OECD Public Governance Reviews

Achieving Public Sector Agility at Times of Fiscal Consolidation



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Foreword

Governments operate in an ever more complex and demanding environment. They are facing increasingly "wicked", interdependent problems and, like the private sector, are having to adjust to both the challenges and opportunities presented by globalisation and rapid technological change. The effects of the financial and economic crisis of 2008 have put further pressure on governments to cut costs and increase value for money. It is clear that the traditional model of the state, with its rigid, vertical hierarchies or "silos", is no longer adequate. Modern economies and societies require a more strategic, flexible public sector that can adapt quickly to change and draw on a broader range of views, knowledge and expertise in designing and delivering public policies and services.

In working with countries to analyse and improve their public governance systems, the OECD has been exploring the concept of "strategic agility", first developed in the private sector, and how it can help achieve this vision of the modern state. Strategic agility has three main components: strategic sensitivity, leadership unity and resource fluidity. Applying these to the public sector means ensuring that governments can anticipate and plan for future needs and challenges; align policies across the public administration to shared strategic objectives and the public interest; and redeploy resources quickly as needs change. This will require changing internal structures, processes and organisational cultures, as well as the way government interacts with citizens and businesses.

This report provides guidance on how the public administration can use the budget, human resources, and information and communication technologies (ICT) to effect these changes. It is the result of work carried out by the OECD Public Governance Committee and its policy communities on budgeting practices, public employment and management practices, and information and communication technologies. Findings were also discussed at a high-level policy symposium held at the OECD in November 2012.

This study also builds on pioneering work undertaken in the context of OECD public governance reviews, as well as exploratory discussions

conducted with leading academics and experts in collaboration with SITRA (the Finnish Innovation Fund) and INSEAD (the French international business school). Part of the OECD programme on Public Governance, it also contributes to the OECD Trust Agenda to restore public confidence in institutions.

We are grateful to all of the experts who have taken part in this work to help governments become more strategic, agile and responsive.

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Executive summary

A need for more strategic and responsive government

Today's complex economic and societal challenges, accelerating technological change and instant communication are forcing governments to adapt. The traditional structures, methods and even roles of the state are no longer sufficient for tackling complicated problems that cross sectoral and national boundaries. Citizens are also demanding a greater say in public policies and services, and expect them to meet their individual needs quickly and efficiently. At the same time, trust in government – and in institutions in general – has declined in many countries, making it even more difficult for the state to carry out needed reforms. Governments therefore need to become more strategic and agile, to identify looming challenges and adjust quickly.

Strategic agility: a framework for reform

The concept of "strategic agility", borrowed from the private sector, can be a useful framework for reforming public sector organisations to "think" and act differently and to better prepare for the future. Strategic agility has three main dimensions*: strategic sensitivity*, or the ability of institutions to anticipate continuously evolving trends and spot new opportunities as they emerge; *resource fluidity*, or the ability to redeploy and reallocate resources across institutions to where they are most needed; *and leadership unity*, or the ability to make collective commitments, including aligning institutions and their behaviour and engaging with the public.

Of course, the public sector is not the private sector, and has certain features that must be taken into account when applying strategic agility. These include politics; the heterogeneous, networked nature of large public sector organizations; the institutional context, rules and procedures; the need to manage multiple risks, including some from the private sector; and, finally, the fact that governments are ultimately accountable to the public, and require support from both within the public sector and the broader citizenry.

Tools for applying strategic agility to the public sector

Governments have several "tools" they can use to introduce greater flexibility and responsiveness: the budget, human resources, and information and communication technologies (ICT).

The overall trend in recent years has been to decentralize **budgets** and give more freedom to line ministries in managing their resources; this can create "information gaps" that may hinder resource flexibility for the government as a whole. The 2008 financial crisis created a need for urgent action on fiscal consolidation in many countries, leading governments to re-centralise or fast-track, at least temporarily, some budgetary decisions. Most OECD countries have also taken this opportunity to make changes to their institutional frameworks for budgeting in order to improve budget discipline or strengthen central tools management of the budget. While top-down budgeting may improve budget discipline, it can also reinforce budget "silos", and so other mechanisms are needed to allow governments more flexibility to prioritise and reallocate spending. Examples of these include spending reviews, performance budgeting and automatic cuts of productivity dividends.

Resource flexibility is also about ensuring that the right **human resources** can be acquired, developed, and deployed in line with shifting priorities. Recent reforms to downsize the public service workforce, coupled with constant pressures to contain costs and increase value for money, are leading countries to strive for leaner, more strategic public services. At the same time, it is important to ensure that downsizing does not unduly compromise the quality of public services. Some of the tools and strategies that countries have been using to make the public sector more agile include strategic workforce planning, skills and competency management, promoting greater mobility in the public service, targeted recruitment and hiring, using performance management and compensation as incentives, fostering diversity, and changing the public service culture.

