

'Improving Civil Service Capability in Developed Countries: The Australian Experience'

Keynote Address
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A. S. Podger
Public Service Commissioner, Australia

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Introduction

I am grateful for the opportunity to contribute to the debate on reinventing government at this, the fifth international forum on the subject. This morning I intend to discuss the Australian experience of improving public sector capacity through more innovative approaches to service delivery and human resource management. An awareness of our successes (and failures) would, I am sure, be of some value to both developed and developing nations.

On 20 October 2003, with the birth of a girl (named, appropriately, Matilda, after our best-known national song), Australia's population reached 20 million. With GDP per capita of about \$US25,000 we are in geopolitical terms a 'middle-ranking power'. Despite our comparatively small population, the Australian system of government is federal rather than unitary in nature, consisting of six self-governing states and two mainland territories. Today, I shall be focusing my comments on the national context, though I note that most of our service delivery, and hence most of our public sector employees, work at the State and territory or (provincial) and local government levels. I shall also be focusing on recent developments, and it is important to appreciate they are built upon a century of progress since our federation. A detailed analysis of public sector reform in our three-tier governance system, can be found in the Australian Public Service Commission publication, *The*

Australian Experience of Public Sector Reform, which appeared in June this year.

Public Sector Reform in Australia

Late last century, Australia experienced what one commentator has termed 'a major reconceptualisation of the role of government' in comparison with what had gone before (*Nethercote 2003: 12*). Behind this reshaping were:

- technology as a driver of globalisation;
- a sharp rise in competitive pressures on the public sector;
- expanding community expectations of government;
- steadily accelerating rates of change; and
- the greatly increasing pervasiveness of change.

Australia has grappled with such challenges in ways that consistent with the 'New Public Management' (NPM) theory. The chief hallmarks of NPM are flexibility and agility, with its most common themes being:

- devolution of authority for the process of administration, but with closer accountability for results;
- increased use of market competition, including quasi-markets within government processes;
- new structures and, indeed, changed government roles for providing services to purchasing and regulatory services;
- accordingly, closer interaction between the public and private sectors;
- increased community responsiveness and involvement, including greater transparency of decision-making; and
- stronger political oversight, partly in response to increased community and media pressure on elected Governments.

The theme of competition, with the increasing use of markets and quasi-markets, has altered many public service management approaches. Such change is evidenced in:

- greater recourse to non-government providers; and
- public servants increasingly playing the role of purchasers and regulators rather than providers.

Commercialisation, market testing and outsourcing, and privatisation have been pursued progressively, particularly since the 1990s.

These changes in the way government operates have been far more significant than any change in the *fundamental role* of government. Government continues to ensure stability through the rule of law, to promote efficiency by ensuring delivery of public goods and addressing market failure, and in ensuring social protection. Some of the rhetoric of the last two decades may have appeared threatening to those involved in the public sector, but the reality today is a revitalised public sector – a reinvented Government with the same underlying objectives but with a much more dynamic, effective and efficient way of achieving them.

People Management Reform

The far-reaching changes in financial management and service delivery have been accompanied – perhaps a little belatedly – by equally influential human resource management reforms. Since the 1980s, financial and personnel management tasks have been progressively devolved to agencies, and inside agencies, balanced by increased accountability for results. The product of home-grown practice and international experience, the *Public Service Act 1999*, represented the culmination of two decades of devolution of human resources (HR) management. Although it retained the essentials of a professional, career public service and the focus on merit selection, the 1999 Act displays more differences than similarities with its two major predecessors, chiefly:

- the replacement of detailed, central rules governing employment, with a principles-based framework based on the articulation of 15 Australian Public Service Values, together with a legally enforceable Code of Conduct;
- giving Agency Heads the powers of employer, including hire and fire, and classification and remuneration, subject essentially to the same highly flexible employment framework that applies to the private sector;
- giving the Public Service Commissioner a “quality assurance” role, including some oversight of the Senior Executive Service, evaluation of

how well agencies uphold the Values and ensure compliance with the Code, and an annual report on the State of the Service to be tabled in the Parliament;

- giving the Commissioner a role also in promoting leadership and good people management; and
- establishing a Merit Protection Commissioner with the power to review certain employment decisions.

I would like to deal briefly with some of the key aspects of human resource management that we have pursued in recent years.

Values

The demand for greater flexibility and agility I referred to earlier has led to a search for a new administrative framework that can engender public confidence in our public administration without the disadvantages of prescriptive, central controls.

