PUBLIC SECTOR MODERNISATION: THE CHANGING ROLE OF THE CENTRE

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THE CHANGING ROLE OF THE CENTRE

Introduction

1. Governments have central agencies such as the Prime Minister’s Office and the Ministry of Finance to support them in collective decision-making and in carrying out their policies. But as governments have changed their management systems and lessened their control of the economy in recent years, the role of these central agencies has changed too. Some of the challenges facing these central control bodies stem from specific policy changes, such as new public management. But governments are also being forced to adapt to other developments like the maturing of economies and the rising influence of international issues on national policies. These forces have led to an increase in the scope, power and remit of the centre. A small number of countries have tried to counter this by shifting powers elsewhere, but this has resulted in their centres being starved of their tools of strategic control.

2. This note is part of a series on Public Sector Modernisation in OECD countries over the past two decades. This note looks at the central control function in government, the agencies and organisations governments use to perform this function, and what tools they have at their disposal, as well as how these functions and tools change over time.

Who Looks After the Collective Interest?

3. There is no one group of central agencies for all government policy. Indeed, the agency or organisation acting as the “centre” shifts according to the issue being dealt with. The centre can be any combination of organisations and structures, both formal and informal, which coordinate and integrate government policy and act as final arbiters for conflicting policies whether this be trimming the national budget or gaining telephone agreement on how to respond to a morning deadline. The central agencies support the collective decision-making of the centre. While organisations and structures vary across countries, this note will focus on the main actors that have a role in most policy co-ordination and accountability activities in the governments of OECD countries. These include the President’s or Prime Minister’s Office, the cabinet secretariat, the budget office, the human resources office and, to the extent that they shape policy, the legislative offices serving the centre.

4. A council of ministers, or indeed a body with a board-like function, has a fundamental purpose and function, regardless of the system or time it is operating in. Its role is to drive and shape current and future policy, validate past performance, ensure that government implements its programme correctly and ensure that it accounts to parliament and civil society for its actions. Central agencies often have to act as an agent of change – a Prime minister’s office, for example, often introduces initiatives for change but may then lose interest and become interested in a new initiative. It is the role of the centre to pick up such situations when they go wrong and deal with them.

5. Traditionally, these functions have been carried out as separate functions – a budget process, a human resource management system and a cabinet system. These functions remain constant in democratic systems, but the agencies responsible for carrying them out have changed in the past decade. The budget office, for example, has taken on a stronger role in policymaking and formulating strategy than planning ministries. Many governments have also centralised and brought closer together policymaking and planning for the future. The volatile nature of the modern policy environment requires a more systemic focus which forces traditionally separate agencies to work together.
6. The centre helps support governments in four key areas: the budget, usually through the finance ministry; legislation, through varied organisations in different countries; strategy and communication, generally through the prime minister’s office, and management control, through a variety of organisations in different OECD countries.

7. These outputs have both a top-down and bottom-up aspect; top-down because they are pulling together and integrating central government policy and bottom-up as these agencies act as final arbiter in executive conflicts between different elements of the government machinery.

How does the Centre achieve control?

8. Writing about the private sector, Harvard Business School professor Robert Simons has argued that achieving strategic direction of a diverse and complex organisation requires a judicious combination of four quite different formal and informal “levers of control”, all of which can also be applied to government:

- **Diagnostic controls** - information systems which provide critical information on whether current policies and systems are working as intended. (In government, these could be budget, performance management, accounting and internal control systems)

- **Interactive controls** - formal and informal means of reading changes in the wider environment and enabling appropriate strategic adjustments to be made. (In the real world of government, strategy tends to be set through a stream of decisions made on encountering new circumstances, rather than through formal planning systems)

- **Belief systems** – the communication (internal and external) of the core sense of long term direction and values. (In government this is seen especially through behaviour and communication from political and administrative leadership groups)

- **Boundary systems** – formal and informal ways of ensuring that members of the organisation are aware of – and constrained from – behaviour which will threaten the organisation (This can also apply to public servants or to individual ministers. Besides making the rules clear, swift and public action against transgressors is a powerful form of communication)
9. This model therefore applies well to the centre of government. It recognises that the control of complex human situations – such as government – requires a mixture of formal and cultural influences, sticks and carrots, internal discipline and adaptive decision-making. It reinforces understanding of the dangers of excessive formalisation of either planning or control.

