of office that governments and the public service are able to focus on

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14   See Edelman Holdings, '2017 Edelman Trust Barometer', www.edelman.com/research/2017-edelman-trust-barometer, and Michael Koziol, 'Distrustful nation: Australians lose faith in politics, media and business', *Sydney Morning Herald*, 21 Jan 2017, www.smh.com.au/politics/federal/distrustful-nation-australians-lose-faith-in-politics-media-and-business-20170118-gttmpd.html.   See also CPD (2017a, 2017b).

delivering valuable outcomes. A rearrangement of the public service also affects delivery of quality government.[15] Just how costly these changes to public service structures are is evident in the reorganisation that followed the election of the Liberal–National government under Tony Abbott in September 2013. The APSC's *State of the service report 2013–14*, reported on the public service–wide employee census conducted during 2014 (APSC 2014a). This survey followed the announcement in September 2013 of wide-ranging machinery of government changes to the structure and functions of a number of APS departments and agencies.

The report's examination of the incidence of 'major change' found high levels of impact on employees. For example, 80 per cent of the senior executive service (and 73 per cent of next-level employees) reported recent experience of 'major change', with the most commonly reported types of change being decreases in staff numbers (67 per cent of all employees surveyed) and structural changes (57 per cent). After excluding smaller agencies from the survey, the report noted that the proportion of employees in each agency experiencing some form of major change ranged up to 98 per cent. Moreover, only 35 per cent of all employees perceived that change in their agency was well managed, further compounding the negative impacts of the changes themselves. In these circumstances, the tendency of individuals to look inwards to defend their territory, rather than upward and outward to their political masters and customers, impacts output levels and effectiveness.

The consequent lost productivity was the focus of a 2016 Victorian parliamentary committee report examining the rationale for, and execution of, the machinery of government changes in Victoria that followed the 2014 election of the Labor government under Daniel Andrews, pointing to the likely substantial nature of these costs (Parliament of Victoria 2016a). A UK National Audit Office report on the impacts of machinery of government changes noted that structural change in the public service was rarely associated with substantial activity change and almost never underpinned by a business case for change and an ex-post review (NAO UK 2014). Publication of such reports, along with examples of political and public service maladministration, can only diminish a community's confidence in its government.

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15    The associated challenge at election time in Australia pales into insignificance with that in the United States at the time of a presidential election as over 4,000 positions may change incumbents, with such change accounting for much of the top three layers of a new administration.

Some of the issues identified so far – the rebalancing of the political parties, the diminishing trust in our politicians, and government's capacity to do the right thing by the community – have important implications for the role that the public service plays. It is equally important to note, however, that the APS is far from proactive in acknowledging and adapting to the rapidly changing political landscape – as a number of official observers and past officials have admitted. For example, in the *State of the service report 2013–14*, then APS commissioner Stephen Sedgwick highlighted the 1980's antecedents but pointed to a public service that, in his words, 'may have become too reactive, too focused on the short term and the delivery of tasks, and unable to generate the range of new ideas that it might have liked'. In doing so, he identified the need for 'transformational change' to meet the productivity imperative, supported by change in the culture, processes and practices of the APS to address 'systemic issues across the public service' (APSC 2014a). APS Commissioner John Lloyd later reinforced these comments in 2015 when he referred several times to the reality that the public service endures beyond individual governments and the consequent need for the public service to look over the horizon (APSC 2015a).

Since leaving the role of secretary of the Department of the Prime Minister and Cabinet in 2011, Terry Moran has also made a number of speeches covering a handful of common themes – of confusion over ministerial and departmental responsibilities, loss of public service capabilities, the omnipresent role of economists, and the need to explore new organisational forms in public administration. For example, in a May 2015 speech to Queensland public servants as president of the Institute of Public Administration, Moran asked 'How is our sector going?'. His observation was that, though Australia had one of the best performing public services in the world, it could be better. Moran highlighted the actions required to improve public sector performance in three ways:

1.  rethinking accountabilities and responsibilities
2.  rebuilding some core capabilities that the sector has lost or is losing
3.  restructuring the sector organisationally.

In the discussion that followed, he noted the pressure placed on Australia's system of government by a political class with an unsteady grasp of the strengths of Australia's Westminster system; the need to rebuild core capability in engineering; the loss of ability in broad strategic planning and its replacement with the economist's view that the answer to every

policy challenge is the development of a well-structured market and the application of a price to everything; and slow progress in restructuring the public sector through the use of special-purpose vehicles, such as statutory authorities and companies with a degree of independence from government departments, appropriately matched to circumstance (Moran 2015).

Public sector performance can be understood by attending to the motivation and goals of Australia's political class and public service. Instead of simply believing that politicians do (or should) work only for the public good and not their own self-interest, the focus ought to be on how they behave.[16] Not that the general public these days buys the notion of an altruistic political class: a recent ANU (The Australian National University) poll found the public regarded self-interest as the primary political motive (Cameron & McAllister 2016), with only 12 per cent of respondents believing the government is run for 'all the people'. These findings are supported by the findings in a recent discussion paper that declares, 'The survey reveals almost three-quarters of Australians think politics is fixated on short-term gains and not addressing long-term challenges' (CPD 2017a). This community view is consistent with Longstaff's reminder that political parties are above all private associations formed and run to further the interests of their members, and given a public face by the election of some of their members to the houses of parliament (Longstaff 2015).

For analytical purposes, the validity of the assumption that elected representatives serve themselves and not the public good at both individual and collective levels is given impetus at a macro level in a major, recent study of the impacts on the cost and quality of government in the United Kingdom, focusing on the private sector–driven reforms of the 1970s and 1980s. The study raises the possibility that these reforms were not so much a product of politicians wanting to bring private sector management techniques to public sector performance to improve the cost and quality of government, but rather simply rent-seeking behaviour on their part.

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16   An example of the naïve view that politicians ought to put the public interest ahead of their own is contained in the editorial 'How to restore faith in politics and democracy' (*Age* (Melbourne), 7 Jan 2017), which refers to politicians' 'duty to be honest and altruistic'. This contrasts with the sentiment embodied in the often used quotation attributed to former NSW premier JT Lang, and popularised by former prime minister Paul Keating, 'In the race of life always back self-interest; at least you know it is trying'.

The authors find an absence of evidence to support the argument that the reforms were designed to improve public sector performance (Hood & Dixon 2015).[17]

In Samuel Furphy's edited volume *The seven dwarfs and the age of the mandarins*, Nicholas Brown supports the argument that the major objective of these reforms in Australia was the transfer of power from the bureaucracy to the political class (Brown 2015).[18] Brown points to the inherent conservatism of the mandarins, the diminishing disparity in education levels between ministers and public servants, and a range of pressures coalescing around the 1972 change to a Labor government after some 23 years of conservative rule. Brown suggests that together these factors placed the 'land of the dwarfs' under siege in the 1970s and comprehensive challenge in the 1980s. It is further arguable that, at the very least, the global-market driven public service reforms of the time provided a ready vehicle, if not impetus, for reform.

Viewed in this context, the assumption that political parties and their elected members will act just like any other private organisation might make a better starting point than an assumption of the pursuit of public good. As they are members of private organisations, politicians and their associates need to be recognised for what they are and carefully incentivised and regulated in a manner reflecting today's community standards.

The public service should not be excluded from a discussion of motivation, even though, and by contrast with the government of the day, it is entirely a creature of the public sector, established by an act of parliament (*Public Service Act 1999* in Australia's case). Just as the assumption of self-interest should be made for politicians, public servants cannot be regarded as entirely altruistic. The challenge in both cases is to embed in

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17    There is a vast literature on the subject of the overall impact of the reforms on government, described by Hood and Dixon as 'relatively evidence free', 'surprisingly ideological in practice', with the bottom-line question 'barely answered at all'. My interest is in the motivation for the changes being an explanation for the downsides to some of them.

18    There is some debate about who exactly were the mandarins who are the subject of the title, but Brown's discernment of the most likely list is of a group reportedly ranging in height from 150 to 160 centimetres.

the processes of government a system of rules and incentives with suitable rewards and punishments that achieve a commonality of interest of each with the public good (and each other).[19]

This matter of actor motivation is important because some of the changes proposed in this book – in the interests of good public policy – would involve a return (certainly a perceived transfer) of some power to the public service from the government. It is not entirely a zero-sum game, however, as the set of changes are proposed in the interests of improving government performance with both the government and the public service arguably net beneficiaries in the longer term. The issue from the point of view of achieving change is the short-term (single term of office) focus of our politicians and their required short-term payback.