Our experience follows similar searches around the world, amongst both public and private sector organisations. A common conclusion is that values-based-management offers a potential answer.

The articulation of APS Values in our legislation was an important element of our reforms. Yet many of us have been a little uneasy that there is a gap between rhetoric and reality, and that for some agencies and employees, the Values are at best statements of aspiration and at worst, simply not known.

In view of the statutory role of the Commissioner, my predecessor and I have taken a series of steps to promote understanding of the Values and to clarify the sorts of measures agencies need to ensure they are in fact upheld.

The essence of the values approach is that confidence in the integrity of discretionary decision-making in an organisation can be gained, without detailed rules, by articulating the desired nature of key relationships and

behaviours i.e. “the way we work around here”. For us in the Australian Public Service, these key relationships and behaviours concern:

- our relationship with the Government and the Parliament
- our relationship with the public
- our internal working relationships, and
- our personal ethical behaviour.

We have recently mapped the 15 Values in our legislation to these four headings as a way of explaining and promoting the Values across the Service. This is also helping to demonstrate how the Values define the role of the Service as a key institution in our democratic system of Government – apolitical, professional, impartial, openly accountable, efficient, effective, responsive, employment based on merit, highest ethical standards. The Values also marry traditional roles of apolitical impartiality with the achievement orientation and performance management expected in the modern public service.

This approach to explaining the Values goes some way to address the key risk of values-based-management : of a large gap between the rhetoric and reality. But it is not enough.

Our move to a values-based approach has gone a lot further than most other countries, who have retained more central controls than we have. The challenge for us, then, is to ensure the values are indeed embedded in agencies’ systems and procedures and culture without such central rules.

Our most recent work has been to develop a Values Framework. Apart from the grouping of the Values I have mentioned, we are promoting a supporting framework consisting of three elements:

- *Commitment*, encompassing leadership, training and promotion;
- *Management*, encompassing agency governance arrangements, instructions and performance management systems; and
- *Assurance*, including action against breaches of the Code of Conduct, staff surveys and client feedback.

A best practice guide for managers, drawing on international literature as well as local experience, has been released with case examples relating to each of the groups of values, and each of the supporting elements. A separate guide has also been released for individual APS employees covering a wide range of aspects of official conduct, drawing on the principles, related legal provisions and precedents. It is very firmly a guide, not a new rule book, aiming to help public servants taking discretionary decisions to consider the often competing principles involved.

This material will also help me in the future to meet my statutory role to evaluate how agencies are upholding the Values and ensuring compliance with the Code.

Leadership

The wide interest internationally in leadership parallels the interest in values-based management. It has a somewhat similar “feel” to it, entailing less emphasis on direction and more on ‘nurturing’, ‘empowering’ and ‘persuading’; less concern with rules and more with relationships; less reliance on structures, and more on the here and now; and, finally, greater stress on the strategic and organisational issues of the future.

In Australia, we have established the Senior Executive Leadership Capability Framework (SELCF), which is essentially a jigsaw based on five capability areas:

- shaping strategic thinking;
- achieving results;
- cultivating productive working relationships;
- exemplifying personal drive and integrity; and
- communicating with influence.

The Framework identifies in quite rich detail the skills, capabilities and attitudes we expect of leaders in the Service.

We use the Framework for selection to our Senior Executive Service, and for their development. We also use it in our Career Development Assessment

Centres for people identified by their agency heads as having clear potential for the SES. This in turn is helping us to analyse the common strengths and weaknesses of people moving towards leadership positions, and where our development investment should be focused. For example, it is apparent that personal drive and achieving results are frequently strengths, while cultivating productive working relationships and shaping strategic thinking are frequently weaknesses.

The Framework was formally evaluated after three years, and confirmed as an appropriate and robust instrument for executive selection and development. A measure of agency confidence in the Framework is the number of agency requests to the APS Commission for additional selection criteria to those contained in the Framework (which they must seek if they wish to alter or add to the Framework). Since 1999, only 14% of advertised senior executive vacancies have included criteria additional to those in the Framework.

Like values-based-management, 'leadership' also runs the risk of being too rhetorical, rather than hard-nosed, and of being "faddish" rather than real. More recently, therefore we have tried to emphasise that built into this Framework are hard management skills such as financial management, project management, corporate planning and risk management, as well as the "softer" but no less important attributes we require such as "emotional intelligence" to improve the way our senior people engage both internally and with external stakeholders and the public.

