Introduction: Centrelink as a field of study

Centrelink has attracted more sustained public attention and scrutiny (including international attention, for example, Husock and Scott 1999a; Smullen 2007) than most other public organisations in recent Australian history. For the customer, it dispenses a wide range of welfare services and payments. For the government and taxpayer, it reflects a new style of organisation that emerged in the 1990s in Australia and overseas. At the same time, it differs from traditional bureaucracy and ‘new-style agencies’ that have become fashionable overseas because of its multifunctionality and the breadth of its role within the public sector.

The relevance of this experiment, nationally and internationally, arises from many of the core questions of contemporary public management. These include integrated service delivery, special agency and governance arrangements, measuring performance and the capacity for businesslike operations despite being close to the heart of government.

This study examines Centrelink as it emerged and underwent extensive change, seeking to build a management capacity by positioning itself and interacting with organisations in its complex environment, and aligning management systems in support of its objectives. This introduction locates Centrelink within the context of major questions in comparative public management, the challenges of an organisation driven by several imperatives and the type of analysis proposed for studying a service delivery agency.

Four themes stand out in this study of public management change. The first is the departure from the conventional bureaucracy as expressed through the agency approach and more generally the organisational distinctiveness of Centrelink. The second is the relationship between the external demands and constraints on Centrelink and its claims as an entrepreneurial organisation. The public governance and policy environment shapes agency operations but questions arise as to what scope there is for the organisation to address positioning and advocacy within this external environment. The third theme concerns the development of a service delivery model and the implementation and alignment of the management systems within the agency to support this model. Fourth is the nature of transformation in a large and complex organisation that has sought extensive change under its first CEO as the means to improve service delivery in response to the imperatives outlined in the models that underlie the Centrelink concept.
The reform context in which Centrelink emerged and evolved allowed an innovative new agency to emerge, but the changing agenda of government ultimately dictated that a more conventional type of agency was wanted.

**Why Centrelink? Organisational distinctiveness and challenges**

Three questions arise out of the first theme—departures from conventional bureaucracy and organisational distinctiveness. The first question involves the implications of this fundamental shift from the traditional Australian model—in particular, the agency concept, separation of policy and delivery and the particular use of the agency form. The second question asks how distinctive Centrelink is and whether a new model is emerging here. The third question relates to the implications for how the organisation operates.

The traditional public service was characterised by a public administration paradigm, based on bureaucracy, hierarchy and process and centred on the multipurpose ministerial department. The focus was on vertical arrangements within monolithic departments operating their own delivery networks and subject directly to ministers (for an elaboration, see Hughes 2003; O’Faircheallaigh et al. 1999).

Institutional economics and public choice gave rise to alternative conceptions, which addressed, inter alia, the questions of agency and transaction costs. From principal/agency theory comes a focus on the relationship between the purchaser and the provider. The separation of responsibilities should occur when there are conflicts (for example, commercial and non-commercial) and when different functions are involved (for example, purchaser and provider).

The separation of policy and operations raises an old question that has taken a variety of forms. One argument is about the need for separating roles organisationally in order to provide a functional focus. The concept of identifying a single function with one organisation became the orthodoxy in some countries (Pollitt and Talbot 2004; Pollitt and Talbot et al. 2004). According to this view, policy development, implementation and regulation should be the responsibilities of different organisations. There is also a long tradition of using special organisational forms for achieving different operating environments for specific activities (for example, statutory corporations and public enterprises). This principle has been revived and extended as a means of exacting demands on public organisations—to focus them on results and performance and to cultivate a business style.

These new-style agencies—leaving aside questions about how new they are (Talbot 2004; Wettenhall 2003)—encompass structural disaggregation, performance contracting and deregulation of management controls (Halligan 1998; Rowlands 2003; Talbot 2004). Centrelink has reflected these elements as
a specialised delivery agency constituted on the basis of purchaser–provider principles, performance expectations and scope for operating outside conventional bureaucratic practice.