**What are the Major Changes affecting the Role of the Centre?**

**Local Political Realities**

10. Every government system faces variables, such as the role of civil society, the strength of labour unions, or vested interests -- that are either permanent or slow to change. How the centre organizes itself and operates depends on these variables. Constitutional factors are perhaps the most important variable for the role of the centre. For example, decision-making and policy coordination in a presidential system or a majority party parliamentary system will be fundamentally different than in a coalition situation. The role of Parliament will constrain decision-making and sometimes governmental management. There are also micro-variables like the size of the government’s majority and where the country is in its electoral cycle.

11. Such variables exert significant and enduring pressure on the role and operation of the central agencies. However over the past 10-15 years other factors such as the maturation of economies and the rise of highly constrained budgets, as well as the need to respond to a rapidly globalizing world have also changed the role of the centre. Governments also targeted the centre for change by delegating certain powers to line ministries and by formalizing performance- and results-based management.

**Growing Complexity**

12. It is a cliché to say that life is becoming more complex. Yet it is true for governments, faced with demands for new services and public goods. At the same time, the information age forces the government to compete for attention of the population. It makes government action both more transparent and immediately known. For example, Prime Minister’s offices have to be more concerned with media and communication in the information age. In the United States, the size of the President’s media staff has quadrupled since the early 1990s. The Prime Minister or President has always been the leader of the nation, but the increasing freedom of actions for individual citizens means their agencies have to learn the art of persuasion – a more time-consuming and demanding role.

13. Central agencies – especially those with more political roles -- have had to deal with new issues that divert the time and attention of the cabinet and prime minister/president’s time than even a decade ago and make the policy environment unstable and unpredictable. This is especially true in Europe, where European and regional issues have, over the course of the last two decades, come to monopolize the attention of policymakers.

14. But however complex life, and government, become, it is a well-established fact that people can only pay attention to a limited number of objectives at any one time -- a concept known as “bounded rationality.” This principle applies just as much to the busy people in governments, so there are very strict limits to the amount of information that will actually be used in central political and administrative decision-making. The same is true of analysis of cause and effect; working out what action caused what result can be very expensive and difficult, so governments need to be highly selective in the targets and measures they use to assess their policies. Governments must also contend with political influences which have nothing to do with performance as the public sector may define it.

15. All these elements obviously impose inherent limits on the usefulness of information. But the real question is how central decision-makers can ensure that they get the information they need without being overwhelmed by it.
The Growing Power of the Budget

16. Finance ministries, for example, have always been influential and powerful organisations. Yet the 1980s saw the dawn of a new era of the budget office. Central budget agencies had hitherto been seen as a somewhat technical organisation that dutifully oversaw the increase in public sector spending in OECD countries in relation to GDP from 29% of GDP in 1960 to roughly 40% of GDP in 1985. But starting in the late 1970s, governments were caught by low economic growth and increasing debt as well as increased expectations for government programmes. While the size of deficits and debt burdens differed among countries, the political impact was virtually universal. These fiscal conditions created a situation where governments found they needed to limit government’s share of the economy, and the job of helping them do so fell to the central budget authorities, giving them new and unprecedented power and more influence in the decision-making process.

17. The rise of the budget office profoundly and permanently altered the balance between the various central agencies. A fundamental question facing now facing OECD countries is how will the central agencies drive modernisation efforts, ensuring that the public sector has the capacity and flexibility to be effective in a more complex and demanding social and economic environment, while maintaining fiscal discipline?

18. As spending relative to GDP increased, coupled with strong GDP growth, the traditional method of incremental budgeting worked well. When spending and GDP growth slowed, many OECD countries responded by undertaking reforms aimed at linking the functions of the public management decision-making process more closely to the budget and to making them work together more smoothly. The central control systems (and agencies) for money, personnel and policy, which had traditionally operated almost independently, are having to be reconceived as inter-dependent components of a single whole-of-government management system. To date the rise in the whole-of-government management perspective in member governments has coincided with the rise in the power and reach of the budget office.

Pressure to Perform

19. Nowhere is this trend clearer than in budgeting and management processes. The focus on results means that operational managers are given increased discretion as regards how to use inputs (staff and assets) in exchange for accountability and transparency. In such a system, control can no longer be exercised by the traditional finance, personnel and process rules. “Performance” -- effectively an amalgam of policy, finance and human resources -- is controlled through such devices as performance contracts, results-based annual reporting, performance-focussed human resource management and inclusion of quantitative policy targets in national budget and policy plans.