Our latest focus for enhancing the Framework is to articulate more clearly the different skills or capabilities expected at different levels of leadership. What is it that changes when a person moves from one level to the next, and how can we best target our development activities? For example, how does the time horizon people should focus upon change as they move up, or how does the breadth of important relationships widen as people move up, and what do these mean for 'shaping strategic thinking' or 'cultivating productive relationships'? This, we hope, will also help us in our succession management, clarifying the pathways to leadership.

Performance Management

Managing performance is specifically identified in our legislated Values. It reflects the close relationship between our HR reforms and the broader public sector reform agenda and its focus on results.

All agencies now have in place performance management systems that include regular performance appraisal of all employees, and some link between performance and pay. After a considerable amount of pain, most of those systems are now operating with a considerable degree of staff acceptance, though performance pay – particularly when in the form of bonuses – remains controversial.

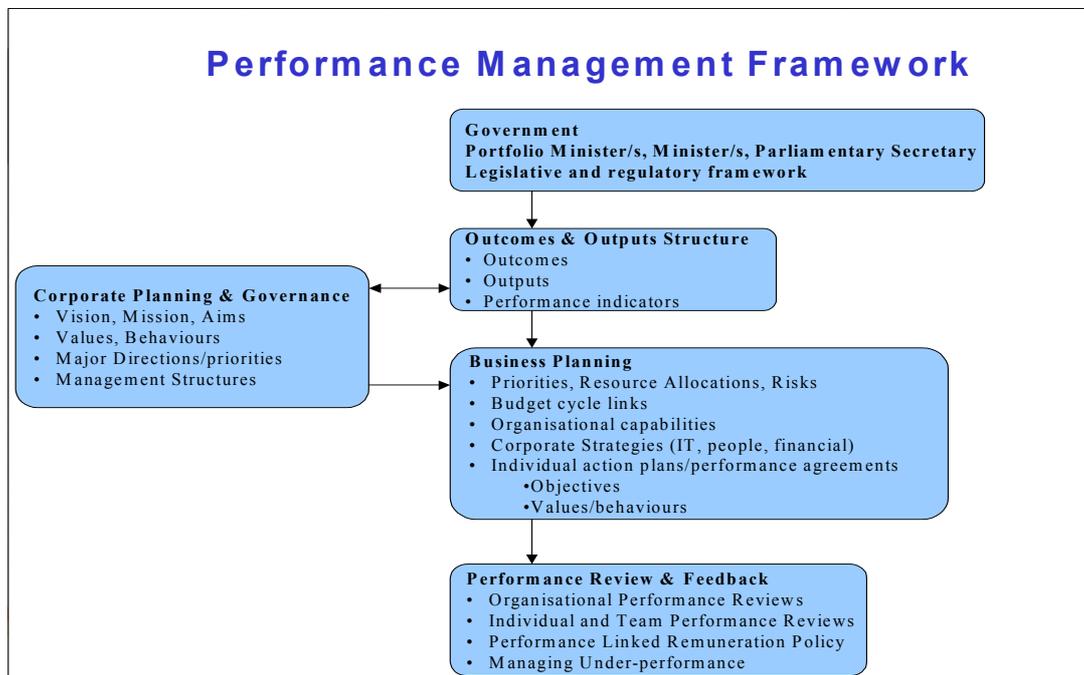
Two years ago, our Management Advisory Committee issued a guide on performance management which has helped many agencies improve their systems, and to appreciate that such improvements must evolve over time rather than be expected to be delivered in a single big step.

The approach encouraged in the MAC Report has three success factors:

- *Alignment*, so that the performance management system reflects not only the CEO's view of the world but careful assessment also of the nature of the business, organisational history, maturity of current performance systems, the industrial climate, etc;
- *Credibility*, which requires continuous review of the system, fairness, management buy-in, managing under-performance, reporting of outcomes, multi-source feedback and staff ownership; and
- *Integration*, establishing a clear line of sight, and implementing the system progressively and developing it in an evolutionary way, linking it to training and development and also to workforce planning etc.

While all three of these elements are important, I should like to highlight the third, as it epitomises the links between HR reform and wider public sector reform.

The following diagram, taken from the MAC Report, illustrates the broad performance management systems most Australian agencies now have in place.



The budget outcomes/outputs structure sets for the agency the Government’s objectives and targets and performance indicators. The agency’s corporate plan addresses more of the “why” and “how”, clarifying longer term directions and setting out the strategies for achieving the Government’s objectives and targets, and for building the organisational capability necessary for the future. Individual performance management needs to reflect both these top-down directional statements, and ensure everybody is properly aligned to them.