Information and communication technologies (ICT) provide powerful tools to help governments achieve strategic agility. By better connecting the different parts of the public sector, they can support both resource flexibility and leadership unity. They can help the government adjust to changing demands and pressures, and even inspire new approaches to government functions or services -- through the use of cloud computing, mobile-based services and social media, for example. Technology can help increase collaboration both within government and with external partners to improve results. Finally, ICTs in used in conjunction with open government data can help government become more open, responsive and connected – which should lead, ultimately, to better overall public sector outcomes. However, certain challenges need to be overcome in order to realise the huge potential offered by new technologies. Organisational culture needs to change to encourage experimentation, innovation and collaboration across administrative boundaries. Rules and regulations may have to be adjusted, for example

to allow public sector agencies the flexibility to interact with outside service providers. Training and recruitment policies should be adapted to meet the need for new skills. Balancing privacy concerns with the potential advantages of data-sharing can be difficult. Finally, governments must ensure that the benefits are shared by all of society by eliminating and preventing "digital divides".

Countries thus have a great deal of scope and a wide range of tools for transforming the public sector. However, to make these reforms successful and sustainable, governments need to strengthen co-ordination, build trust and support, be open and transparent, and engage citizens, businesses and civil society. Performance information and evaluation, including government audit, is also important for ensuring adequate accountability and control.

Conclusion

Governments recognize that they need to become more strategically sensitive to emerging issues, in order to adapt or respond quickly and effectively. To achieve this agility, they also need to better align government policies and activities to overall objectives and the public interest, and to be able to reallocate human and financial resources to emerging policy needs. New approaches to budget and human resources can help bring about such change, and ICTs have the potential to radically transform the way government works and interacts with citizens. But such reform is not easy, and will require political will, effective leadership and clear communication to overcome inevitable resistance and inertia. Sharing ideas among countries on what works, what does not, and what conditions need to be in place to ensure success can help governments choose the most promising path to strategic agility.

Chapter 1

Why agile government?

This chapter makes the case for Agile Government, drawing on the concept of "Strategic Agility", developed in the context of large private corporations. This chapter discusses options for taking up the agility discussion in a public sector context, drawing on the budget, human resources and information and communication technologies policy tools that are available to government.

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It is vital for governments to be agile to not only maintain, but even improve, public services, and the capacity of the public sector to answer tomorrow's challenges in a time of fiscal restraint. Governments are facing multiple uncertainties, including financial market trends, changing demographics, globalisation, climate change, risk of potential large-scale disasters are among the many others. Given these multiple challenges, it's not enough to be "agile" and to foster adaptive capacity. Governments must be quick and responsive in strategic ways. This means being aware of emerging opportunities and threats, being able to make tough collective decisions and stick to them, mobilizing all policy levers from a whole of government perspective to facilitate policy implementation, using budgetary, human and technological resources and policy levers.

Governments need to become more strategic and agile, to identify looming challenges and adapt quickly. The concept of "strategic agility", borrowed from the private sector, can be a useful framework for reforming public sector organisations to "think" and act differently and to prepare for the future. This chapter discusses how to apply strategic agility to the public sector, using the budget, human resources and information and communication technologies. It also highlights the conditions and actions needed to ensure that these reforms are successful and sustainable, such as strengthening co-ordination, building trust and support, being open and transparent, engaging citizens and using performance information and evaluation.

Introduction

Today's complex economic and societal challenges, accelerating technological change and instant communication are forcing governments to change. The traditional structures, methods and even role of the state no longer suffice. Policy making and public governance are affected by the economic context and new social trends, at a time when many countries are facing the need for fiscal restraint. In such context, public sector organisations thus need to maintain and improve public sector responsiveness and effectiveness while facing significant fiscal pressures. This requires that they become more agile – by transforming internal structures and processes, and by reinventing relations with clients – while performing their core functions. Short-term pressures and the need for reform are certainly not new, but they are challenging governments in ways not seen before.

This new context creates challenging conditions for current public sector structures, including those that have developed in many countries over the past decades. Over this period, the size of the state has increased

enormously, measured as expenditure or staffing, from less of a tenth of national income up to slightly less than a half of it in a large number of OECD countries. In many countries, the state was transformed by the consolidation of democracy, the development of a market economy, the structuring of the welfare state and –more recently-- globalization. Yet, these changes are not linear, and many OECD countries today are confronted with a major redefinition of the role of the state as a result of fiscal constraints, competitiveness needs and social change.

Preparing governments for the future

The above-mentioned pressures are also compounded by longer-term challenges, such as demographics, and ageing populations in terms of pensions, healthcare, labour markets, the ageing of the civil service itself; the impact of climate change; natural resource scarcity and energy insecurity; and rapidly growing populations in emerging and developing economies. In addition, a number of countries have experienced major disasters such as earthquakes, hurricanes, or floods, and others are suffering the impact of insecurity to a degree that affects economic development. The combined effect of these challenges is daunting for the public sector and is challenging its adaptive capacity.

In many cases, the public sector is ill equipped to respond to these challenges. Overall, the most notable feature in the transformation of the public sector over the past decades is the extent to which it has become a massive service producer. This has resulted in very large-scale organisations, where citizens and the state now interact on a daily, almost routine basis. These very large administrative structures are finding it difficult to adapt and reinvent themselves, particularly given the speed and scale of technological innovations that offer unprecedented opportunities to redefine the state's relationship with citizens and businesses.

Agility is needed to help the public sector effect a major transformation, to seize opportunities and to achieve its objectives. While agility is not an end in itself, it is a prerequisite for being truly strategic. There is a range of "tools" in the public sector that can foster agility, enabling flexibility and restructuring. They are being expanded and enriched. Alternative models for service delivery have been explored, for example the use of market-type mechanisms, and, more recently, the co-design, and coproduction of services (OECD, 2011f). The challenges of modernising the public sector and reengineering administrative processes is not specific to OECD countries either, as an overview of Asian and South East Asian countries illustrates (OECD, 2008).