Nonetheless, this short-term horizon need not be a problem if the argument can be won in the court of public opinion, and the independents and minor parties continue to act as leverage against the major parties, much as occurred with Prime Minister Malcolm Turnbull's 2017 announcement of changes to the management of politicians' 'work expenses'.[20] Indeed, the ongoing scrutiny in the court of public opinion is becoming more important to our politicians as they are forced to make budget choices in the face of slowing revenue growth, and explain why it is, for example, that they continue to promote corporate tax cuts, retain negative gearing, and maintain superannuation and capital gains tax concessions, while reducing old age pension payments and child care subsidies, and deny the public funding levels achieved by the richer schools to the poorer schools.[21]

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19   Caution should be used in assuming that individual motivation within organisations can be readily assigned to the organisations within which they work: Alford and O'Flynn (2012) reflect that a number of organisational, indeed contextual, factors, may intercede. This issue is more important in the case of the public service than for private organisations because the manner in which governments impact on public service activities is an important public policy issue. On the other hand, academic research supports the argument that public servants, along with other members of the community, are importantly driven by self-interest: see, for example, Halvorsen et al. (2005) on the motivation for senior and middle-level public service managers to innovate. This latter accords with my own experience – I am yet to meet that mythical public servant whose actions are dominated by the public good. The actions of some may be mistaken for this but their commitment is invariably to either or both of a discipline and/or an ideology.

20   Malcolm Turnbull, *PM Transcripts*, press conference, Sydney, 13 Jan 2017, pmtranscripts.pmc. gov.au/release/transcript-40682.

21   Much of this scrutiny is, of course, encouraged by the politicians' obsession with the 24-hour news cycle. One of the better ministers I worked with gave out publicly very little about what he and his department were doing. His view was 'to give the b*****ds nothing', because more questions would result. He preferred to get on with it rather than spend time with the media.

This matter of actor motivation is especially important in any discussion of governance because the content and effectiveness of governance regimes varies with the motivation of the participants. Moreover, governance is commonly thought of simply as an ex post, after the event, activity. Yet the primary foundation on which an effective governance system is built involves the incentives put in place in the operating system to create a commonality of interest between the participating parties. On this basis alone it should be clear that a robust form of governance must be built on such a system of incentives for reasons both of effectiveness and cost – the better aligned the actors are the better will be the outcomes and the less will need to be spent on publicly funded watchdog and integrity bodies to audit and encourage compliance.

This balance between ex ante incentives and ex post governance is a matter to which I return, noting that demonstration of transparency in the conduct of the business of government, however achieved, is an important component in achieving community trust and confidence in government. This transparency is notionally achieved through formation of 'a contract' with the electorate at election time, delivery of this contract, and confirmation of its delivery through suitable reporting processes. But there is also an ongoing, cumulative, impact from government activities. Specifying only the 'winners' in the contract with the electorate, and not identifying the losers, is destructive of this trust.

In recent years, the shortcomings of the Westminster system of government, along with the evolved public management system, have been the subject of much analysis.[22] In Australia's case, recent examples include the ANZSOG conference 'Hyper-government: managing and thriving in turbulent times'; and the dedicated volume of *Griffith Review* 51, *Fixing the system*, edited by Julianne Schultz and Anne Tiernan (Pfeffer 2016; Schultz & Tiernan 2016). Tingle's *Quarterly Essay* (2015) is another interesting commentary on these problems. In addition, many Australia-based think tanks and research institutes have conducted forums focused around the short-termism and hyper nature of government. A number also have ongoing programs in effective government.

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22    The much-used term 'public management' means different things to different people. I use the term as applied by Ryan and Gill, 'Public management ultimately is the organisation and conduct of everyday processes of governing, of how systems, resources and policies are brought together in ways intended to improve the collective well-being of citizens' (2011, p 311). Underpinning this are the legislative and institutional frameworks in place.

This activity has been complemented by privately funded research programs focused on individual policy blocs, which are sometimes ideologically flavoured but are nonetheless contributing to the debate about the role of government and its proper execution. Indeed, the rise of policy-focused think tanks has been a major feature of Australia's policy formation landscape since governments decided to encourage contestability of policy advice as part of its implementation of the NPM reforms over 30 years ago.[23]

There has, however, been very little broad-ranging public discussion of the respective roles and responsibilities of government and public service in Australia. Some political discussion of these respective roles and the manner in which the APS should be organised and led were put forward in 2014 by the Coalition's National Commission of Audit, chaired by president of the Business Council of Australia Jim Shepherd (NCOA, 'the Shepherd'), but the government was disinclined to accept most of the commission's recommendations, especially those relating to the leadership of the APS (NCOA 2014).[24] While the inaccessibility of this issue to the public at large makes it difficult to envisage how change might occur,[25] this should not, however, prevent an examination of what is in the public interest.

# 1.3 The search for a solution

## 1.3.1 The foundations of good government

Consideration of what 'good government' might look like in Australia identifies the establishment of a national anti-crime and corruption commission, the extension of all terms of government at state and federal

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23  There is a broad-based literature, both popular and academic, addressing the role, rise and influence of think tanks in democratic societies. See, for example, James M McGann with Erik C Johnson, *Comparative think tanks, politics, and public policy*, Edward Elgar Publishing Limited, Cheltenham, UK, 2005. For an Australian perspective, see Sharon Beder, *Free market missionaries: the corporate manipulation of community values*, Bath Press, UK, 2006. Finally, Carol Weiss has written extensively on the subject of the relationship between policy and research and the role of evidence; see her informative article 'Research for policy's sake: the enlightenment function of social research', *Policy Analysis*, vol 3, no 4, 1977, pp 532–45.

24  The major changes that appear to have followed from the NCOA report in regard to the APS have involved a reduction in the number of non-principal (Commonwealth) bodies, and the introduction of a contestability program for departmental functions.

25  As noted earlier, however, there does appear to be a latent appetite for change in the community. See CPD (2017a).

level to five years, greater transparency and immediacy in the disclosure of political donations, and the banning of political office holders from participating in their industry for at least five years. Other desirable changes could result from the broadening of the political gene pool and a reduction of the influence of lobbyists on the direction of national policy.

These changes have been canvassed from time to time and would most likely contribute to better government, and certainly to the perceived cleanliness of government processes in Australia. The relative weakness in the quality of government in Australia, however, lies not with the cleanliness of decision-making processes but with the quantity of government and the content of the decisions themselves – the policy choices. Good government requires sound and transparent decision-making processes free of undue influence applied to making and implementing well-constructed policy choices. It also requires an enabling set of institutions, and organisational and actor relationships that enable these policy options to be canvassed and assessed. Failure in any of these areas can lead to substandard performance.

Governance determines where the policy end of the spectrum of good government – its formation and implementation – meets the cleanliness of the processes. This should attest both to the meeting of stakeholder objectives through robust activity choices and the cleanliness of the systems, which achieve the associated objectives. When looked at through the lens of governance, there are substantial shortcomings both in the architecture and execution of the business of government, and that governance has invariably been treated as an afterthought, to be built onto the new structures, rather than into their design.[26]

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26   While I do not define the term 'good government', the Executive Summary of the 2014 NCOA does, however, provide a reasonable such definition. The NCOA examined the scope, efficiency and sustainability of the Commonwealth government and its programs and developed a set of 10 'common sense' principles to guide its deliberations, which it designated the 'Principles of good government'. My focus determinedly lies with the efficiency, effectiveness, transparency and accountability dimensions of the principles outlined (NCOA 2014). The following references are useful in understanding the foundations and history of government: SE Finer, *The history of government from the earliest times*, Oxford University Press, 1999; WI Jennings, *Cabinet government*, Cambridge University Press, 1965 (1936); AV Dicey, *The law of the constitution*, Oxford University Press, 2013 (1889).

## 1.3.2 The analytical framework

One of the challenges of analysing the business of government is to establish a framework through which one might take a systemic view of the business. The most popular way is to view 'government' as a whole: an agglomeration of the activities of the political and administrative arms of government shaped by the voters. This is a convenient means of looking at overall government performance, but is of little use for the analysis of the contribution of the public service. Ideally, the public service should be analysed by its contribution to 'good government', independent of the government of the day. This is made difficult of course by the conception of a dominant master–servant relationship, which is embedded in the Public Service Act: some servants perform better than others.

As is made clear in Chapter 3, the available evidence, however assessed, is piecemeal. The global academic literature, reports from government committees, and auditor-general reports certainly point to an under-performing public sector around the globe, and Australian Government equivalents paint a similar picture. While some of this evidence is systemic, most of it comes from specific case studies – auditor-general program-level performance audit reports, for example – without any accompanying advice about public service-wide implications. Only sometimes are these 'case studies' followed by annual reports from the relevant reporting bodies providing a systemic view. The question that arises is how best to assemble a picture of performance in the absence of systematic evidence: what framework to use to try to knit together some pieces?