As I go through other elements of our approach to building HR capability, you will see how they also are closely integrated with this framework, and how we are progressively evolving our systems to get more and more from them, not only to improve immediate performance but to build capability for the future.

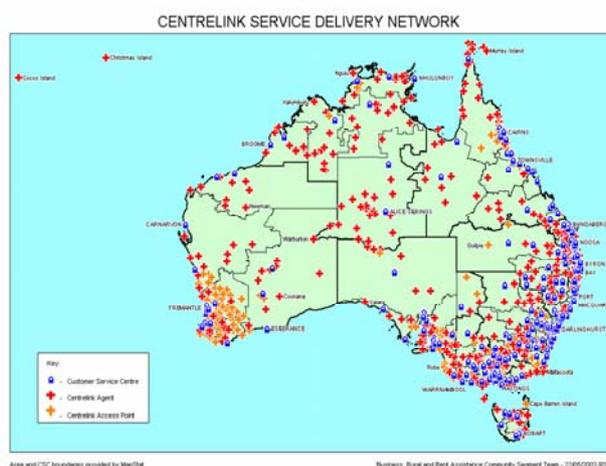
Learning and Development Activity

During the 1980's when our focus was on financial management and economic reforms, there was criticism that we were ignoring people management. I suspect there was some truth in this, and investment in learning and development was allowed to decline as we emphasised efficiency and short-term results. More recently, there is evidence of much more effort to invest in people for business outcomes.

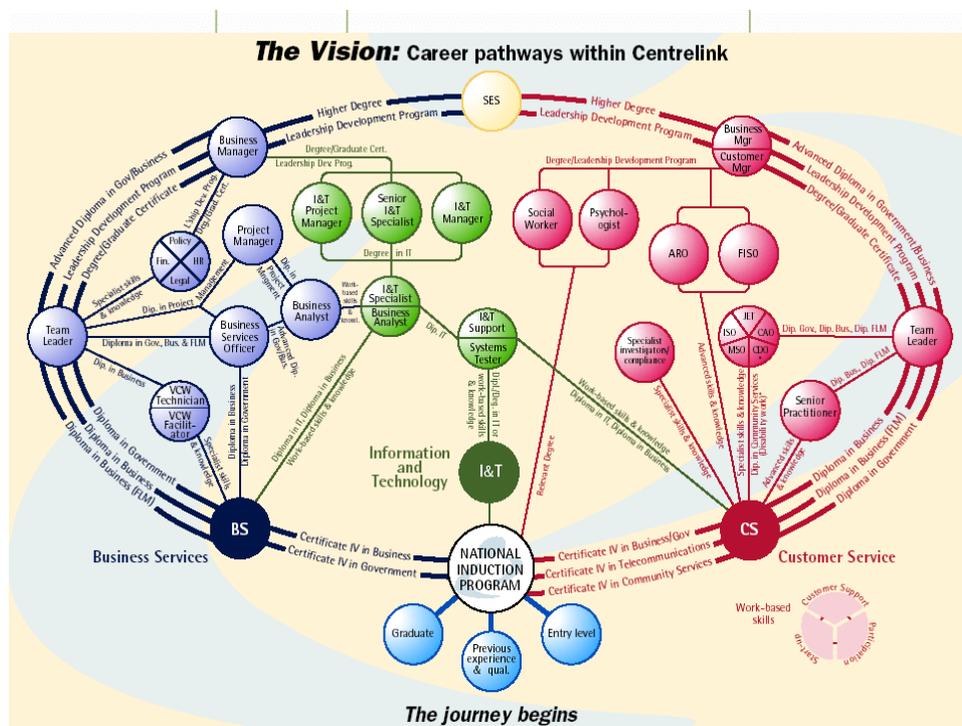
Drawing on good practice in Australia and overseas, the APS Commission and the Australian National Audit Office launched in April this year a good practice guide entitled *Building Capability: A Framework for Managing Learning and Development in the APS*. The Framework draws heavily on the earlier work on performance management, with seven key elements:

- *Align* learning with the business
- *Integrate* learning with HR and other business processes
- *Create* a learning culture
- *Provide* appropriate learning options
- *Manage* learning and development for value for money
- *Support* application of skills in the workplace
- *Evaluate* learning and development.

An example of good practice is Centrelink, our agency that delivers a wide range of personal family and welfare benefits. Centrelink has over 25,000 employees, and delivers services across Australia through its own offices and through contracted agents (map).