The Centrelink experiment departed significantly from the agency model in three respects. First, there was the combination of scale and the multi-jurisdictional basis of its operation. In addition to distributing close to one-third of the Commonwealth budget outlays, it has delivered services for a range of departments and all states and territories. Second, it has been an important deliverer of integrated public services. Centrelink was created as a ‘one-stop shop’ or ‘first-stop shop’ for government services with the raison d’être of linking services for the citizen. Third, there was the capacity to operate entrepreneurially. As well, Centrelink has shared features with agencies internationally—for example, in operating as a government agency under special governance principles.

There is also the question of its operation (as opposed to its conception). The organisation evolved rapidly, seeking to define and reinvent its approach during its first eight years. Centrelink was also under pressure to adjust constantly to a changing environment. Originally envisaged as an organisation that was on notice to perform, Centrelink had to address how to ensure that it was a sustainable enterprise (Vardon 1998a).

Organisational imperatives for a new agency

In contrast with the past approach that often combined several functions, modern public organisations have tended to be established to achieve one distinctive purpose such as policy, delivery or regulation. Centrelink’s principal task is service delivery, but in its conception and execution as a public organisation, several different organisational imperatives have been apparent. Four models underpin Centrelink and each provides a different lens for viewing the organisation’s functioning and thus a basis for considering the potential conflicts identified between them (Halligan 2004).

The first model, the political, derives from being directly or indirectly subject to ministerial direction, despite operating under special governance arrangements. Centrelink must adhere to the top-down authority relationship with ministers and government agendas and function as a public service organisation subject to public service legislation as a statutory agency. This model is ultimately grounded in traditional, but still central, ideas about responsible government (Aucoin et al. 2004).

The second model is of Centrelink as an agent and service provider in a purchaser–provider relationship in which it is expected to behave in specified quasi-contractual ways. Its operations are grounded in relationships with client departments: the purchasers of its services. The link to new public management
is strong (for example, disaggregation and contractualism), but it is influenced specifically by principal-agent theory and particularly the concept of executive agencies (James 2003; Pollitt and Talbot 2004; Pollitt et al. 2004).

The third model is that of an entrepreneurial organisation, which must compete in the market to secure existing core work as well as seeking new work. Under this conception, Centrelink is concerned with market share and with competition in the public and voluntary sectors, and even with extending its operations to the private marketplace. This imperative derived from the government’s injunction to the Australian Public Service (APS) to operate more like the private sector and reflected new public management and entrepreneurial government dictums in vogue in the mid-1990s (Halligan 2003).

The final model conceives of Centrelink as a customer-driven organisation that is responsive to recipients of its services and thus driven by customer relationships and satisfaction. Feedback is gathered through surveying and benchmarking with the aim of stimulating continuous improvement and realignment within the organisation.

Each model captures an organisational imperative that is externally grounded and usually has a basis in the agency’s empowering legislation. Each has a different external driver: politicians, clients, competitors or customers. They reflect top-down authority and contractual relationships and environmentally determined pressures from quasi-markets in which choice operates.

A further imperative can also be distinguished. A public sector agency that operates within the core public service is subject to the budgetary and administrative requirements of central agencies such as the Department of Finance and Administration (DOFA) as well as the strictures of external accountability from, in particular, the Auditor-General, the Ombudsman and parliament. An agency this large with extensive dealings with the public invariably attracts continual scrutiny from external organisations.

**Changing management and policy environments**

In examining the implementation of major change, the Public Service environment needs to be considered—in particular, changing agendas and how organisational capacity absorbs new policy and management priorities. There are also the routine policymaking and political preferences and the difficulties that agencies could have in the sphere of social security, in adjusting to changing requirements with time (Derthick 1990; McNulty and Ferlie 2003).

**Public sector reform: new public management and beyond**

Centrelink’s creation reflected the mood of the mid-1990s. The past 25 years have been remarkable for the level of public sector change in Australia, which has been a foremost exponent of the new public management in the reform era
that emerged in the 1980s (Halligan 1997). The wave of reform was characterised by its magnitude, experimentation with new organisational forms and attention to system design. Reform was rapid, systemic and comprehensive as a range of specific measures was applied across the public sector (Halligan and Power 1992).