In an investigative sense, then, the most useful way to view the contribution of the public service to good government is from the vantage point of governance: it can provide a systemic framework within which to view performance, but also, when considered in terms of models of governance, enable conclusions to be drawn about capability and performance from the governing structures; in other words, to supplement the more hard-edged performance data.[27] The latter point – regarding the relationship between

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27 There is a large literature on governance covering private and public sectors. The focus of discussion in this book lies primarily with the relationship between governing structures, organisational performance, and performance measurement. The following background reading provides an Australian perspective: Janine O'Flynn and John Wanna, eds, *Collaborative governance: a new era of public policy in Australia?*, ANU Press, 2008; Edwards et al. (2012); ANAO (2014a); Australian Public Service Commission, *Foundations of governance*, 2013, www.apsc.gov.au/foundations-governance; and, for a discussion of governing, governance and governing by networks, see a survey by Christian Lo, 'Between government and governance: opening the black box of the transformation thesis', *International Journal of Public Administration*, vol 41, no 8, 2017, doi.org/10.1080/01900692.2017.1295261.

structures and performance – is especially important for this book. Much discussion of public sector performance focuses on operational matters, especially the relationships between the actors, and with the immediate operating environment.

In interpreting such performance, this focus tends to ignore the broader organisational and institutional context that sets the scene for it. An organisation without a risk management committee might reasonably be expected to perform worse on this front than one that does have such a committee and one that has external representation on this committee might be assumed more likely to perform better than one that does not. Similarly, one that has a 12-month work plan incorporating external presentations and regular briefing papers on important audit topics might be assumed to perform better than one that does not. There are many such important 'structures' and associated processes in any organisation that can give strong pointers to performance short of any 'bottom line' itself.[28]

The Public Service Act is a useful starting point in providing a structural view of the public service and a set of operating guidelines. The designated role of the APS as established in the 1999 Public Service Act has evolved through its 1902 and 1922 predecessors. A central feature of the changes made in the 1999 Act, and one that plays a major part in this book, is the move away from one of centralised control of APS operations and administration to one of primary responsibility allocated to individual departments and agencies (Nethercote 2003, especially Chapter 2).

When viewed from a private sector and corporate perspective, it seems odd that such a large organisation – there are over 150,000 people employed in the APS – would not have an overarching authority, nor an annual report. A lot of useful information about public administration in Australia can, however, be derived from the Productivity Commission's annual *Report on government services*, and also the annual *State of the service report* prepared by the APSC – which together present data about the services delivered and the workforce characteristics of those responsible. But no performance-based information of a systemic nature about the APS as a self-managed entity is available.

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28  A central such structure and related process for this book is the relationship between a board (structure) and a strategy (process).

The focus on a department-led public service, and the absence of an effective public service board, denies the public service and the Australian community access to many of the benefits of public service corporate leadership and management, particularly those accruing from a real sense of self.[29] [30] Moreover, when considered in an historical context and taken together, the 1999 Act and associated government policies towards the public service were selective about the private sector approaches and management tools chosen. This of itself is interesting because since Federation, the public sector enthusiastically embraced a range of private sector management tools and concepts; however, the embrace of managerialism in the 1980s was less than complete, which raises the question of why some tools and not others?

This led me to do a casual stocktake of which private sector tools and concepts had and which had not been embraced by the public sector: I considered the development of a range of private sector tools dating back to the second half of the 20th century, which made it clear that there was a strong focus on the concept of productive efficiency and the associated tools of operational level management – somewhat at the expense of effectiveness – but that some of the more important developments in strategic management, from what Walter Kiechel has called 'the management century', were ignored by the public service (Kiechel 2010, 2012). In particular, the developments in what was then called business strategy (now corporate strategy), and in organisational design, were not picked up and applied within the public sector.

Certainly, the practice of preparing corporate plans had been legislated for under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and such plans are now being prepared by government business undertakings, government departments and their derivatives, including service delivery agencies such as Centrelink and Medicare.[31]

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29   By *corporate* here I do mean both 'whole of body' and private sector in style.

30   This concern is not alleviated by the presence of a Secretaries Board (the successor to the Management Advisory Committee (MAC)), which is more akin to a management committee than a corporate board (and/or corporate office) in responsibilities and style.

31   For guidelines, see Department of Finance, *Corporate plans for Commonwealth entities*, Resource Management Guide, no 132, Commonwealth of Australia, Jan 2017. It should also be observed that the second report on this matter from the ANAO provided qualified support for agencies in meeting PGPA Act requirements with regard to the publication of annual performance statements. *Formal* requirements to publish were met by agencies examined, with question marks raised over report quality and methodologies. See ANAO, *Implementation of the Annual Performance Statements requirement 2016–17*, report no 33, Commonwealth of Australia, 2017–18.

Such plans (e.g. the Department of the Prime Minister and Cabinet Corporate Plan 2017–21), however, are more in the nature of extended annual business plans and lack strategy content – when considered in private sector terms as the so-called three Cs of strategy: customers, costs, and competitors.

I could not find evidence of the application of the concept of corporate strategy in the public service. Indeed, the last 30 or 40 years of development in organisational design; customer focus ('effectiveness' in public service terms) around notions of value propositions, value chains and value-delivery systems; and the distinction drawn between transactional and relational marketing (and even the tools of brand management), have been missed entirely by the public service. Advances *have* been made on the accounting side with the introduction of accrual accounting and the incorporation of advances in cost accounting (overhead allocation) with the implementation of output budgeting, but even these advances have contributed little to the understanding of the impacts of government policy, and to the ability to determine the economic and social returns delivered by individual government programs. There have been subsequent developments in the concept of public value in the public sector management literature but this concept has not made its way into public service practice.

There is also an absence of recent evidence of improved public service performance. In his introduction to *Future state directions for public management in New Zealand*, Peter Hughes notes many beneficial reforms and advances in human resource management, only to conclude: 'But we have not necessarily seen better results' (Hughes 2011, p 13). Hood and Dixon in their 2015 assessment of the impact of the NPM reforms on the UK central government some 30 years on, conclude: 'that the UK central government "cost a bit more and worked a bit worse"' (2015, p 183).

The broad conclusion one might draw – that democratic governments have not been delivering improved results for their citizens – combined with questions about the selective adoption of private sector tools and notable absence of some of the more widespread advances in private sector strategic management, leads me to ask whether the judicious application of these concepts to the public service could contribute to better government. Part of the answer might be found in an assessment of the contribution of these tools in public service hands to the three important dimensions of public sector performance, pointed to by

Hughes: outcomes, effectiveness, and leadership. Part also might come from a (re)consideration of the applicability of private sector tools to the public service – the in-principle arguments. And part of the answer might be found in the merits of the individual tools.

When I look back at the NPM reforms, and Australia's current position, I see a once-strong centrally led public service much diminished in its capacity to service the Australian people by these reforms, created through an environment of competition for influence and the business of government. Indeed, the pursuit by successive governments of a smaller public service, although not necessarily a smaller public sector, places the whole palette of traditional public service activity on the road to privatisation. In an analytical sense, the only way to respond to this situation is to say, 'righto, let's recognise reality, governments want a smaller and competitive public service, let's envisage the public service as a competitive enterprise and consider whether it could deliver better outcomes for the community when re-imagined in this manner'.

In order to do this, I use Michael Porter's (1985) corporate strategy framework and associated notions of competition. This framework has provided much of the language of business and industry competition, indeed competition amongst nations, for nearly 40 years. In more recent times there has been much discussion about the utility and content of corporate strategy, as well as some companion discussion focused on organisational form. Porter's basic framework is the starting point for my structural analysis asking whether better public service performance could be expected if it matched best private sector practice in organisational design and strategy?

## 1.3.3 The themes that emerge

To properly research matters of good government within this framework, a number of practical matters required attention. The first of these was to define the business of government in amenable analytical terms as a starting point for an examination of the contribution of the public service. Much of the literature treats 'the public sector' in a holistic way, but much of the real action from a public policy standpoint happens at the interface between the government and the public service – where policy is formed and implementation methods chosen. A second such matter was to consider the growing recognition of the complexity of public policy problems and the difficulties posed for the package of policy formation,

implementation, and governance (both government and public service). The third matter requiring attention was the performance measurement of government activities. The fourth was the legacies of the different and evolving models of government governance, especially the reforms implemented under the NPM banner.