To help manage its huge learning and development task, Centrelink has established a Virtual College. The College contracts with educational institutions around Australia to deliver structured learning programs linked directly to Centrelink's classification and career advancement system. Training is also provided through a sophisticated video and computer network that supports both personal interaction and consistency against identified national standards. There is close alignment between learning and development, career planning, pay classification and the agency's corporate plan and values. The following diagram illustrates its career pathways and how learning and development is integrated into its operations.



Increasingly, other agencies are also developing structured learning and development, using nationally accredited training modules tailored to their businesses. For large agencies like Centrelink, Taxation and Customs, the main emphasis is on ensuring consistent, minimum skill outcomes amongst a widely dispersed workforce. All three agencies use the vocational education and training framework, focusing on skills acquisition from entry-level to middle-management, and both Centrelink and Taxation link demonstration of minimum skills to their probation processes. More policy and professionally

oriented agencies like the Finance and Industry Departments are using universities to tailor graduate and post-graduate training to their business requirements. Finance, for example, has a contract with the Australian National University to deliver a tailored Masters program within the Department which it encourages a high proportion of its graduate recruits and middle managers to undertake.

There is also renewed interest in cross-agency learning and development. This is not mandated in Australia by central agencies or the APS Commission. Rather, the Commission must prove that its learning programs provide value-for-money through the content and quality of the programs and by the opportunity they provide for people to work cooperatively across organisational boundaries.

The latest initiative in this regard is the Australia and New Zealand School of Government, a collaboration between five Governments (Australia, New Zealand and three Australian States) and ten universities and business schools. Its main products are a two-year part-time Executive Masters Program aimed at high flying middle managers, and a three week residential Executive Fellowships Program for high level people considered to have potential for top management positions in the near future. Both programs draw on business school management ideas, but focus strongly on the unique requirements of those working in the public sector.

Workforce Planning

Workforce planning is an important issue for the APS. It is really about sustainability. Agencies need to ensure that they attract, retain and develop the capability that they need today and for the future. Agencies are coming to terms with the challenge of addressing workforce planning in real and meaningful ways.

In a major report published earlier this year, the Management Advisory Committee emphasised the need for APS agencies to engage in more systematic workforce planning as part of 'organisational renewal'

(*Management Advisory Committee, Organisational Renewal 2003: 2*). The report analyses our ageing workforce, trends in recruitment and retention and trends in mobility, and identifies some major challenges facing the APS. The impending “changing of the guard” with a large cohort nearing retirement will require careful management, both to avoid a sudden loss of essential corporate knowledge and expertise, and to more carefully develop our younger recruits and ensure we retain (or regain) the best of them in our more mobile workforce.

The report identifies a number of areas agencies need to focus upon, in the context of better workforce planning. These include more flexible employment options for those approaching retirement age, where phased retirement offers a win-win for the employee and the agency; more careful succession management to position younger employees for leadership positions; and more structured learning and development particularly for young graduates and other recruits.

Since the report, a lot more work has been done including a paper by the Commission on *Succession Management*, highlighting that this is not inconsistent with merit but, indeed can reinforce the merit principle. A suite of other support material is being released right now to help agencies and employees to address the ageing issue, covering such matters as superannuation, flexible employment options and occupational health and safety.

Human Resource Capability

For a while, we were in real danger in terms of our HR capability. With devolution, and then with widespread contracting out of corporate services, a number of agencies found they did not have the depth of expertise in HR they needed, particularly in terms of strategic HR. Accordingly, we in the Commission have in recent years put a lot of effort into helping agencies to improve their HR capability. We support various professional networks, which encourage shared learning and contribute to the increasingly sophisticated

initiatives various agencies are now pursuing on learning and development, performance management and so on.

To encourage agencies to address their strategic HR capacity, the APS Commission developed an *HR Capability Model* articulating the capabilities required of effective APS human resource staff. It can be used by:

- HR people to focus on their development needs;
- agencies to assist in defining the skills required when looking for HR people;
- agency heads and line managers to see the contribution that HR people can make to business outcomes.

The model focuses on building organisational capability to deliver business outcomes. So, again, there is this emphasis on integration and alignment. At the centre of the model are two capabilities that articulate what individual HR people need to bring to their roles:

- *knowledge*, bringing HR to the business, and
- *credibility*, having an influential seat at the table.

The other capabilities described in the model articulate how HR people can work with the organisation:

- *alignment*, connecting HR with the business
- *innovation*, bringing ideas to the business
- *relationships*, partnering with the business, and
- *performance*, achieving high quality business results.