These reforms arose from societal pressures on governments to improve public services. There were demands for more cost-effective and high-quality services, increased consumer awareness and higher expectations of services tailored to individual needs and distrust of command structures and hierarchies with overheads that were administratively obstructive compared with devolved arrangements in which decisions could be made at the point of delivery. Further factors included advances in information technology (IT), which automated or facilitated many clerical tasks, and a changing international environment. In the search for solutions, governments turned to the private sector in the belief that a more businesslike public sector would rectify past difficulties and improve performance (Wills 1999).

The reforms can be seen through the changing agendas covering political control, management, markets and reorganisation. The Hawke–Keating Labor Government (1983–96) favoured the public sector while pushing it heavily towards the private sector. The conservative Coalition government that followed favoured the private sector but recognised the need to maintain a strong core public service. Later directions that emerged in the 1990s were fundamentally different from those in the initial decade of reform, in particular the shift from management reform to market-based change. The election of the Coalition Government in 1996 accelerated the emerging trends, initially focusing on cutting the budget deficit and the level of public sector staffing, and then on other fundamental changes.

The four terms of the Howard Government can be viewed as coinciding with different reform phases. The first term supported a neo-liberal agenda that emphasised cost cutting, markets and the private sector. The second and third terms provided opportunities for the reforms to be tested through implementation and then refined. In the process, the hard-edged focus of the 1990s emerged as less appropriate in the 2000s. In the fourth term, new agendas emerged such as reviewing corporate governance, a whole-of-government agenda and a strengthening of central processes (Halligan and Adams 2004; Halligan 2005, 2006a, 2008; Hamburger 2007).

What was significant was that the reform environment surrounding the formative years of Centrelink was characterised by devolution, privatisation, contracting, consumer choice and an intensification of cutbacks and the promotion of the private sector over the public sector. The second half of the period under consideration was dominated by different government agendas that favoured reintegration and reviews of non-departmental organisations.
Policy environment of social welfare developments

The refocusing of policy agendas for social security has also been important. Since the creation of Centrelink in 1997, there has been a number of changes to income support and welfare programs. For the first few years, these were limited in scope, but in 1999 another rethink of the welfare system was announced (details in Appendix 2), which had a significant impact.

The first strand of this round of welfare reform focused on working-aged people who were unemployed and receiving support. ‘Work for the Dole’ programs began in 1997 and involved local communities in activities of value to them that provided work experience for the unemployed. ‘Youth Allowance’ was introduced in 1998 and represented the rationalisation of income-support arrangements for the young unemployed and students.

The Job Network introduced from 1998—a result of the dissolution of the Commonwealth Employment Service (CES) as part of the Centrelink solution—completely changed employment placement assistance arrangements for the unemployed. After clients registered with Centrelink for benefits, they were referred to the Job Network—mostly voluntary agencies outside the Public Service that were contracted to assist the unemployed to find work or undertake training. Selected job seekers aged between 18 and 34 were required to meet mutual-obligation activity requirements.

A second major strand of reform involved reviewing welfare policy. The government launched a welfare review based on a set of principles that included establishing better incentives for people receiving payments, creating greater opportunities to increase self-reliance and capacity building and expecting people on income support to help themselves and society through participation in a mutual-obligation framework. The government response, ‘Australians Working Together’ (AWT), was intended to strike a new balance between incentives, obligations and assistance in welfare. AWT implementation occurred in stages through budgetary decisions and legislation that allowed a package of incentives, assistance and extra requirements to be introduced, and which impacted on Centrelink’s service delivery.

Three major implications for Centrelink emerged from these agendas: the commitment to welfare reform and major policy change, the overall momentum of environmental change and the regular policy adjustments to service delivery.

Engaging the external environment

The importance of the external environment is well understood but the form of interaction with external actors varies from conceptions that view the environment as the determinant of organisational behaviour (for example, conformity with the market produces the best results) to those that recognise that the environment can be influenced, managed and can be ‘pliable and
responsive’ (Light 1998:14). The capacity to influence the environment, or rather significant actors in the environment, recognises a more dynamic relationship that will vary across issues and actors.

All organisational imperatives for Centrelink can be regarded as external, but the two primary relationships are those with the political executive and its client departments. The interaction between Centrelink and its external environment is where institutional tensions are potentially strongest. Centrelink has the attributes of a department of state but is positioned within contractual relationships with a range of departments for which it provides fixed and variable services.