In a pragmatic way I found that the ideas that emerged from this research could be consolidated around four basic concepts that populate substantial parts of the management literature: the notion of strategy, which is best observed as corporate (i.e. 'whole-of-body') strategy; the closely related notion of competitive positioning; the notion of organisational design and supporting administrative systems captured by the concept of organisational architecture; and the notion of good governance, captured primarily in the form of government governance but embracing the notion of public service governance. Beyond that, a number of recurrent themes populate the surrounding discussion.

The first of these is the alignment of the administrative and elected arms of government. This theme has both normative and practical dimensions and points to questions of the desirable relationship between the government and public service; for example, should it be one of servant–master or should the two be partners? Should the public service only serve the government of the day or should it serve the Australian public? And if it were to serve the Australian public, how would conflicts that arise in serving both be resolved?

A second and closely related theme is that of a public service sense of self, which seems to be missing, at least in structural terms. Nonetheless, its presence would be represented by a strategically led public service pursuing stated goals and reporting as a collective regularly in a systemic manner (for example, an annual whole-of-public-service business report), and would exhibit a layer of management dedicated to leadership and strategy. In turn, its absence is often most evident in structural terms but may also be observable through organisational performance exhibiting an absence of cohesion. I argue that, in strategic and operational terms, there are many public services not one.

Another theme that emerged strongly is that of the challenges of good governance in a system that is becoming increasingly fragmented in its political system (with the rise of the minor parties and the independents); public service (with the destruction of its centre and the focus placed

on individual departments); government policies (with the replacement of a vision for the country and a set of high-level policies by a set of low-level policies/programs); the tools of public sector management (with a more complex environment requiring a more varied toolkit and greater flexibility in its application); and of the whole policy formation and implementation process (involving both the degradation of the public service knowledge base and an ever increasing number of players in the game). In addition and partly as a consequence, much of the surrounding activity – of the political parties with their voters and governments with the public service – could best be described as transactional (rather than relational).

A fourth issue is the need for the public service to move with the times. Both determination of an initial competitive position and recognition of the need for systematic adjustment to changes in the operating environment are necessary components of such a capacity. This book considers extensively the ways of providing the public service with the tools to compete in a dynamic context and, arguably, that structures and processes exist that would better enable it to do so. This must involve not just the tools to adjust organisationally but also the continuing reinvigoration of the core policy advisory capability.

When considered in broad economic terms, government expenditure is increasingly focused on individual acts of consumption rather than investment, reflecting the attitude of the major political parties to government itself: attempting to build a winning coalition around whatever sells at election time, rather than investing in building a long-term voter base around a vision for our country.[32] When considered in the traditional terms of Australia's decaying public infrastructure, this is inexcusable given the passing era of minimal interest rates. But this loss – of notions of 'capital' and of 'investment' at all levels of politics and public policy – is evident and costly, not just in terms of infrastructure and other physical assets but in social policy terms. Moreover, the Australian public deserves to know when second- (and third-) best policies are used to contain rather than resolve problems. More generally, the language of investment should be used to move on from the short-term concept of services to individuals

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[32]   This is unfortunately reflective more broadly of a society that wants personal consumption rather than community investment, what social commentator Hugh Mackay describes as 'the me culture'. See Hugh Mackay, 'The state of the nation starts in your street', Gandhi Oration, University of New South Wales, 30 Jan 2017.

(and recipient organisations), that focuses on budgetary containment of policy problems – which encourages repeat use – and on to the language of long-term *solutions*. This requires a long-term view of policy well beyond the purview of today's governments, actively embracing notions of 'capital' and 'investment' across the policy spectrum.[33]

The fifth theme to emerge, and a central issue in public sector administration, is the applicability of private sector management concepts and tools to the public sector. As noted earlier, there are subtle and obvious differences between the public and private sectors in activity and institutional terms, accompanied by a long interest in the public sector in private sector concepts and tools. This is first observable in the development of the concept of productive efficiency nearly a century ago, and is also evident in the corporatisation of public sector businesses in the latter part of last century, and is most evident in the public service through the NPM reforms, which indicated strong faith in private sector human resource management tools and markets to deliver publicly valuable results. It is debatable, however, whether these reforms represented wholehearted endorsement of the philosophy of managerialism, when seen as an expression of faith in the skills of the professional managers to manage anything. Indeed, the absence of key elements of the full managerialist kit would suggest not. Just as the focus of managerial reform in the public service for much of the 20th century was on efficiency, so it appears to have remained with the NPM reforms, whereas the primary focus of business is 'the customer'.

Suffice it to note at this stage that opinions about the validity and success of the application of private sector management tools in the public sector continue to be much debated, with a commonsense view being that principled pragmatism is required in selecting any tools. This pragmatism is based on the observation that there are some key bits missing from the kit of public

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33    A particularly encouraging example of 'investment' in services is associated with the then minister for social services (now Attorney-General) Christian Porter whose 'priority investment' approach to social services delivery was novel and associated with an objective to equip people to permanently leave the welfare system ('move to self-reliance' in the jargon). This concept is discussed in Chapter 3, but see: 'Australian priority investment approach to welfare', *Review of Australia's welfare system*, Department of Social Services, 25 Jan 2018, www.dss.gov.au/review-of-australias-welfare-system/australian-priority-investment-approach-to-welfare; see also, Peter Whiteford, 'Will an "investment" approach to welfare help the most disadvantaged?', *ABC News*, 21 Sep 2016, www.abc.net.au/news/2016-09-20/will-welfare-investment-approach-help-the-disadvantaged/7862758. The same notion can be employed to provide a rationale for the field of business welfare – both the taxation expenditure and subsidy dimensions of government support – in conjunction with the notion of externalities.

service management tools and that these bits seem to have been somehow 'missed' at the time of the NPM reforms. It can reasonably be argued that these 'bits' were missed in part by design and in part by accident.[34]

A closely related concept, and the next theme, derives from the importance of structures. I pointed earlier to this book's focus on leadership, noting that my interest was not so much the skills of the individual but the organisational structures and processes that enable corporate leadership. In reviewing the content of the highest levels of leadership and management in the private sector and public service, most notably missing in the public service is a real sense of public service strategy, which in private sector terms would focus on where to play (the choice of where to deploy available resources), and how to win (how to outcompete rivals). This absence of strategy can in turn be largely attributed to the absence of the top two organisational layers from the public service, namely a board, and a dedicated corporate CEO and head office.

As is noted in Chapter 4, these missing two layers contribute not just additional resources (quantity) to the organisational leadership pool, but also specialist skills. These latter are whole-of-organisation skills associated with the development (board) and management (CEO/divisional heads) of strategy, and active support (the corporate office). A critical part of the value added by the existence of a whole-of-organisation strategy is pursuit of horizontal strategies through horizontal coordination that is driven by the CEO/corporate office. This is a noted operational weakness in public service management. I argue that these two organisational layers (missing by design), and the organisational strategy, are critical to the performance of the public service and without which the public service will continue to wither away. Structures are especially critical to leadership in both public and private sectors – a further important theme of this book.

The final theme is the two-part cost of governing. The first is the cost of delivering a standardised unit of service that embraces the full cost of public administration, including service delivery costs. This is a difficult issue to corral overall because of the absence of systemic benefit data but there are environmental reasons to believe that this cost is rising in real terms. The externalisation of public sector programs may bring with it a raft of new coordination and transaction costs that need to be accounted

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34   To achieve clarity in this discussion, it is necessary to distinguish the public service from the broader public sector, as the latter contains a significant proportion of business undertakings directly emulating the private sector and not subject to the constraints of a public service act.

for in the decision-making calculus.[35] Scepticism is also warranted about the impact of the wholesale application of efficiency-seeking private sector tools to a public sector that is different in both structural and operational ways.