To make the needed changes, public sector leaders must use the policy levers available to them, which may differ in some important respects from those available to the public sector. This report will look more specifically at the use of budgeting, human resources and technological tools to increase public sector agility.

From agility to strategic agility

The need to be agile is not new, and not limited to governments. CEOs and top management in the private sector have had to find ways to help their companies thrive - and even try to fight for survival - through continuous waves of change. While the public sector is concerned with continuity of service and long-term mandates, companies often have to adjust quickly to changing economic circumstances, rapid technological change or new competition from other economies, especially in the context of globalization. Doz and Kosonen (2008) note that "how to achieve strategic agility has been an age-old dilemma since the beginning of strategic management".

Strategic agility is required when organizations are exposed to rapid and complex change. For many years, the public sector could have believed itself shielded from such pressures. Moderate long-term economic growth generated sufficient productivity gains to continuously expand the role of the state, including as a provider of public services with a redistributive function. However, in the post-crisis environment, where the need for structural adjustment has become a feature of public governance, this is no longer the case.

The concept of "Strategic Agility", as developed by Doz and Kosonen (2008) can be presented as follows: "strategic [longer-term, vision-driven] agility refers to the capacity of an organization to proactively identify and respond to emerging policy challenges so as to avoid unnecessary crises and carry out strategic and structural changes in an orderly and timely manner". It is about the ability to think and act differently, to keep an organization on the leading edge of its activity, whether in government or in private markets.

Strategic agility has three dimensions:

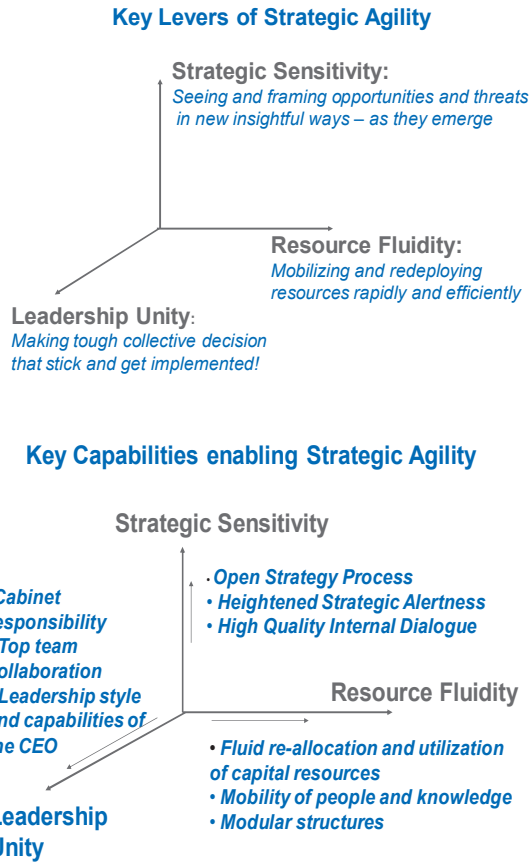
- strategic sensitivity
- collective commitment
- resource flexibility

Each of these requires policy levers and capabilities that are presented in the charts below. In the past public sector management has been primarily concerned with achieving resource fluidity using a mix of budgetary tools

and incentives. However, since the crisis, the need for collective commitment and engaging with citizens, private business and the public sector workforce has emerged as a condition for achieving agility and effectively implementing reforms in the public sector.

The levers and key capabilities shown in Figure 1.1 correspond to the characteristics and needs of major private sector organizations. While they offer a useful matrix for understanding the challenges of the public sector, an analysis of that sector's potential and capacity to adapt will have to consider the specific conditions of public policy makers.

Figure 1.1.**The Strategic Agility Concept**



Source: Adapted from a presentation made by Professor Yves Doz at the 2011 OECD workshop on Strategic Agility.

The three dimensions of strategic agility can be applied to the public sector as follows:

- **Strategic sensitivity** is the ability to understand and balance government values, societal preferences, current and future costs and benefits, and expert knowledge and analysis, and to use this understanding to plan, set objectives, make decisions, and prioritise. It is linked to the capacity for strategic foresight: anticipating market, social, environmental and economic trends and adjusting accordingly. In an increasingly complex and interdependent global economy subject to global shocks, strategic foresight is the capacity to cope with known long-term challenges as well as potential hazards and threats to safety and security. To identify future challenges, governments have traditionally relied on long-term modelling or budget projections. While these are still necessary, they need to be complemented by a range of other policy tools to help achieve strategic sensitivity. For example, a national mapping of all hazards through a "National Risk Assessment" approach has recently become a key feature of strategic risk management in many countries.
- **Collective commitment** is the adherence and commitment to a common vision and set of overall objectives, and using them to guide public actors' individual work, as well as to co-ordinate and collaborate with other actors (both inside and outside of government) as needed to achieve goals collectively.
- **Resource flexibility** is the ability to move resources (personnel and financial) in response to changing priorities, to identify and promote innovative ways to maximise the results of resources used, and to increase efficiency and productivity for both fiscal consolidation and re-investment in more effective public policies and services.