The need to ‘position for opportunities’ has been identified by studies of the US Social Security Administration and Air Force (Derthick 1979; Barzelay and Campbell 2003). Public organisations operating in potentially constraining environments can, through positioning themselves, implement their objectives. Centrelink originally emerged from a combination of personalities, agendas and opportunities after the election of a new government. The concept was shaped by a compromise reflecting political expectations and the interests of existing departments. This compromise had long-term consequences for operations and relationships between client departments and Centrelink (Halligan 2004).

The continuing constraints took the form of the general reform agenda under a neo-liberal government, specific agendas such as welfare reform and the various imperatives discussed earlier. These constraints imposed different types of discipline on Centrelink, in particular where potential conflicts arose among the different stakeholders. The basis for subsequent debates about the roles of purchasing departments and provider agencies was laid by the combination of models that could be discerned in Centrelink’s organisational imperatives (such as different interpretations about the relative importance of purchaser–provider principles, partnerships and political direction).

These differences were also established by the bureaucratic politics attendant on the entrance of a new type of agency. Unlike the United Kingdom and New Zealand, where the separation of policy and implementation was applied systemically, in Australia, Centrelink was an exception as a new delivery agency. Despite being the largest organisation in the APS and undertaking work for a number of departments, Centrelink was excluded from the departmental club.

Obstacles, however, need not preclude the creation of opportunities, if an agency can lever off other attributes. Centrelink was an innovation of a government that conformed to the neo-liberal agenda. The ambiguity and conflicting imperatives also provided scope for initiative. The mandate to seek new business was a spur for entrepreneurial initiatives and the language of ‘positioning’ featured in Centrelink documents. Through advocacy and smart practices, opportunities could be turned to advantage as long as organisational longevity
was ensured. The original mandate as a delivery agency designed to provide services to purchasing departments and its unconventional character provided bases for Centrelink to position itself within the Public Service. The positions advocated, in addition to the one-stop shop, were the ‘provider of choice’, premier broker of information and solutions and ‘inclusive service delivery’ (Vardon 2000c; Zanetti 1998).

The advocacy of an agency position was clear in various operational contexts involving different types of inter-agency interaction. One was about competing for policy and contributions to the process; another examined using entrepreneurial and advocacy skills to consolidate and expand the agency’s role while evolving a distinctive service delivery focus. A more intriguing development was the way the agency addressed inter-agency conflict and moved towards a more integrated alliance with its main client. This ultimately meant building inter-agency capacity to bridge organisational divisions.

**Implementing new service delivery models**

Service delivery is the core rationale of Centrelink as a specialised agency. The original policy problem for the Federal Government was that two departments had developed an overlapping network of offices that provided similar types of service—primarily social welfare payments and unemployment benefits. This was seen as wasteful duplication and confusing to recipients, many of whom were customers of both departments. The solution was intended to reduce government costs, to remove confusion for service recipients and to increase efficiency. The new agency was to provide services for both original departments, which could establish purchasing agreements for the services delivered.

Redesigning and modernising a large organisation for service delivery is a complex task. It was to be a customer-focused agency operating in a contested environment. Insights into the response of an agency specialising in service delivery can be found in the concept and operation of its core responsibility—namely, how it engages the customer and the design of its service delivery structures. External and internal dimensions—specifically, the policy context of service delivery already discussed and the management support for this function—need to be examined.

How did Centrelink respond to these challenges? In short, it developed a clear and systematic approach to service delivery models. In time, this involved moving from the original diverse and individual government programs towards a more holistic, integrated customer service. As the organisation developed, the delivery model moved through several stages (Vardon 2000b).

Important issues faced by Centrelink included how to achieve organisational goals (which could be conflicting), such as customer responsiveness, improved service quality and the demands for cost efficiency. The achievement of goals
requires the building of management capacity. To transform an organisation from a traditional departmental and bureaucratic form, however, and to sustain performance, requires careful consideration of an appropriate process for change.

**Leading and managing major change**

**Transforming a large organisation**

The traditional literature on reform and change emphasises unsuccessful initiatives and resistance to change (Halligan and Power 1992). In the reform era, however, the success rate has been notably higher, and there has been a new emphasis on factors that stimulate and support change. These factors include strategic thinking, acting according to core values, customer focus and the development of human resources. Factors determining success in organisational change include the level of acceptance of the need for change, leadership communication, support from senior management and politicians, institutionalisation and alignment of management systems (Rainey and Fernandez 2004:36).