The second part of the discussion of the cost of governing involves opportunity costs and is associated with the notion of optimising (i.e. minimising) the costs associated with alternative public service configurations. It lies partly in the unexplored costs of alternative public service organisational configurations. For example, it is not clear that 'super departments' work as an efficient organisational form, nor is there evidence of the impact of organisational size on public sector efficiency, although theoretical academic research should raise concern. More generally, studies by Hood and Dixon (of the UK Government) and Kettl (of the US Government), on which I focus in the public policy discussion in Chapter 10, provide a good reason to suspect that a diminishing proportion of government expenditure directly benefits citizens (Hood & Dixon 2015; Kettl 2008).
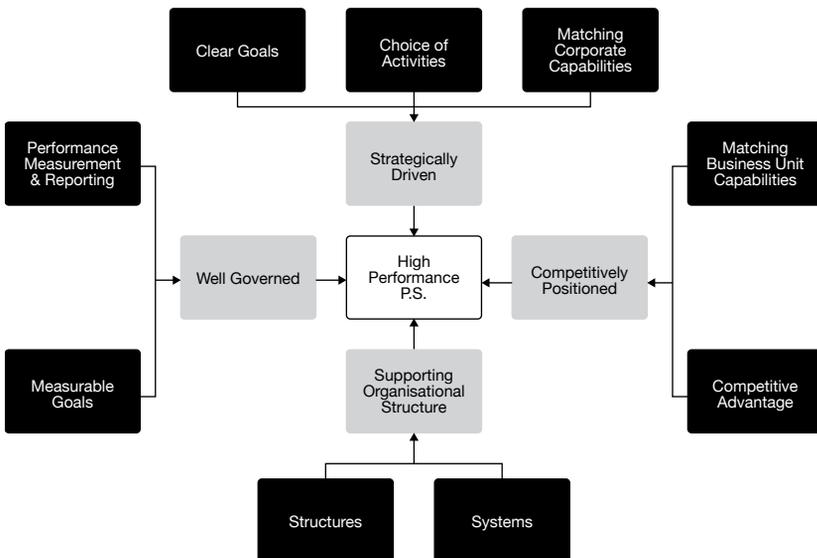


Figure 1.1 The analytical framework

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The exploratory framework used throughout this book is set out in Fig. 1.1 as a combination of foundational elements and contributors. The framework comprises four foundational elements: strategy, competitive positioning, organisation, and governance. What characterises this 'model' is the significant overlap between the four foundational elements and between the contributors to each of them. What binds these various elements together is that they are all essential components of a high-performing organisation, ranging from the choice of activities, establishment of matching capabilities, and competition for success, through to the active demonstration of achievement of stakeholder goals.

The first foundational element refers to a strategically driven public service with clear goals, an aligned set of activities and capabilities, and a focus for all activities that is driven by the customer(s) and which binds the organisation together. Stakeholders usually provide clear goals. A starting point in the case of the APS is the notion of service to the collective of government, parliament, and the Australian public, and how this service is to be provided (values and conduct), embodied in the Public Service Act, and internal aspirations for the creation of 'a high-performing public sector', a phrase that occurs regularly in the speeches of the various Australian public service leaders and in the published plans of their organisations.

The next contributor to the first foundational element is the choice of activities. As with the determination of goals, I consider the political and public service dimensions: the framework for this analysis is set by the notion of where to play, in terms of market, product, and customer choice dimensions.[36] This is an important question for governments in straitened financial times and the public service a significant contributor through its provision of the analytical frameworks necessary to determine the prospective and actual budgetary and outcomes dimensions of government choices. But the same question – of where to play – should equally be applied to the business of the public service as it also faces decisions about how best to serve the government in implementing its choices, how best to serve the parliament, and how best to serve the community at large.

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36    Roger Martin has been one of the leading academic corporate strategists in North America for several decades. His associated work on integrative thinking and design thinking is pioneering. See Martin (2013, 2014) and Lafley and Martin (2013). He reduces the challenge of strategy to two simple questions – where to play, and how to win.

The final contributor is matching corporate capabilities. The APSC is responsible for the determination of the required capabilities for the public service to deliver its mission. My focus here, however, will not be on the full suite but, rather, the missing corporate capabilities of the public service – the capacity to lead and support an integrated public service, viewed most readily in terms of the dedicated board and 'head office' resources through which multi-business companies run their businesses. In the case of the public service the equivalent notion is of a well-resourced and focused 'centre' embodying organisational (i.e. whole-of-public-service) leadership.

The second foundational element for this book is that of competitive positioning with contributing elements for this being the creation of whole-of-public-service competitive advantage and matching business unit (i.e. departmental) capabilities. This element addresses the second overarching strategy question of 'how to win'. The notion that the public service should regard itself as a competitive enterprise may seem alien but, clearly, it is in active competition with third parties for parts of the business of government – through contestability – as well as more broadly competing for influence. Chapter 8 considers public service activities in terms of a number of the markets in which it competes, and the competitive position it occupies in each of these markets. The corporate – that is whole-of-body – dimensions of this 'strategy' determine whether the public service might better deploy its resources. At the same time I observe that a public service strategically led from 'the centre' would actively devote resources to building competitive advantage amongst the operations of the various component parts ('departments/business units'): in corporate strategy terms it would pursue horizontal strategies as well as generating and cascading corporate benefits. This is the focus of discussion on the required capabilities rather than any systematic discussion of skill sets.[37]

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37    Those writers who might describe the organisational content of the NPM reforms in terms of an unsuccessful application of the corporate multi-divisional business form to the public service focus unnecessarily on the establishment of the departments as separate business units, and miss the critical role of the board and corporate office ('the centre') in unifying the whole organisation, creating economies at the corporate level for the benefit of the operating units, and building cohesion and adding value at the operating level, all by systematically drawing on own, and other, whole-of-organisation experience. See, for example, Head and Alford (2008). A subset of this debate focuses on the respective merits of 'deliberate' and 'emergent' strategy; see Mintzberg and Waters (1985). These critical issues are discussed in Chapter 7 of this book.

The third foundational element is organisational design and architecture. By this I mean the combination of formal organisation structures with the supporting administrative systems. It is important to note here that the conception of 'organisational structure' relates to the whole of the public service, not the whole of the public sector or the structure of individual departments. While I am interested in the manner in which the whole of the public service task is disaggregated and 'works', the primary unit of organisational analysis is the whole public service.

The formal organisational structure is important for a wide variety of reasons including: it is the vehicle through which resources are deployed and managed and activities accounted for; it adjudicates the competing functional claims for organisational leadership; it impacts organisational behaviour; it determines the economies of scale that constituent functions are able to deliver; it determines how organisations will interact with the environment (conduct and boundary conditions); and, most importantly for our purposes, organisational structure is the vehicle through which strategy is executed.

Beyond this, embedded administrative systems should not simply be seen as the poor cousin in this mix because these systems play a number of roles: in the day-to-day management at all levels of the business (the capture and interpretation of 'micro' data); in reporting performance up business and functional lines (the aggregation and interpretation of micro data-based reports); in the generation of additional ('macro') data to determine overall organisational performance (e.g. in meeting corporate social responsibility goals); and, in the satisfaction of stakeholder interest in organisational governance (integrating macro data with aggregated micro data-based reports). It is the capture and aggregation of data through these systems (the micro data) along with the generation of complementary high-level reports (the macro data) that lay the foundations for the fourth foundational element, good governance, embracing clear and measurable goals and performance measurement and reporting. Key supporting elements of good governance include data coverage and quality, and the recording and reporting systems chosen.

Underpinning much of the discussion of government and public service governance in this book is the evolution of models of governance over the last 30 or 40 years, and the accompanying changed focus from measuring program-level inputs (sound financial accounting), to outputs (public administration activities), to outcomes (impacts on recipients of

public goods and services and achievement of overall policy objectives), to public value (community valuation of government programs), and 'results' (impact of achievement of policy objectives on community welfare). This evolution in measurement focus has been well documented in the academic literature, but lags behind in practical application, the latter being stuck somewhere in the transition from inputs to outputs and still focused largely on efficiency at the expense of effectiveness. The value of such limited data on the measurement of impacts of government programs can be readily seen to limit the capabilities of governments to make effective policy choices on other than political grounds.

The framework outlined in Fig. 1.1 captures the four dimensions of public service activity developed from observation of the important structural elements necessary in considering public service performance today. In particular, it is determinedly 'structural' in its content and built on the premise that sound strategy and supporting organisational design and administrative systems are necessary foundations for good organisational performance, and that the presence of the former are a sound pointer to the latter. I envisage a notion of 'structure' comprising the formal organisational design, and the embedded management and administrative systems.

Viewed in textbook terms, this approach sees a clear relationship between organisational strategy, structure, and performance, all set in a defined context. While I discuss the contribution of behaviour – of both politicians and public servants – I do so in a structural context. There is also a normative (public policy) component to this framework for, in determining public performance to be substandard, a framework is established to consider how this performance might be improved through the various foundational elements and their contributors identified in Fig. 1.1.

'Substandard' performance could be measured by converting Fig. 1.1 into a chart providing the four foundational elements as a scale (relative or absolute) on which the position of any public service can be charted. Overall performance could be plotted on this chart by connecting the dots. This has been done in an indicative way in Fig. 1.2, which suggests two alternative performance configurations, the one indicating modest (and equal) performance on all four axes, and the other linking the upper boundaries of performance on all four. There is, of course, no necessity

for the symmetry presented, however, in so far as good performance on any axis represents a consciousness and practice of the functions of management, some such positive relationship is likely to exist between all four.