These concepts have been used in several OECD Public Governance Reviews, starting with Finland in 2010 and, to a slightly lesser degree, for Estonia (OECD, 2011a), Slovenia (OECD, 2012b) and France (OECD 2012a).

When applying the strategic agility concept to the public sector, certain features of public policy actions and decisions must be taken into account:

- **Public policy and government actions are inherently political decisions**, and political priorities are a key factor in government priority setting.

- **Governments are not single monolithic structures**, but rather **networks of large organizations**. Co-ordinating the goals and activities of these various organizations to serve a broader common policy agenda with a common purpose is a permanent challenge for the public sector.
- **Implementing policies in the public sector requires a mix of policy tools,** including budgets, human resources and technology, all of which are influenced by the institutional context and subject to rules and procedures. **Governments have to manage multiple risks;** in addition to risks that are internal to the public sector, and the overall risks that threaten economic life, they also must internalize and often absorb risk from the private sector (e.g. the management of banks through the crisis, or the management of the consequences of over-exposure of private sector activities to natural disasters).
- **Governments are ultimately accountable to the public,** and require support from both within the public sector and the broader public to successfully effect reform and promote cultural change. This dimension differentiates public policy from the decision-making in large companies, where the room for discretion is far greater.

Thus, while the experience of the private sector is valuable, it needs to be adapted to the "levers" available for reforming the public sector.

Strategies and Tools for public sector agility

Policy makers in the public sector have to use a mix of policy tools to achieve objectives and agility in practice. Some of these tools are rooted in public sector culture and management practices, such as budgeting and human resource management. Countries have invested significantly in these tools in recent years, resulting in a wealth of policy experiences with new ways to respond to current challenges. These include the use of new technologies, state-of-the-art spending reviews, performance budgeting, and strategic human resource management. Technology, in particular, with its fast pace of innovation, is transforming the public sector. For example, public services can now offer an interface on citizens' mobile phones.

The following chapters discuss state-of-the-art approaches in the use of fiscal and budgeting tools, human resources, and information and communications technologies across OECD countries, based on recent empirical evidence. The challenge is to maximize the impact of these tools, which represent the core of public management and governance policy frameworks.

However, the tools themselves are not sufficient to bring about strategic agility. Governments need to make sure that all parts of the public sector are working together to achieve common objectives. This requires effective co-ordination from the centre of government, and also across ministries and agencies, as well as the different levels of government. It also requires a capacity for transparency and for engaging with citizens, reaching out to civil society and catalysing consensus for change.

Co-ordination at the centre of government

The term "centre of government" refers to the administrative structure that serves the Executive (President or Prime Minister, and the Cabinet collectively). It has a great variety of names across countries, such as General Secretariat, Cabinet Office, Chancellery, Office or Ministry of the Presidency, Council of Ministers Office, etc. In many countries the Centre of Government is made up of more than one unit, fulfilling different functions. One of its main functions is making sure that government priorities are implemented. Effective co-ordination and management at the centre of government, and particularly between the centre and the ministry of finance, is crucial for achieving strategic agility.

A cross-country comparison of co-ordination mechanisms at the centre of government was carried out in 2004 (OECD, 2004). It described the tools available for improving policy coherence at the centre of government, as well as the various dimension of co-ordination:

- preparation of government (Cabinet) sessions
- ensuring legal conformity
- preparation of the government programme and priorities, and their link to the budget
- co-ordination of the policy content of proposals for the Cabinet
- co-ordination of outside communications, press releases
- co-ordination of the monitoring of government performance
- relations with other parts of the state (President, Parliament)
- co-ordination of specific horizontal strategic priorities.

In recent years, the mechanisms for co-ordinating the monitoring of government performance have been enriched by the introduction of performance budgeting, which provides information that can be used to assess the implementation of policy initiatives.

The recent evidence on how governments co-ordinate at the centre of government remains somewhat patchy. This issue was addressed directly in the recent public governance reviews of Finland, Ireland, Estonia, France and Slovenia, but a fuller picture of OECD countries is not available at this stage. A survey carried out in 2013 (OECD, 2013c) indicates that centres of government are facing increasingly complex challenges while traditional hierarchical models of decision making are becoming more difficult to sustain. There is thus a need to move beyond the purely "secretariat function" of the centre and develop a capacity for independent political and economic intelligence enabling the government to respond rapidly to economic and other shifts. Policy co-ordination units need to move from merely supporting the inner workings of the executive branch to engaging with the public and partnering with non-government bodies. The survey responses highlight the need for a better co-ordinated, more responsive and strategic centre (See Figure 1.2).

Figure 1.2. **Creating Strategic Capacity at the Centre: the Views of centres of government**



Source: Responses to Centres of government questionnaire, October 2013. *Except Chile – three new units created: (1) Modernisation and e-gov, (2) Presidential Delivery Unit (UPGC), and (3) regional delivery unit. Portugal: culture policy integrated into Centre and national Cyber Security Centre established, and Israel – substantially remodelled and strengthened CoG structure.

These mechanisms for co-ordination are essential to obtain joined up approaches, and to ensure the leadership unit, resource fluidity as well as fostering strategic sensitivity. They were not developed as a full chapter, given the lack of comparative evidence, but this area of analysis would certainly deserve further investment in the future.