Over the past two years we have moved to enhance the skills of APS human resource employees and improve HR outcomes for individual agencies, by introducing a Human Resource Capability Development Program (HRCDP) which is based on the model.

Amongst other support material to help HR practitioners and line managers, such as the Learning and Development Guide, is a very practical kit to improve recruitment and selection. ***Get it Right*** – a recruitment kit for

managers has been released in just the past couple of months. It provides managers with a step-by-step guide to achieving better recruitment outcomes.

Future Challenges for Australia

As mentioned, our ageing workforce presents a particular challenge for Australia. Increased mobility is also forcing us to take more seriously structured learning and development and career management, and highlighting the importance of greater flexibility in working arrangements, to ensure we are employers of choice and attract and retain the expertise and experience we need.

Notwithstanding the importance of demography, technology is likely to remain the dominant force, transforming both the means of delivering services and the nature of such services. It shapes community expectations, and drives international competition and increased productivity. It explains most of our dramatic changes in the skills profile of the APS over the last 20 years, and there is no reason to believe it won't continue to do so. Accordingly, we will continue to invest heavily in information and communications technology and e-government, and associated skills development as we offer more client oriented, integrated services in response to changing demand. The continuing shift in our economy to services that rely heavily on information and knowledge, which has for some time been the focus of the APS, means we will face even stronger competition for the best and the brightest and we will have to be cleverer at attracting and retaining them, as well as growing them.

The shift in our role towards purchasing and regulating rather than providing is also changing the skills we need, and adding further to the mobility of our workforce. We are still having problems with skills in contracting and risk management for example.

Another theme of growing significance is whole-of-government, or connected government. Our Management Advisory Committee established a project earlier this year to advise on practical ways in which we might improve the way we address whole-of-government priorities. The project will focus on practical ways in which we can better integrate policies, programs, and

service delivery, while maintaining the gains we have achieved through devolution and results-based management. The project is addressing six particular aspects:

- culture and training
- structural options and processes
- information infrastructure
- budget and accountability framework
- connecting with people outside
- crisis management.

Relevance to Developing Nations

I believe that the main drivers of the changes in Australia I've referred to—globalisation, competitive pressures and technological change—are also key drivers for change in developing countries. However, it seems clear to me that there are attendant forces at work in developing countries which make the task of public sector reform more difficult. One of these concerns the risks associated with adapting imported models of governance—summed up by Paul Collins as 'synthesising the "traditional" and the "modern"' (*Collins 2000: 8*).

There is also the associated dilemma of adapting institutions and patterns of public service practice and behaviour to developing nations with different histories of governance—what Yehezkel Dror calls the 'political culture' problem (*Dror 2001: 57*). Due to a less well-entrenched tradition of apolitical and impartial professional public administration in some developing nations, this can lead at best to poor governance and at worst to endemic fraud and corruption.

The way we in Australia have moved to values-based-management and allowed considerable devolution of authority accompanied by clearer accountability for results, reflects an implicit risk assessment taking account of our overall capability and our strong professional public service culture. While we have demonstrated considerable gains from our approach in terms of flexibility, efficiency and effectiveness, other countries would need to carefully

assess their own risks given their particular history, capability and cultures. For many, I suspect, a stronger central authority to demand merit-based employment in particular, and to support HR capability building, may well be appropriate.

Whatever the risk assessment, I suspect our emphasis on *integrating* HR capability building and HR reform with broader public sector reform including financial management, and *linking HR measures closely to business outcomes*, is equally important in most other countries.

Conclusion

I am certain of the continued importance of certain principles and forces that have always shaped good public administration. I believe, as well, that they are relevant to both developed and developing nations, while recognising different political and administrative cultures and varying levels of capability and professional traditions. I refer in particular to the abiding relevance of:

- the principles of government intervention in market economies, relating to stability through the rule of law, the provision of public goods, and social protection : reforms over recent decades have primarily been about the means of intervention, not whether to intervene;
- democratic structures, including free electoral processes, a strong Parliament to balance the power of the Executive, and an independent Judiciary to uphold the law; and
- equally important, and often not sufficiently appreciated in developed countries, an impartial, apolitical professional public service, responsive to the elected Government, openly accountable to the Parliament, and scrupulous in abiding by the law.

HR capability building is about ensuring we have all the technical expertise we need to manage our various programs in a modern, competitive environment. More importantly in many respects, it is about reinforcing these underlying values and promoting the leadership necessary for us to work confidently in our reinvented government administration.

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