Finally, before outlining the structure of the following chapters, I briefly acknowledge three further elements of public service activity that are important to the discussion, but are not directly represented in this model: culture, innovation, and risk. Each of these elements is present in various parts of the discussion across the next 10 chapters. The easiest one to deal with is the last of the three, which has two dimensions to it – the level of risk that is tolerated in the public service, and risk management practices.
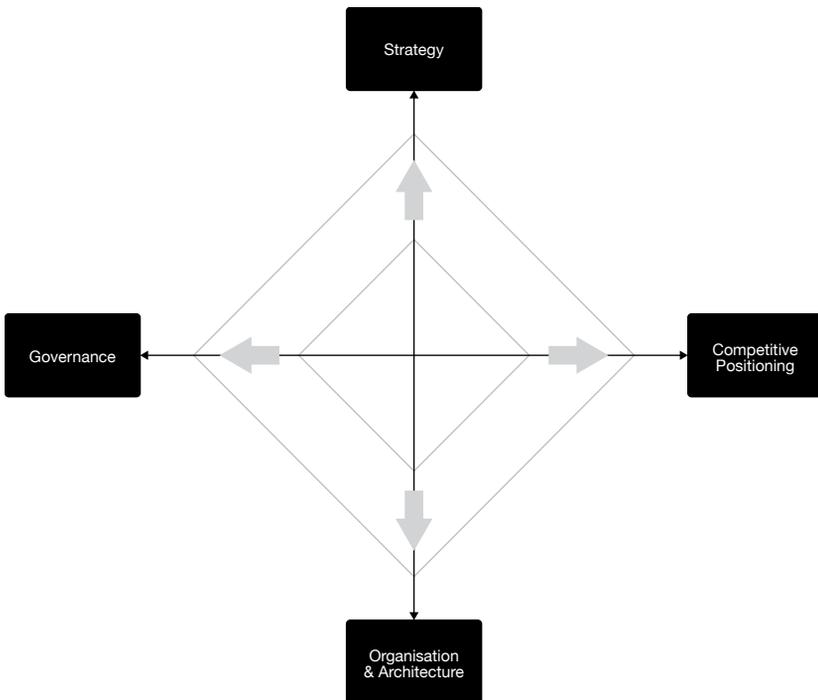
Strategy

Governance

Competitive Positioning

Organisation & Architecture

Figure 1.2 A performance measurement framework

All large organisations today should/do have a board committee or committees devoted to risk.[38] This committee takes its lead from its owners/stakeholders in the extent, nature and types of risk it will tolerate

38   See, for example, the recommendations of the Australian Stock Exchange Corporate Governance Council for listed entities in ASX (2014).

in determining a framework commensurate with this risk, and then establishing and managing it on an ongoing basis. There are many forms of risk that need to be managed, but political and career risk are especially important to the business of public administration. These may take many and unexpected forms for public servants. Most public servants will know of colleagues whose careers have been cut short, who have been sidelined, or otherwise disciplined, for embarrassing their minister or 'having lost the minister's confidence', often in what may be regarded as 'the normal course of duty'. It is difficult to formulate a set of practices that eliminates political risk entirely from the operations of public administration, and given this, the risk aversion commonly noted of public servants in the academic literature could be reasonably expected. I treat this as a leadership issue and one importantly shaped at the interface between the political and administrative arms of government – a taught rather than innate limitation of the public service. Chapter 4 considers this in the context of the 'frank and honest' provisions of the Public Service Act.

Innovation is important, and its importance in the public sector lies, as it does in any other sector, in the necessity of organisations to change to survive. Whilst the public service has a legislated right to survive, it is facing increasing competition in its traditional markets of policy advice and service delivery, its operating environment is becoming unstable, and it must learn to compete for influence. I view innovation primarily from a public service management perspective, in terms both of its outputs, the (goods) and services that it delivers to its legislated constituencies, along with the manner in which it is organised and delivers these services. Innovation then might be seen to occur across the spectrum of public service activities. It is given particular attention in Chapter 9, having concurrently emerged from the business (strategy) literature as the means of systematically adjusting to a rapidly changing operating environment (and a worthy companion to competitive positioning as the core of corporate strategy), and from the public sector management literature as a worthy addition to the tools of strategic management. The concomitant challenge – of how to balance performance in the present with performance in the future – underpins this interest.

Then there is the third element – culture – 'the way things get done around here'. Every organisation has a culture (internal) and a reputation (external) that is rarely fully manufactured (despite organisational attempts to do so). Rather, both are the result of a series of acts and behaviours 'recorded' in their respective domains – in the case of culture it is the acts

(or non-acts) and behaviours of leaders which determine organisational culture and, in the case of reputation, it will usually be driven by the accumulation of interactions that any organisation has with its customers (Lanning (2000) delightfully describes these interactions as 'moments of truth').[39] Values and codes of conduct may be useful but it is behaviours that ultimately determine and are determined by 'the way things get done around here'.

In the case of the APS, some formal intentions are embedded in the Public Service Act: these foreshadow an intention to create a culture of professionalism and service in the APS, as demonstrated in the objects of the Act and in the APS values, code of conduct, and employment principles. But there are additional elements of the Act – such as the placing of the department at the apex of the public service, the limitations on the ministerial directions to agency heads regarding particular individuals, even the content of the formal disciplinary procedures – which importantly also condition individual, departmental and whole-of-public-service organisational behaviour. Another important contributor can be organisational resource-allocation processes. Also very important is the role that the minister *chooses* to play at the interface between the department, government and the community at large. Some ministers may choose the internal (political and/or own department) interface, whilst others may prefer the community interface. The latter, if done well, has the advantage of smoothing the path for departmental implementation of new and/or difficult government policies.

The importance of a consistent 'tone from the top', determines organisational culture as managers (and leaders) importantly shape the culture of their teams.[40] Di Francesco and Eppel point to the profound effect that the minister may have on departmental performance, ranging from driving superior performance to undermining the secretary. They

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39    It is important to distinguish between 'reputation' and 'brand', which are often used interchangeably but have different uses in this book. Whereas the word 'brand' is used to describe what a company, product, or service has promised to its customers and what that commitment means to them – a customer-centric concept – the word 'reputation' focuses on the credibility and respect that an organisation has amongst a broad set of constituents including its customers, and is a company-centric concept. Brand might then be described as the way a company presents itself to the world, whilst reputation might be described as the way others collectively view the company. See Richard Ettenson and Jonathan Knowles, 'Don't confuse reputation with brand', *MIT Sloan Management Review*, Jan 2008.

40    See, for example, 'Managing integrity risks in the workplace', APSC, Nov 2016, www.apsc.gov.au/managing-integrity-risks-workplace.

also point to the prospect that a *prescribed* ministerial role could alleviate some of these difficulties.[41] In practice, the 'public service culture' is an amalgam of many different departmental cultures and subcultures, ranging from rules to permission cultures, tied very loosely together by the standards – values, code of conduct and employment principles – set out in the Public Service Act.[42] At any point in time, the culture of a department, however mapped, will be a mixture of many such influences with substantial variations existing within and across public service departments.

There are other formal elements that impact on the culture created, such as the policies of the government of the day towards the public service, and departmental remuneration, accountability and reporting systems, but also many informal elements. These include, for example: (a) the role that ministers and their staff choose to play in the release of material under freedom of information legislation; (b) their manner and level of involvement in departmental (public service) appointments; and (c) the manner in which interactions between staffers and public servants play out. A further particularly important contributor to departmental culture – through service delivery – is the impact of information technology infrastructure. This point was highlighted in a 2013 capability review of the Department of Veterans' Affairs, in which the APSC found that an important contributor to cultural problems in the department was an outdated computer network of over 200 individual IT systems, many of which could not communicate with each other.

A government with a clear agenda and set of plans to execute the agenda, which sees the role of the public service primarily in terms of administration (in the sense of administering their plans) and providing advice when requested, will create quite a different environment for the

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41    Di Francesco and Eppel (2011) suggest formalising the management role in departmental activities by placing the minister as an integral part of departmental managerial and leadership activities.

42    I experienced enormous variation in cultures in my working life across the public and private sectors. In the public sector, the real leader varied greatly from departmental head to minister to premier. Within the public service context, the associated cultures ranged from what I can only describe as an overt permission culture (a great place to work!), through hierarchical/professional (about what public servants expect), and to several stultifying periods with leaders who in differing ways wanted to make sure nothing went wrong (how popular conception sees the public service). I also experienced a wide variety of leadership styles in the private sector but (a) the hierarchical relationships were almost always in play, (b) they all were built on a strong internal expectation of action and, (c) the profit motive was very much in evidence, invariably accompanied by an implicit permission to break the rules if you 'did good' for the business.

public service than one that is more curious about the possibilities of government and open to a breadth of ideas and advice from the public service. The departmental head can also make a substantial difference. Those who see themselves as agents of their ministers generate a different culture to those who actively choose to act as a buffer between the political and administrative arms of government and lead their departments in delivering the government's program.[43] As Hughes (2011) observes, leadership is one of the three principles that must guide public developments as the public sector moves ahead.