Combining and ensuring synergies across government

The tools mentioned above – fiscal and budgeting tools, human resources, and information and communications technologies – are quite sophisticated, and each is managed through different processes and institutions. As a result, they are not always well co-ordinated. Ideally, strategic human resource management would be aligned with spending reviews and budget forecasts in order to ensure coherence between future human resources and actual financial resources, and all of these would be consistent with overall government wide strategies. Alternatively, a strategic approach might consider how best to use and combine information technology and human resources, and would adjust the corresponding budget envelopes to ensure that the public sector is using the mix in the most efficient way. However, these different aspects are often decided through separate processes, under separate budget envelopes and constraints.

While experts in human resources have highlighted the need for closer collaboration and co-ordination with budgeting offices, this does not always happen. It may require intervention at senior level from centres of government to ensure that the various levers of public policy are used in a synergetic way.

In addition, these tools are often used not only by ministries, but also by a range of very heterogeneous public agencies and institutions. To ensure both consistency with the government's overall strategy and responsiveness to client needs, it may be necessary to better co-ordinate their use across the whole of government.

Often, the organization of the work in government involves networks of senior officials for budgeting, HR or technology issues, and specific task forces. These networks need to be brought together and aligned with overall government goals.

A multi-level governance perspective

Another key feature of public sector agility is the need to integrate a multi-level perspective. In many countries, the changes needed to become more agile may be more of a challenge for local governments, which are often less well equipped than central government in core human resources,

ICT or budgeting tools. Similarly, public organisations need some form of internal policy dialogue to agree on overall goals, to engage with local governments, and to ensure that the objectives and content of the reform agenda are shared across levels of government. There may also be a need to provide support at local level.

Governments need to consider how to maximize the synergies and the potential impact of these tools, and how to ensure that they contribute effectively to achieving agility, and, eventually, strategic agility.

Ensuring a successful pathway for policy implementation

Achieving strategic agility in the public sector also requires taking into account the political environment, and creating favourable conditions for the understanding and acceptance of reforms. First, priorities and clear objectives must be set, so that they can be understood and communicated easily. Next, Then, it requires pathway for policy implementation that fosters condition for trust and facilitates policy implementation. This is part of broader strategies for "Making Reform Happen", when modernizing government.

To fully consider the pathway for policy implementation, there is a need to address **the three phases of the policy cycle:**

- ***planning and design*** (designing the reform process, defining its scope and objectives),
- ***implementation*** (steering the operational implementation of the reform)
- ***sustainability*** (measuring progress made and consolidating results)

Effective policy implementation depends on several conditions, including a certain level of trust and support from both inside government and the public. Openness and transparency, and engaging with citizens and businesses during the different phases can bolster trust and support, and also provide new ideas and information that may improve the policy.

Creating trust to facilitate policy design and implementation

In the aftermath of the crisis, trust in government cannot be taken for granted. The implementation of the policy responses needed to foster agility may be hampered by a **trust deficit** (OECD, 2013b). In many cases, public policy prescriptions for coming out of the crisis have been fragmented, sometimes incoherent. Governments may have given an impression of an increasing lack of effective leverage over events.

While governments were often able to put together effective short-term responses, these sometimes came at a cost, such as a significant increase in public debt or weakened public finances. When what was thought to be a short-term response becomes part of a medium-term structural adjustment, the public may worry that long-term issues remain unresolved, and that the pain of the adjustment still lies ahead, thus further eroding trust.

This trust deficit may, in fact, reflect a governance deficit. It may be that public governance has not kept pace with underlying trends that have weakened the control of policymakers and their ability to respond adequately to new demands. This includes the delegation of government activities to third parties; the increasingly complex global, public-private and citizen interactions; the exponential increase in public access to information and the rise of social networks and social media; the growing influence on public policy of unrepresentative interests; and the globalisation of risk.

This context poses a challenge for governments seeking to implement reforms for strategic agility in the public sector. To overcome it, policy makers need to develop a vision for long-term adjustment, lay the groundwork for strategic insight and build collective commitment to their policy goals and accompanying measures. For example, if public debt needs to be reduced, this will only come through a long-term engagement to work on the problem, from every angle. Such a project will take decades, not years, to complete, and will necessarily involve all parts of society.

If it is to build trust, government must not be perceived as being captured by vested interests. It must demonstrate more transparency and openness, as well as integrity, than ever before.

Transparency and openness

Transparency and openness are conditions for successful government reforms and public sector strategic agility. They can help to build the support needed for decisive political action, particularly at the start of the policy cycle. When designing new reforms, decision makers will need to rely on the buy-in and engagement of society at large to ensure their success.

Governments face a variety of interacting and interdependent economic and social sub-systems (Hämäläinen, Kosonen, Doz, 2012). The heterogeneity of stakeholders in modern societies and the impact reforms will have on them (OECD, 2010) remains a major obstacle for successful policy implementation. How can governments be agile when it has to deal with so many different stakeholder interests? They need to respond to very different and sometimes conflicting demands such cutting public expenditure while maintaining social equity goals.

Transparency and openness policies support decision makers in engaging citizens and businesses in policy making and in achieving further strategic insight.

Box. 1.1. **Open government: promoting cultural change**

OECD countries are increasingly placing their transparency and openness policies in a broader open government framework. The objective of such frameworks is to adopt a systematic approach to promoting openness within the public sector rather than *ad hoc* initiatives by specific public entities. An open government is one that a) provides access to easily understandable information about its structure and functioning, b) promotes the use of this information by stakeholders, and c) fosters the interaction between users of information government entities. This innovative approach aims at promoting trust in government and creating new business opportunities for the private sector. At the international level, countries have subscribed to the "Open Government Partnership", which creates an official platform for commitment and exchange.

