MODERNISATION AND ROLE OF THE CENTRE

Meeting of Senior Officials from Centres of Government on Public Sector Modernisation: the Role of the Central Agencies
Madrid, 6-7 November 2003

This document provides background information for Session 1: "Steering versus rowing: a decade of modernisation" on Thursday 6 November from 10.00 to 11.00

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JT00152380

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Session 1 – Thursday 6 November

MODERNISATION AND THE ROLE OF THE CENTRE

Questions for discussion

Providing strategic direction from the Centre of Government

➢ What role has the Centre of Government played in modernisation? Are there key roles of the Centre that cannot be delegated or devolved to other central agencies?

➢ How does the Centre of Government co-ordinate with other central agencies? Has modernisation changed the equilibrium between the Centre of Government and the other central agencies?

➢ Centres of Government require sufficient time and information to develop a strategic view of public sector modernisation and to communicate a broader vision to the public. What are the capacities needed to steer reform from the Centre?

Public sector modernisation viewed from the Centre of Government

➢ What have been the results to date of public sector modernisation in your country? What are the future directions for reform?
MODERNISATION AND THE ROLE OF THE CENTRE

“No phrase expresses as frequent a complaint about the federal bureaucracy as does ‘the lack of coordination.’ No suggestion for reform is more common than ‘what we need is more coordination.’”

Pressman and Wildavsky, 1984

A decade of reform

1. As the Wildavsky quote illustrates, the role of the Centre as a policy coordination agent of government is hardly a new phenomenon. The basic problems of coordination have been exacerbated by the growth and structural elaboration of modern governments. From the time of separation of governing structures into departments, ministries, and analogous organizations there have been complaints that one organization does not know what the other is doing and that their programmes are contradictory, redundant or both.

2. Ten years ago the focus of reform of the public sector was greater efficiency. But efficiency is a necessary but insufficient condition for effective government. The need for improved governmental efficiency remains, but complex problems have emerged, creating pressure on governments for more profound changes to meet the requirements of contemporary society. A new form of whole-of-government strategic direction and control is needed. As this next generation of reforms will be more concerned with “steering” than “rowing”, central government agencies themselves must become the objects of reform.

3. In some important respects the analytical tools and comparative information used in first-generation reforms were not up to the task. Member countries, and the OECD, need to build a new capacity to guide the systemic, cultural and governance dimensions of public management adaptation.

Steering, not rowing

4. An influential writer about management in the private sector (Robert Simons; Levers of Control) maintains that achieving strategic direction of a diverse and complex organisation requires a judicious combination of four quite different “levers of control”:

- **Diagnostic controls**: information systems which provide critical information on whether current policies and systems are working as intended (e.g. 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 (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 apply to public servants or to individual ministers. In addition to making the rules clear, swift and public action against transgressors is a powerful form of communication.

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 both planning (it sees a danger in the modern performance movement replicating the problems of “scientific” management) and control (it recognises that where values are concerned, actions speak louder than words). The Centre of Government can never operate effectively as a mechanical control centre.

5. Some countries undergoing modernisation efforts have specifically targeted the role of the central agencies for explicit changes, while in other countries, the issue of the role of the Centre is a by-product of other decisions and actions. Nevertheless, the clear trend for modernisation efforts is oriented toward the management of cross-cutting issues focusing on performance of the government. To be successful in reform, we speak of the need for a whole-of-government perspective, and that perspective naturally resides in the central agencies. Yet, as the recently completed OECD budget survey suggests, accountability arrangements across ministries are either not dealt with or, while recognised, remain unresolved (see Figure 1). This suggests that the “Centre” is still feeling for its proper role in a modern system.

![Figure 1](image)

**Figure 1**

Performance targets can cut across organisational boundaries. How is this dealt with? (Percentage of OECD countries)

6. Modernisation changes have been motivated by the need to improve the performance of government. By focusing on performance, central agencies give up control over inputs in favour of a longer term and less detailed view of government performance. In member countries, each of the central agencies is facing its own kind of challenge. Prime Minister’s departments and their equivalents struggle with balancing the management of today’s crises with the need for a steady strategic framework. The performance movement is increasingly making the budget the key “operating system” of government and
giving Finance Ministries a stronger central policy role. Furthermore, civil service departments/management agencies are being torn between their traditional role of maintaining the integrity of the civil service system and new pressures to play an active role in managing the public sector for performance. On top of this there is a pressing new requirement for these traditionally autonomous bodies to co-ordinate more closely in driving government strategy.

**The purpose of the Centre**

7. Regardless of the system or time, there is a fundamental purpose and function of the Centre and central agencies. In his thoughts about the next steps in New Zealand’s reforms, a senior practitioner, Derek Gill, has recently defined the Centre’s “essential purpose” as being:

   “to support the current and future (emphasis added) governors (cabinet/chief executive) in their governance function. Governance is about setting strategy, getting the right leaders in place and giving assurance that there are sustainable and well performing assets.”