20. Alongside increased fiscal pressure, the need for “better government that costs less” became an ubiquitous campaign slogan in OECD countries. Prime ministers and presidents have “reinvented” government and asked to be judged on the basis of performance. Whether the performance movement is more rhetoric than reality is an open question, but what is indisputable is that three-quarters of OECD countries have made some effort to bring performance into the budget process.

21. Performance measurement and results-based management are not new concepts in themselves, but performance has been increasingly formalised in the past decade. Initial reforms – mainly in English- and Scandinavian-speaking parts of the world -- are maturing and other OECD countries are starting another wave of reforms.

22. The two Asian OECD members are moving to performance-oriented management by strengthening central and departmental planning, rather than a re-engineered budget and management
process. In Japan this move has been accompanied by some trimming back of the traditionally pervasive power of the Finance Ministry, and the creation of new horizontal central mechanisms to support strategic decision-making. In the Korean system power had traditionally been concentrated in the office of the president but this is gradually being replaced by a collective decision-making process among the other central agencies.

23. One basic problem is that the traditional control role of the centre is incompatible with the management reforms undertaken by OECD governments. In a complex modern society, the static central command and control mechanisms of the past are no longer adequate to direct and control government activities. While the modernisation of the public sector initially focused on public service delivery, the need for the central agencies of government to play a more strategic role focused on national and organisational performance means that they need to transform what they do and how they work together. Central budgeting authorities have so far achieved an advantage in strategic influence in many OECD countries but this may prove to be only an interim step towards an overall strengthening of the processes for central strategic policy and control.

Can the Centre help improve performance?

24. Most OECD countries have not yet introduced performance budgeting systems, but they are keen on performance management. So far, however, performance management targets are not being set by the centre, but by individual ministers or heads of departments. While it may seem to make sense that those responsible for delivering performance are those who define it, it is less clear why the centre is not using the resulting performance data. Reasons vary between countries, but some seem to be universal.

25. For one thing, parliaments and civil society generally have shown little interest in measures of performance. It is difficult to make real change when ministers and managers are not held to account for performance. At the same time, reforms in performance management are still young. If countries are to be judged on performance, they need to spend time developing appropriate targets and measurements and then have a baseline on which to judge those measurements. It is often difficult to measure whether a particular policy has achieved its goal and why, and can require contributions from many different parts of government, which also makes the process more complicated. And one disincentive for many governments to invest time and resources in measuring performance is that they do not see any political reward, in the shape of future votes, for past performance however good it might be.

26. It is also interesting to note that the performance data generated by ministries and used in decision-making or accountability processes is often taken at face value – in other words, while reforms have matured, methods of auditing and verifying the new systems have not. Data are audited by outside groups in less than a third of OECD countries.

27. Can the centre help governments make better use of performance data? The OECD has identified a number of challenges in creating results-based systems: focussing on outcomes, data quality, building a results culture, sanctions and rewards for performance or non-performance, incentives, strategic management and leadership.

28. There is clearly a role for the centre and central agencies in meeting all of these challenges, but particularly those of taking a strategic approach and providing leadership and support to ensure that the changes in behaviour and attitude necessary for real reform are achieved.

Managing from a Distance

29. Where modernisation efforts have involved extensive devolution or delegation of authority, there are major consequences for the role of the centre. When a government launches a major reform
programme, at first this means a stronger and more active role for the centre in leading and coordinating the change. But within five years or so as the changes begin to bite, the central agencies find themselves confronted with a new generation of challenges and the need for new capacities and work methods.

30. Perhaps most important is the problem of fragmentation. As countries decentralize their systems and delegate authority, the most straightforward way has been to make programme managers responsible for specific outputs, but retain an overall view of societal outcomes at a political level. This has led to a loss of focus on the big picture, due to the proliferation of agencies; a proliferation of ministerial portfolios; and in some areas, an over-emphasis on vertical accountability for individual programmes at the expense of whole of government approaches.

31. Fragmentation makes co-ordinated service delivery more complicated, adds to the cost of doing business, and blurs accountability. Structural fragmentation means many small agencies, spreading leadership talent and other skills more thinly and increasing the risk of weak capability. Fragmentation also means that ministers need to build relationships with multiple agencies, and at times reconcile conflicting agency positions at an excessively detailed level.