## 1.4 The structure of this book

This book is presented in three parts. The first (Chapters 2, 3, 4, and 5) looks at the business of government and the role of the public service, the second (Chapters 6, 7, 8, and 9) at matters of public service structure and strategy, and the final part (Chapters 10 and 11) looks more broadly at public policy issues and the surrounding context. Chapter 1 provides an overview of the arguments presented in the book. Chapters 2, 3, and 4 are designed to provide some history and context, both global and local, for subsequent discussions of strategy, structure and competitive positioning, using the concept of governance as the prism through which to view public service activities. My first step is to consider the tasks of governments and the services that they deliver. There are many different sorts of services and I start here to explore the interventions governments choose and the execution of these interventions. I try to describe the resultant public sector services in an analytically useful manner for our later discussion of competitive advantage through a 'mapping' of the public sector and its services.

This discussion of 'mapping' canvasses both the production and consumption characteristics of public sector services, and considers the importance of wicked problems and the implications for the role and performance of the public service. An examination of the concept and history of governance follows, including the styles of governance ('models') that government has exhibited over recent decades. These models describe the management focus of government as it has evolved and set the scene

43    The requirement in clause 64 of the *Public Service Act 1999* for departmental heads to 'model' desired public service leadership behaviours seems to trivialise the public service leadership role – perhaps deliberately?

within which the role of the public service can be examined. Then I move on to consider government policy formation, considered as the set of policies employed by governments to promote community health and welfare (Chapter 3), and its performance measurement (Chapter 4).

In Chapter 5 I focus on the legislative context within which the APS operates, namely the Public Service Act and the PGPA Act. I consider government policy towards the public service, building the public policy position with a detailed discussion of the first of these acts and a series of recommended changes. Chapter 5 also provides some early pointers to the competitive positioning of the public service, highlighting particular activity areas where the public service both has a current competitive position within the broader 'government' landscape, and related areas where it might make a more active contribution to better government. In regard to the latter I discuss the role of the public service beyond its immediate role of serving the government of the day.

In Chapter 6 I consider what fit-for-purpose organisational architecture looks like. In doing so, I set out the academic antecedents for the study of the role of organisational structures in organisational performance. I look first at the set of characteristics by which organisations may be described, and consider the possibilities in terms of the needs of the public service. This provides a basis to examine organisational structures and boundaries by taking an historical view of the evolution of the dominant organisational forms in private and public sectors. A related important issue is the way in which large organisations successfully adapt to a changing operating environment: an important side issue is balancing organisational needs between exploitation and exploration through formal and informal structures. The discussion of organisational architecture includes the organisation's administrative system's needs, looked at from a governance perspective. Chapter 6 concludes with an application of organisational design principles and practices to the organisational architecture of the APS and the identification of a preferred model.

In Chapters 7, 8, and 9, I establish the strategic management framework through which I view the contribution of the public service to government performance. My earlier commentary suggested that the notion of strategy, particularly in the sense of corporate strategy, is typically absent from both the general and academic discussion of public service activities. In Chapter 7, I set out a standard corporate strategy framework that could (and should) apply to any organisation whether in

public or private sectors, and then ask how differently the public service would behave if it conceived of itself as an integrated entity using private sector strategic management tools. What stands out when considering public service activities from a strategic management and organisational design perspective is the diversity of activities (products, services, and relationships) across the public service (by comparison with the private sector), the asset specificity often required, the underlying process commonalities, and the overlaps in customers/consumers and services.

These structural features of the business of government point to a preferred organisational structure built around a core set of business units (departments) with a strong centre orchestrating the required collaborations across business unit lines, all supported by a set of flexible arrangements to cope with the evolving shape of government and its important collaborative activities. How these changing collaborations can be successfully combined with organisational structures and embedded governance systems remains unresolved in the academic literature. A necessary precondition should be a strong centre that drives the public service through dedicated leadership and a support team that delivers leadership for the whole of the public service, the development of service-wide collaborative management tools and competitive strategies, informed by global market intelligence and the capture of service-wide operational intelligence. Moreover, the centre should actively seek to create synergies amongst departments in addition to addressing the more obvious overlaps.

If Chapter 7 establishes a general framework within which an organisation might develop, implement, and manage a strategic approach to its business, then in Chapter 8 I move to outline the nub of any such public service strategy – the establishment of a competitive position in its 'chosen' markets. Competition is all around the public service – for influence, reputation, advice, service delivery, turf and dollars – and from for-profit and not-for-profit organisations, as well as, arguably, from those independent officers of parliament heading up the watchdog and integrity bodies. My goal in this chapter is to develop a framework for analysis of the markets and players in Australia in which the public service competes, and construct a 'winning' strategy for the public service. I spend the early part of this chapter examining the notions of industry attractiveness, competitive positioning and the delineation of markets; I then discuss the development of a corporate strategy for the public service based on a discussion of mainstream private sector strategies.

Chapter 9 was the most difficult chapter in the book to write, and only became necessary after I had written all other chapters. What emerged from the private sector literature on strategy and organisation were some common developments around the notions of successfully competing for business today, whilst building competitive businesses for 'tomorrow', and successfully integrating the two. Chapters 5 to 8 noted notions of marrying (managerial) exploitation and exploration, (organisational) stability and agility (through the creation of ambidextrous organisations), and developing capabilities in continuous resource allocation and transition management. The evolving literature on strategy continues to embrace the static notion of competitive positioning whilst maintaining belief in design thinking and innovation as the means of continuous adjustment and maintenance of growth. Meantime, the literature on public sector management is evolving from a focus on innovation as process to innovation as strategy. Extracting the wisdom for public service management from this mix became the challenge for what became a new Chapter 9.

In Chapter 10 I discuss public policy considerations, distinguishing between (a) public policy (what ought to be) and government policy (what is and likely to be), and (b) public service strategy, while acknowledging that what might be good for government or the public service may not necessarily be in the public interest. I pull together the various recommendations for change to the public service that have emerged in the earlier chapters and consider some of the important issues of implementation. This discussion of public policy is complemented in Chapter 11 by integrated reflections on the underlying themes and recommendations for change that have emerged through the study.

## 1.5 Some concepts and definitions

The field that I cover is marked by the contribution of a number of academic disciplines as well as by both academic and popular usage of key terms. Clarity of definition is absolutely central to much of what follows. It is important therefore to be clear on the definition and usage of simple concepts such as 'customer', 'public sector' and 'public service', even 'public interest'. Some terms have already been defined, or boundaries proposed, and I define other terms here. It is important to keep these definitions in mind through the book so as to be clear about the actors, the actions, and the domain that are its focus.

## 1.5.1 The actors

What is commonly described as 'the public sector' can be divided into its political and administrative wings. The political wing comprises the elected representatives and the houses of parliament, whilst the administrative wing comprises the government departments, advisory bodies, derivative agencies, statutory authorities, and government-owned business undertakings with the unifying factor being their accountability to a minister: at the heart of the administrative arm of government lies 'the public service'. Sitting as something of a hybrid alongside the public service are independent bodies, such as auditors-general, ombudsmen, and anti-corruption bodies, that form part of the ongoing administrative apparatus of government but report directly to the parliament.[44]

I use the term 'public sector' to refer to the political and administrative wings taken together with the hybrids. Conceptually this term includes the plethora of agencies and other entities engaged in the business of government, although my primary interest lies with the public service and its departments. I regularly refer to the political wing as 'the government' (a structural definition), although I occasionally use the term 'government' to refer to the act of governing, involving as it does both the political and administrative arms of government, and its consequent impact on the community, as in 'good government' (i.e. a behavioural/ performance definition). I use the terms 'administrative wing' and 'public service' interchangeably but my primary interest lies with that element of the administrative arm described in the *Public Service Act 1999* as 'departments'. It is the policymaking, policy implementation, service delivery, and governance roles of this group of public servants, in concert with their ministers, that is the focus of this study.