The scope of change ranges from a more limited focus on innovative practices to transformative or fundamental change. Is it in fact possible to produce transformation in organisational change in large public sector organisations and, if so, what is the result? According to McNulty and Ferlie (2003), the discussion of organisational transformation is vague because of the lack of empirical evidence to assess the impact of these planned transformations in the long term. The question of whether to view Centrelink as a transformative case derives in part from its own depiction of its development. After the set-up stages, Centrelink anticipated change at the level of transformation, particularly with the delivery of government services (Vardon 1998d, 1999b).

Vardon’s conception of transformation was informed by Kotter’s (1995) examination of why it failed and this influenced her thinking about organisational change. There was also a broader dimension that located Centrelink within international pressures on organisations delivering public services facing transformational change, which reflected thinking about the future ‘transformation of the business landscape’ (Vardon 1998a). The drivers of change were globalisation, consumer power and technology. The conclusion was that ‘the public sector cannot escape the impact of such transformational change’ particularly through the interface with customers: ‘Centrelink’s communication with our customers will be the first and most visible area of transformational change [of] the ways of doing business’ (Vardon 1998a:1–3).

Two stages of transformation emerged: the original transition from the departments (Social Security and Employment, Education, Training and Youth Affairs) that focused on branding, customer service and cultural change; and
the re-engineering of service delivery and entrepreneurship to create a new organisation.

**Leading change**

Successful change requires leadership and its significance in organisational change and public agency performance is reaffirmed by a number of studies (Rainey 2003; Nutt 2004). In reports on large-scale public sector change—the cases of the US Air Force, Internal Revenue Service and the Social Security Administration—leaders played crucial roles in the change processes (Barzelay and Campbell 2003; Rainey and Fernandez 2004; Thompson and Rainey 2004).

A number of propositions about leadership are well understood. During the life cycle of an organisation, or at different stages of development or for specific processes, different types of leadership can be appropriate (Stace and Dunphy 2001). There is evidence to indicate the need to think beyond individual leadership to concepts such as the ‘mutualist’ (Nutt 2004), who draws on broader patterns of support, or the model of integrative leadership as a more comprehensive means of viewing these processes (Moynihan and Ingraham 2004). Transformational change also requires the attributes of transformational leadership involving interaction with the external environment and building management capacity through internal management systems.

Effective leadership is shown ‘through actions that build and improve organisational abilities and…governmental capacity, represented by management systems’ (Moynihan and Ingraham 2004:429). In the well-known distinction between management (planning, budgeting, organising, staffing, and so on) and leadership (establishing direction, aligning people, motivating, and so on), there is, however, advice about the need to fulfil multiple leadership roles. Successful transformation is argued to be mostly about leadership and secondarily about management (Kotter 1996:25–6).

In the case of Centrelink, the CEO was the pivot, with the governance oversight mechanisms of the board (including the chair) and the minister playing roles; but how was a large and complex organisation to approach a model of integrative leadership? Distinctive roles also needed to be adopted by the CEO and complemented by the different roles of members of the most senior management group (covering responsibilities for the key management functions).

Building management capacity is a core element based on internal management systems such as finance, human resources and IT. These provide the levers for leaders to produce the organisational capacity that drives and improves service delivery. For Centrelink, the focus was on the importance of strategic direction and planning in supporting the objectives of the organisation. Policy management and implementation were carefully crafted for service delivery. The development of human resource management and an organisational culture over time was
important. Performance improvement was to be achieved through focusing the management capacity to achieve service delivery results and to be facilitated through using the balanced scorecard for oversight of performance.

Articulating strategy and seeking internal alignments are important precepts for action (Spicer et al. 1996; Stace and Dunphy 2001). A crucial factor in successful change is ‘the implementation of a set of mutually reinforcing changes’ (Rainey and Fernandez 2004:36; Moynihan and Ingraham 2004). The connection between these elements can be handled through a standard management approach, starting with strategy and looking for conformity from management systems and organisational fit with the environment. For Centrelink, certain leverage points were significant for moving the agenda on, such as the relationships between strategy, delivery models, performance and human resource planning and implementation.