**Thinking National but Acting Local**

32. A second important issue is how governments relate to citizens, particularly on issues where multiple agencies are involved and where judgments need to be made at the front line. In such situations, co-ordinating the various actions across ministries can be a significant problem. This is clearly a key area where the centre can contribute to the success of reforms.

33. But it is a challenge to persuade agencies to give up independence and participate in collective decision-making. The role of officials versus ministers is also difficult: ministers have multiple, not single, objectives, which makes it difficult for chief executives to know the ultimate purposes of some of their actions.

34. Decentralisation and delegation of responsibilities to lower levels of government have been a feature of modernisation efforts in most OECD countries. The theory behind these efforts is that services generated closer to the people they are intended to serve will be more effective and efficient. But at the same time transferring responsibility from the centre can create fragmentation problems at local level. Decentralisation in some continental European countries, for example, helped renew local democracy but also increased problems of financial management and corruption at the local level. There is also a tendency for central government to remain responsible or accountable for programmes even when control has passed to local authorities or they have been privatised.

**Specialists or Generalists?**

35. OECD work has shown that central agencies need skilled and seasoned personnel to effectively operate the modernized systems. Central agencies often employ generalists, but more complex systems (such as modern accounting practices) that require dialogue and more technical oversight requires some specialists who have both experience and new skills.

36. Most countries are trying to make their civil services more responsive to policy decisions and the needs of citizens through more emphasis on “performance” rather than process compliance. This has meant some decentralisation of managerial decision-making and more emphasis on the individual responsibility and performance of top managers. This move to “individualise” public responsibility is being pursued through the introduction of mechanisms of objective setting and accountability, and individually based rewards and sanctions. However, the extent of the implementation of “performance-based” management for top executives varies very significantly among the countries in this study and is to some degree related
to whether they resemble a “career-based” or “position-based” civil service type. While performance management reforms are general for all countries, the focus is increasingly turning towards leadership and change management as well as human resource management.

37. Countries with a position-based system are tending to establish competitive processes ensuring transparent appointment procedures based on merit. At the same time, officially or non-officially, many countries are also developing pools of future leaders to be nurtured. To a certain extent, these countries are also re-centralising the management of their senior executives, by defining mandatory government-wide appointment criteria, overseeing appointment processes, keeping government-wide databases of present and potential executives, defining service-wide standards, etc. Some are reviewing the promotion and mobility systems to provide clearer and improved career paths for senior executives who would like to remain in government. The aim is to reduce the turnover rate, promote mobility across organisations, and promote socialisation into a common culture.

38. Most countries with a traditional centrally managed career system are trying to open up their recruitment processes to increase competition for top executive positions, improve the performance of future executives, and introduce cultural changes and adaptability to their civil service systems. While countries resembling a “career-based” system have a clearly defined and centrally managed senior civil service based on open and equal competitive examinations, they have experienced difficulties in relating performance to promotion and pay, because of early recruitment, training and grading. Only a few of these countries have related the variable pay of senior civil servants to performance assessment, but some are seeking to introduce management by objectives.

What are the future challenges?

39. In 1984, Pressman and Wildavsky wrote, “No phrase expresses as frequent a complaint about the federal bureaucracy as does ‘the lack of co-ordination.’ No suggestion for reform is more common than ‘what we need is more coordination’. ” There is both an enduring role and an enduring problem for the centre. While the functions of the centre are stable, who performs those functions and how they are carried out changes over time.

40. Experience over the past decade shows that the scope of the centre’s activities is not a zero sum game. While some functions were devolved or delegated, for the most power, control and coordination over the government has been, if anything more centralized.

41. In charting the course forward, there are a set of new and emerging issues and questions for central agencies. The first is how to manage government’s new role in the area of public persuasion and to deal with the challenges of mass communication. Governments also need to ask whether existing central management controls are adequate to protect their collective purpose in an era of highly differentiated structures of governance and service delivery.

42. At the same time, governments need to create a whole of government culture and sense of purpose among key officials in a dispersed management system. They also need to address the question of how to combine a strategic role with a rapid response culture. There is also a danger that too much emphasis on formal management processes will stifle the informal coherence and communication that are essential to keep government policy together. And policymakers will need to know whether performance targets are helpful to politicians and whether the public administration is able to actually implement them.