8. He goes on to say that there are two perspectives, and hence, roles of the Centre:

   - **Top-down** – where government decides those things that are of critical importance to its governance task which must be done coherently across the whole sector. In this case, the Centre must pull together and integrate central government policy;
   - **Bottom-up** – where agencies of government work with the Centre to undertake those tasks that are best done across the whole sector for reasons of risk pooling or economies of scale. Here, the Centre acts as final arbiter within executive conflicts between different elements of the government machinery.

9. The reality is that top-down and bottom-up roles coexist and are shared with other organisations in the public sector. These functions and roles help support the four horizontal outputs of a government:

   - The budget (typically from the Ministry of Finance)
   - Legislation (from various organisations, depending on the country)
   - Strategy/communication/coordination (from the Executive/Prime Minister)
   - Management direction, and control (from several organisations – including finance and management agencies – with an increasing trend to favour central instruments articulating performance targets - and emphasis on collective tasks and values of public sector leaders.

**In a modern system, what is the “Role of the Centre”?**

10. The traditional role of the Centre is incompatible with many of the reforms under way or contemplated in various member countries. One element of the modernisation reforms – although by no means universal – has been to streamline, delegate, decentralize and de-concentrate decision-making authority. Yet as Ministers, managers, sub-national governments have been given decision-making freedom to achieve individual performance targets, the collective government has suffered.

11. For example, New Zealand’s tight output specification and accountability reduced unit costs for many services, but had perverse systemic effects on investment in future organisational capacity and attention to the outcomes of policies. Figure 2 shows that for the most part the volume of performance information is only used by the Ministers responsible for the target, and not by people concerned with whole-of-government performance and outcomes.
12. This inattention by the Centre to the performance information may be an indication that while there is more and better information, it is simply too much for the system to handle. Economists use the term “bounded rationality” to indicate that individuals can only effectively use a limited, or bounded, amount of information. Also, while modernisation reforms have tended to accountability for performance, the immediate crises and concerns often push out the strategic reviews.

13. This may also be an indication of the limits of a managerial reform in the wider political economy; decisions are rarely taken on a technical basis alone.

**Moving from rhetoric to reality**

14. “Letting managers manage” is one of those areas where there is often more rhetoric than action – mainly because such delegations are often incomplete. For example, in The Netherlands, the first agencies created after 1994 were supposed to implement a results-oriented management model. At first, this only led to major frustrations, as the reporting policy department continued its inputs-oriented management. However, in those countries where departments have truly been delegated managerial power over both money and staff, real change does occur – sometimes to the point of the Centre wanting to rein them back in after a few years.

15. Central agencies can play a role in coordinating policy, but they can generate conflict with, and among, line organisations that provide services. The irony is that decentralization is a goal, but the overall effect is to further centralize control in the central agencies. Coordination becomes crucial when so much else in government has been decentralized and because reforms need to be driven from the centre. This points to the reality that reforms do not mean giving up central control. Instead, control regimes are replaced or, as is often the case, simply added on. Moreover, while the reforms are advocated on efficiency grounds, it does not mean that administration becomes cheaper.

16. As with delegation of management, sometimes formal changes are not accompanied by the reality of devolution. However, a real shift of decision-making responsibility has important consequences.
An interesting comparison is that of the boards of arm’s-length public agencies. Where these boards have, in effect, been advisory, these bodies have operated very much as delegates. However, some countries have introduced boards in non-commercial public bodies with decision-making powers analogous to those of the board of directors of private companies. This category of agency has given rise to numerous political and governance problems.

Conclusions – the future

17. Modernisation efforts in OECD countries are a work in progress, indeed we are just at the beginning of the process. Figure 3, for example, outlines some of the planned reforms in the Human resource management field of OECD countries. There are many challenges that can only be solved at the Centre and by central agencies. The main challenge is how to coordinate the disparate parts of government into a coherent whole. This agenda requires action on all four of the “levers of control” described at the beginning of this paper.
CHALLENGES FOR THE FUTURE

- Improvement of budget system
- Reorganisation to improve efficiency
- Give effectiveness to formal innovations
- Managing transition periods
- Managing older workers
- Recruitment and retention of highly-qualified civil servants
- Culture, learning and development
- Make public service more attractive
- PM development and its linkage with pay and other HRM systems
- Career development
- Mobility
- Leadership and managers
- Decentralisation and devolution
- Equality Opportunity issues
- Harmonization between public and private systems
- Improve work conditions and quality of life of civil servants
- Others

(number of countries)