## 1.5.2 The domain

It is necessary to have a 'map' to describe the activity domain within which the various public institutions, organisations and players operate. This is important as the locus of change over the last three or four decades has shifted. The map I use was developed by Paul Windrum as a taxonomy of public sector innovation but serves equally well to describe the full spectrum of operations of government (Windrum 2008). This taxonomy

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44    An informative discussion of the institutional arrangements of the democratic system of government in Australia is set out in Funnell, Cooper and Lee (2012). See also Edwards et al. (2012).

identifies six categories of public sector activity – the underpinning ideological foundations and political beliefs (the conceptual foundations), the derived policy frameworks, the services, the delivery of services, the supporting organisational and administrative systems, and the level of third party/external interaction ('systemic innovation') across the whole organisation.

This taxonomy can be regarded equally as a snapshot of public service activity or, in a linear and causative manner, as the underlying conceptual and belief systems and associated world views that give rise to policy frameworks and services which necessitate organisation and administrative systems in support of service delivery, and which then is delivered (in part) through third party engagement. In doing this latter, I recognise that some linkages are stronger than others and that, whilst the primary line of causation runs from the conceptual foundations through to performance, there are feedback loops in this system, some stronger than others. I also recognise that what Windrum describes as systemic innovation, involving the interaction of the organisation at all levels with third parties, is not so much a separate activity category but one that cuts right across the whole organisation (as depicted in Fig. 1.3).

In addition to providing a map to locate discussions within the broad flow of public service activities – for example, in discussions of outsourcing service delivery or policy advice or the underlying political belief system – the Windrum taxonomy also enables a useful comparison of the models of governance that I explore as their respective emphases vary across the Windrum map. Moreover, in structure it is similar to the standard corporate strategy model, a point that has considerable value later in this volume because it enables discussion to move relatively easily between public and private sectors in consideration of alternative organisational structures and their impacts.
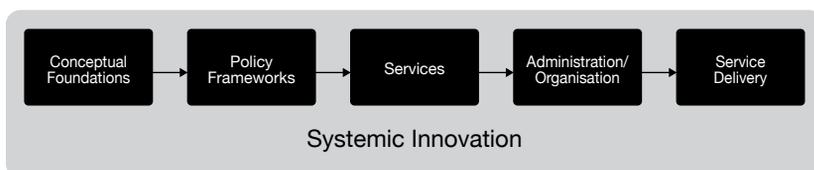


Figure 1.3 The Windrum map of public sector activity

## 1.5.3 The customer

In considering the beneficiaries of the chosen activities, I define terms in relation to the use of the term 'customer'. It is easy to use private sector terminology to describe organisational purpose in terms of 'creating the customer' and/or 'meeting customer needs' but, for different organisations, there may be many different sorts of 'customers'. I also note that, in public sector parlance, end consumers are typically referred to as 'clients'. Starting from a position that the purpose of an organisation is to create value for 'customers' then, in the case of the public service, 'the government' – with whom the public service has its primary relationship – can reasonably be included within this grouping as an external entity through which public services are delivered from time to time – and the final consumer of the product or service.

For analytical purposes, all such parties may be enjoined under the umbrella term of 'customers', and I use the term generically on occasion. For specific purposes, however, disaggregation is required. Porter draws a distinction between customers and consumers, distinguishing the final consumer of a good or service from the intermediate customers through whom these goods and services may be sold (Porter 1985). Lanning, in his discussion of the value-delivery chain, describes this as incorporating a wide range of customers, customers of customers, and offline entities – such as regulators and standards-setting bodies – and describes this as a chain of customers, each delivering value propositions to the next (Lanning 2000). Alford and O'Flynn discuss the externalisation of public sector service delivery, distinguishing between various classes of external partnerships and the classes of benefits (and costs) generated both for the partners and the broader community (Alford & O'Flynn 2012).

Lanning's approach is useful in this study because it (a) recognises a plurality of customers, (b) orders them, (c) recognises that sometimes trade-offs need to be made, and (d) looks beyond purely financial relationships. This framework is useful with regard to the Public Service Act, which provides for the APS to serve all of the government, parliament and the Australian public, but establishes neither hierarchy nor any mechanism(s) to reconcile conflicts that arise. With regard to the latter, Lanning asks the analyst to identify the customer entity (or entities) at some level in the chain who will determine (contribute most to) the business's success: this is the most essential customer entity for the organisation to understand,

and he designates it as the primary entity. But it is in the holistic nature of the value-delivery system that its value lies in asking the analyst to recognise all of the links in the chain where value can be added.

Applying the notion of the value-delivery system to the business of the government leaves little doubt that it would see the general public as the primary entity, and the public service as but one of a number of entities in its delivery system. In the case of the value-delivery system of the public service, it is reasonable to propose that its primary entity is the government, the entity that funds and empowers the public service, but one could mount a case for its primary entity also to be the Australian public. Nonetheless, viewed in terms of relationships between primary, secondary, customer-to-customer, and offline entitites, it is important to recognise that the value the public service is capable of creating in its business extends through its day-to-day contact with the government, its capacity to successfully implement government policies and manage programs, the establishment of collaborative arrangements in the development of services, the delivery of services to end users, the relationships with outsourced service providers, and more broadly with the Australian Parliament and public in the conduct of its business.

All of these are sources of value that can be created for the government by the public service in the conduct of its business. This approach is consistent with the public sector management notion of public value as the measure of value added through delivery of government services, normally defined to include both the private value generated by end users in the consumption of public services, and the value placed by the broader community on the delivery of particular policies (which, for example, might take the form of citizen approval of drug and alcohol rehabilitation programs provided to other citizens); it could also take the form of improved citizen trust in government as a consequence of professional service delivery and management by the public service.[45]

There are some differences between the public value concept as generally described – a perception of value created for the community in the conduct of the business of government – and the value that the public service should want to create in its own interests. These may be differences at the margin

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45    The term 'public value' was coined by Mark Moore (1995), who saw it as the public sector equivalent of shareholder value and which has become the standard-bearer for 'bottom-line' discussions of government programs over the last 20 years. I discuss the utility of this concept, as a private sector bottom-line equivalent, in Chapter 4.

but the notion of public service value, the bottom-line equivalent for the public service, does point to some interesting possibilities for the creation and management of the elements of community value. In delineating the roles of public service and government, it is necessary to ask who the value is created by and for whom.

I use the terms citizens, citizenry, and community at large as alternatives for what the Public Service Act calls 'the Australian public'. Following Lanning, I use the term 'customer' generically to apply to a variety of direct and indirect relationships, some complementary and others conflicting, that exist within the value-delivery system. I acknowledge the common use of the term 'client' in the public service context, having the same connotation as the term 'consumer' as used by Porter to describe the final customer, and I sometimes use the term 'end consumer' equivalently. And, in the context of the operations of the government, I use the term public value to describe the total of the private valuations of final consumers of consumption of any government-provided good or service, along with the additional value created for (all) citizens, and the conduct of the business of government.[46]

The role of the APS might be broadly described as performing desired services as determined by the government of the day. However, the Public Service Act also requires the public service to serve Parliament and the Australian public, and I argue in Chapter 5 that, in the spirit of serving these three communities individually and collectively within the terms of the Act and in the public interest, the APS should be accorded a role in creating public value directly with the Australian public as well as through service to the government and Parliament. This role recognises the inverse relationship between community perceptions of the legitimacy of government (an operational rather than legal view) and the cost of governing. Whilst some distrust of government may be healthy, beyond a point the costs will outweigh the benefits.

## 1.5.4 The concept of winning

A central concept in this book is that of 'winning'. This concept lies at the heart of the discussion of strategy. All organisations should have objectives (goals and targets), a plan to achieve these objectives (a *strategy*), and a body responsible for delivery of the results. To achieve targeted

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46   Importantly, public value may be created (indeed destroyed) by private entities.

results can be described as 'winning' and the means by which 'winning' is achieved is through the strategy employed. Lafley and Martin contrast the notion of 'playing to win' with that of 'playing to play', around the need to make *choices* (Lafley & Martin 2013). My discussion of these concepts is focused on the public service – its goals, its structures and its strategy – noting in passing that the concept of 'playing to play' may well be a more apt description of public service activity than 'playing to win'.

My objective here is to develop a competitive strategy for the public service and the supporting organisational structures that would enable it to 'win'. As noted earlier, I draw heavily on leading strategist Michael Porter's work in this field, including his notions of *competitive advantage* and *competitive positioning* (Porter 1985). I also regularly use the Martin (and Lafley) terminology of *where to play* and *how to win* to describe critical questions that need to be addressed in this process. And I use the issues raised by Martin (2009), and McGrath (2013), in the strategy literature, March (1991) and O'Reilly and Tushman (2013) in the organisational literature, and Bason (2010) in the public sector management literature, to examine some of the challenges of winning in a changing public sector environment, particularly the appropriate structuring of business to meet the challenges of today and tomorrow. The concluding chapters of the book focus on how the community at large might 'win' from changes to the public service model.