Open government can also support strategic agility by providing real-time, reliable data and information on government performance and on citizens' and businesses' expectations. This allows decision makers to achieve further strategic insight and build collective commitment when designing and implementing policies. It can also foster better service delivery based on an interactive feedback from users. Many examples of positive outcomes of such interactions have been observed in OECD countries. Co-production in service delivery, for instance, has allowed government to improve service quality and reduce costs. Governments engage when planning, designing and evaluating reforms of public services, drawing on and benefitting from the direct contributions of citizens, service users and civil society organizations (OECD, 2011c).

Communicating and engaging with the public help maintain momentum and support for reform. The involvement and engagement of stakeholders has been recognised by many OECD countries as key conditions for successful policy implementation (OECD, 2009b). It is also as a means to consolidate progress made and promote accountability. Accountability requires governments to provide complete, objective, reliable, relevant, understandable and easily accessible information to the public. In the last decade, OECD countries have been adopting **access to information laws** to promote transparency and accountability. Almost 90% of them have adopted such laws[1] in order to entrench the rights of citizens' access to information in the legislative framework. Beyond these laws, open government and open data initiatives are now further increasing access to information. Countries are promoting the proactive disclosure of information in order to create a culture of openness and foster a regular interactive relationship with citizens. ICTs can also be instrumental in promoting further transparency and openness, for example through transparency portals.[2]

Fostering support and new ideas when designing policies

To design robust policies, governments need to integrate **c**onsultation and support-building into the policy process s. This will help reduce resistance to policy implementation. Citizens can be invited to share their feedback on how the policy might affect them. This will help create a sense of ownership within society around the policy and its implementation. Consultation mechanisms are widely used in OECD countries and are often institutionalised to promote the systematic involvement of citizens in policy making. These mechanisms help build consensus on how the policy should be taken forward. One example is the 2007 local government reform in Denmark, which sought to reorganise the structure of local communities. The government held public hearings in 2004 that provided important feedback and helped create public support for the reform.

Information and communications technologies (ICTs) now offer new opportunities to obtain regular feedback from the public. For example, the Finnish Ministry of Finance developed a discussion forum (www.otakantaa.fi) for all ministries to collect citizens' ideas on how to make savings in the budget. Other initiatives such as citizens' fora, citizens' juries and, consensus conferences have also been used by OECD countries to build support to reforms.

Engaging citizens in policy implementation

Citizen engagement can also improve policy implementation. Governments may use tools such as roadmaps or action plans to communicate the various stages of the process and their outcomes. This will help stakeholders assess the costs and benefits of the policies. In Finland, for example, a *Citizen Participation Policy Programme* was included in the 2003-2007 Government Programme. Its aim was to promote active citizenship in areas such as schools, civil society, equality of influence and public administration reforms. This programme involved stakeholders in defining the objectives and the implementation process of policies, and improved the interaction between government and civil society, municipal democracy, and the functioning of municipal councils. This type of initiative can help mitigate the impact of reforms on those who fear that they will be negatively affected by the policy. It can lead to the creation of independent organisations that steer the implementation of reforms while maintaining political momentum. The objective is to provide clarity on the goals of reforms and ensure adequate leadership in the implementation phase. Defining action plans or roadmaps, however, requires reliable and timely data to properly asses the need for reform, its costs, benefits, and likely impact.

Sustaining results over time

While it is important for government to engage broadly and foster transparency and openness when designing and implementing policies, it is equally important to sustain results overtime, and ensure that agility becomes part of the "DNA" of public administrations. This requires several steps to prepare the public administrations to adapt to new challenges using information on performance, including that generated by *ex post* evaluation.

The key role of performance information

Performance-oriented budgeting, which involves providing consistent and comprehensive information on government performance, is also important for ensuring accountability for the efficient management of public funds. Communicating on government performance and results helps strengthen collective commitment as well. It can also help create incentives for decentralized agencies and bodies at lower levels of government to improve their efficiency and agility. Chapter 2 on budgeting provides references on the use of performance information.

Ex post evaluation can also help government adapt to change

Providing timely, reliable and accessible information on government operations and performance through *ex post* evaluation is also useful in public sector management, enabling continuous adaptation to fast-paced change. Government audit institutions, both internal and external, have the potential to enhance strategic agility and public administrative reform. Internal audit is intended to provide independent, objective assurance and advisory services to management to add strategic value and improve an organisation's operations. Independence is established by the organisational and reporting structure. Internal audit is located within the executive branch and typically reports to the head of an individual public sector entity (i.e. minister or head of department) or the highest civil servant (OECD, 2011a). Internal audit provides assurance that the internal controls in place are adequate to mitigate risks, that governance processes are effective and efficient, and that organisational goals and objectives are met. These activities helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes (IIARF, 2004).

External audit is provided by supreme audit institutions (SAI), which have a central role in supporting effective and accountable public governance. SAIs promote efficiency, accountability, effectiveness and

transparency in the public administration (INTOSAI, 2012, see also United Nations General Assembly Resolution A/66/209). They directly hold the government to be accountable, support the legislature to hold the executive to account and inform citizens on government performance. More recently, there has been a growing awareness among SAIs of their role in providing value to citizens and in supporting public governance (INTOSAI, 2012).