**Overview of book**

**Balancing conflicting imperatives**

The existence of four models based on politicians, clients, competitors and customers within one organisation creates challenges in satisfying a range of interests and values. The incorporation of conflicting models in a complex approach to institutional design is well recognised as potentially problematic (Aucoin 1990). In the case of Centrelink, several of these models had to be either reconciled or resolved in order to address the sharper conflicts and contradictions. This balancing act also profoundly affected the governance and management of Centrelink, particularly its planning and internal capabilities. Moreover, these imperatives can lead the organisation in different ways, which makes the achievement of internal alignment particularly challenging for a public organisation. They can emphasise continuities and suggest path dependencies or departures and change. The fundamental question for Centrelink under these circumstances is how does it handle the multiple demands on it in practice, particularly when they are in conflict? Reconciling the models and the fit with internal capability provides a basis for analysing this question.

The main issues derive from Centrelink’s origins as a reconstituted organisation, which was designed to be original, and the ways in which it can confound existing stereotypes about public organisations (cf. Kaufman 1985). The external relationships are complex, involving client departments, the board, the government, the minister and customers. The governance relationships encompass detailed contractual obligations, partnerships, direct authority relationships and public accountability. As a ‘one-stop’ organisation, Centrelink represents a complex experiment with integrated service delivery for a range of policy clients.
Within this overall concept there were potential conflicts. Centrelink was a public organisation subject to political demands and pressures, which sought to operate as a business within a competitive environment. It was a large and complex organisation at a time when disaggregation and single-function agencies were favoured. It was also a delivery agency accountable to client departments that had differing policy expectations, requirements and standards.

Chapter coverage
Chapter 1 examines the origins of Centrelink within the policy nexus of ideas and the management reform environment of the 1990s, and their influence on the design decisions for Centrelink. This leads into an overview of the organisation in Chapter 2 that provides a historical and descriptive context, including how Centrelink evolved.

The strategies and frameworks that have been developed to focus and integrate Centrelink’s approach are addressed in Chapter 3. The next chapter, on leading and managing change, analyses and explains how change has been managed in Centrelink, focusing on the chief executive, Sue Vardon, and her leadership style.

Chapter 5 examines how delivery systems have been transformed in response to the changing policy environment and new conceptions of how to respond to customer needs.

The next two chapters focus on external relations with the political executive and clients. Chapter 6 addresses Centrelink’s governing arrangements, and in particular the role of the political executive and the board of management. Chapter 7 explores the range of relationships between client departments and Centrelink and how they have evolved towards more collaborative arrangements. In Chapter 8, the agency’s relationships with other significant stakeholders are viewed from its perspective, and in terms of the organisational imperative to be entrepreneurial and to constantly seek repositioning of the organisation within its environment.

Chapter 9 provides an overall evaluation of the formative years of Centrelink against the questions raised in this introduction. The impact of an organisational life cycle is considered as Centrelink continues to be subject to a changing environment. Centrelink is the product of the ‘new public management’ environment of the mid-1990s that provided opportunities for a new agency to be entrepreneurial and innovative. With the different public management agendas emerging by the mid-2000s, a more conventional departmental approach has replaced the initial Centrelink experiment. The final chapter, by Margaret Hamilton, a former Centrelink executive, provides a postscript to Centrelink’s first eight years and the departure of Vardon, and addresses changes to the
organisation after its incorporation into a new, integrated Department of Human Services.

ENDNOTES
1 For references to Centrelink as a case of integrated service delivery, see Kernaghan (2005) and WBI Leadership Development Program and IPAC (2007).
2 The original questions are in Appendix 1.
3 The pragmatism inherent in the British tradition encouraged statutory authorities to flourish at times as specific solutions to problems.
4 Of course, no conventional department can expect to be immune from changes by the government, but in Centrelink’s case it was advised of the need to perform in order to retain functions, and there was a sense that its very existence was not guaranteed.
5 A few other cases existed, such as the Australian Taxation Office, which was not a product of the move towards new-style executive agencies, but simply a conventional pragmatic solution for implementation.