Government audit institutions can support strategic agility by:

- broadening and deepening of understanding of key challenges facing the public administration;
- supporting how knowledge is understood by decision makers;
- completing the policy cycle, from planning, implementation, assessment and learning.

Collectively, these functions can support reforms, strengthening implementation and supporting necessary adjustments. The credibility of audit institutions in making powerful claims, based on evidence, prompts public officials to address the challenges identified. With its increasing focus on evaluating performance as well as government information and reporting, the potential of government audit to support agility and sustain results has grown. In this context, performance covers not only the effectiveness, economy and efficiency of the public administration, but also the maturity and effectiveness of risk management, internal control and governance processes.

The role of government audit becomes all the more important in a more strategically agile public sector. Resource flexibility, together with innovations in service delivery such as co-production, raise a host of accountability and control issues (Ruffner and J. Sevilla, 2005; Sevilla, 2006). There is a need to identify and manage risks in a way that does not stifle innovation (OECD, 2011b).

Government audit must also be fully effective, especially if it is to support agility and public sector performance. The information produced by auditing has to be effectively absorbed by the public administration. This requires an openness to receive information and knowledge, and to assimilate and apply it.

Conclusion

This publication is designed to support reforms towards greater strategic agility in the public sector. It presents a "toolkit" for such reforms, together with a broader framework for action, taking into account enabling factors and potential risks. While the current fiscal context does not create an easy environment for reform, the need to make savings can also be a powerful driver for innovation and change. It becomes a reason for "not doing the same thing", and for being open to new ideas and ways of working. This toolkit will need to be complemented by other policy tools, such as the OECD Observatory for Public Sector Innovation, which will offer a direct access to live information and examples, helping countries to learn directly from each other.

This report is also an attempt to show that the public sector has the capacity to reinvent itself in difficult times, and that large public sector organisations are able to take on the challenge. They can learn from their private sector counterparts, as well as each other, while adapting the conditions for change and reform to the institutional context, political priorities and institutional frameworks of their respective public sectors. This also opens up the possibility to continue a fruitful policy dialogue between governance and management practitioners across the public and private sectors into the future.

Notes

1. On a basis of 30 OECD member countries (OECD, 2009).
2. See, for example, in the United States, a portal was developed for the public to track the use of stimulus packages following the financial crisis (Recovery.org) and other examples in Brazil, the UK, Mexico, France, etc.

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Chapter 2

Budgeting as a tool for strategic agility

One of the pillars of strategic agility is resource flexibility; that is, the ability to quickly and flexibly reallocate resources from one area to another when priorities or needs change. The overall trend in recent years has been to decentralize budgets and give more freedom to line ministries in managing their resources; this can create "information gaps" that may hinder resource flexibility for the whole of government. There are several mechanisms that can be used to introduce more flexibility, including top-down budgeting, spending reviews, performance budgeting and automatic cuts of productivity dividends. The 2008 financial crisis created a need for urgent action on fiscal consolidation in many countries, leading governments to re-centralise or fast-track, at least temporarily, some budgetary decisions. This chapter looks at lessons learned from the crisis in terms of budgeting, as well as the use of the above-mentioned mechanisms and their potential for increasing strategic agility.

Introduction

In order to put strategic agility into practice, governments need to be able to quickly and flexibly reallocate resources from one priority to another. This chapter will address this particular dimension of agility, from managing the reallocation of resources in the public sector through the use of budgetary tools. While this chapter encompasses broad strategies of readjustment, it does not address how to increase the share of spending over which governments have discretionary spending authority (i.e. excluding entitlement expenditures).[1] Many governments have already greatly increased budget flexibility in recent years by decentralising the budget process and giving line ministries more freedom to manage their own resources. This practice provides line ministries with the means to reallocate resources between programmes under their sectoral responsibility. This decentralisation of responsibility has helped to align the incentives for ministries to better manage their budgets and to innovate in order to make the best use of limited resources. Across government, however, it can actually reduce strategic agility as it limits central budget authorities' (CBA) knowledge of the different programmes and therefore their ability to make reallocation decisions between sectors and ministries in line with changes in policy objectives or context.

The CBA, as the chief executive's or Cabinet's financial secretariat, is responsible for ensuring budget or resource agility in support of strategic agility. To this end, it must be able to ensure that budget processes are linked to the mechanisms for setting priorities, clarifying objectives, ensuring accountability for the use of resources, and collecting information on the extent to which programmes support intended objectives. The question therefore is: how can this be done?

The role of budgeting procedures and tools to strengthen public sector agility

Various budgeting procedures and supportive budgeting mechanisms are being used to foster budget agility, which in turn supports overall public sector agility. It is important, especially in a crisis situation, to distinguish between the short- and the medium-term challenges that need to be addressed. In the short term, immediate measures are needed to adapt the level of spending to reduced revenue, shrink budget deficits and curb government debt. On the other hand, there is always a medium- and long-term challenge in budgeting to sustainably create "fiscal space" for new policy initiatives, for strategic changes of policy and for accommodating the increasing demands of society. Table 2.1 presents the

different budgeting measures that a CBA may use to reallocate resources and to keep the budget agile.

Table 2.1. **Summary of budgeting mechanisms for strategic agility**

Budget measure	Perspective of budget agility		
	Short-term challenges	Medium-term challenges	Long-term challenges
1. Top-down spending cuts	A very relevant measure for immediate budget cuts	A relevant measure for sizeable budget cuts in out-years	A less-relevant measure for sustained spending cuts
2. Spending reviews	Strategic spending reviews may provide directions for cuts	Efficiency spending reviews provide useful guidance for cuts and reallocations	Both strategic and efficiency spending reviews are relevant
3. Performance budgeting	Performance data may guide the strategic orientation of spending cuts	Output and outcome data are useful for the governance of agencies, but used less for resource allocation	Outcome data may guide long-term programme developments
4. Automatic cuts in productivity dividends	Not relevant for sizeable, immediate spending cuts	A relevant measure for limited annual reallocation	A very relevant measure for ongoing focus on reallocation

When using **top-down spending cuts**, the Ministry of Finance, acting on a mandate from the chief executive or Cabinet, allocates a reduced (compared to the baseline) budget allocation without the conventional participation of and negotiations with line ministries. This is a budgeting mechanism ideally suited to overcome short- to medium-term fiscal challenges. Experience from the financial crisis shows that, in dire situations with large fiscal deficits and rapidly mounting public debt, decisions may need to be made quickly in order to react to market pressures, changing macroeconomic conditions, public opinion or the general credibility of fiscal policy. Top-down spending cuts are in a sense used for short-term emergencies, while other tools such as spending reviews or performance budgeting can be used in the medium or long term. Most OECD countries that have introduced substantial fiscal consolidation measures have extended their austerity policy into the medium term (OECD, 2012c).

However, imposed top-down spending cuts may not be a viable mechanism for resource allocation in the long run in a decentralised. To ensure that all relevant information is taken into account before allocating resources, a conventional budget procedure and a larger degree of collaboration between the CBA and the line ministries is required.

Spending reviews are assessments of the strategic orientation of programmes and/or the efficiency of spending, and are broadly used to

reduce and/or (re)allocate budgetary expenditures. An efficiency review seeks to identify how an existing government service or programme can be delivered with fewer resources. Strategic reviews assess both the objectives of policies and programmes as well as the efficiency of spending. The ultimate objective of strategic reviews is to prioritise programmes on the basis of policy objectives and/or performance.

Spending reviews may be a viable budgeting mechanism in the short, medium and long term, but the emphasis differs in each case. Most governments that have introduced major fiscal consolidation have used spending reviews and expert groups to guide the directions of the austerity measures. Some countries also conduct spending reviews to develop options for a political change of direction (e.g. after elections). For short- and medium-term policy changes, a strategic review may provide important information for the future direction of fiscal consolidation. The short- and medium-term challenges for the government will be deciding which measures will contribute to budget cuts with minimal effects on economic growth and limited implications for employment and social equity. In such a situation, it may be important to study the strategic orientation of programmes before taking any decisions on cuts.

If budget cuts are to be sustainable in the long run, such information is even more essential. While spending reviews look at the performance of government programmes, they differ from the ordinary operation of performance budgeting systems in that they are more likely to use in-depth evaluation results rather than based only on indicators. This additional information on programmes allows efficiency reviews to identify efficiency gains and areas for institutional development, the adoption of information and communication technologies (ICT), process reengineering, etc., in order to achieve those gains. Such changes may take years to implement but could provide substantial fiscal space for reallocations down the road. Spending reviews are also tailored to a specific political need at a particular time, and usually have a limited time to produce operational recommendations. While spending reviews may be carried out regularly, of a particular area will usually not be reviewed c more than once every few years.

Performance budgeting focuses on how output and outcome information is used in budgeting for resource allocation. Performance budgeting is widely implemented in OECD countries, but there is currently no consensus how best to use it. The OECD has identified three broad categories of performance budgeting:

- presentational performance budgeting,
- performance-informed budgeting, and
- direct performance budgeting (formula-based budgeting).

Performance targets on output and outcome levels provide important information about the strategic direction of programmes. The results against such targets indicate whether or not and to what degree programmes are effective and efficient. Regular (annual) performance reports from programmes and government institutions as well as programme evaluations may provide important information to line ministries and the CBA that may be useful for centre-of-government discussions on long-term policy changes with implications for programmes. . Performance information on the strategic direction of programmes may also be one of the various inputs of spending reviews. However, country experiences so far indicate that, although performance information adds value to the management and service delivery tasks of line ministries and executive agencies, it has proven difficult to use for fund allocation by Ministries of Finance. For programme managers, spending unit heads and line ministries, performance information is important in both the short and the long run. It is also a vital part of an open government approach and may provide the legislature, supreme audit institution and civil society with essential background for assessing the accountability of the government.

Automatic productivity cuts or efficiency dividends are initiatives in which assumed productivity gains in the production of goods and services in kind are centrally deducted from line ministries' budget allocations. Normally, automatic productivity cuts/efficiency dividends apply to the operational expenditures of central government. The size of these automatic cuts is usually around 1-2% per year. This provides a rather limited amount for annual reallocation, around 0.5% of the total central government budget of a typical OECD country. However, in the longer term, the cumulative total of such cuts amount to substantial sums. In addition to providing medium- and long-term continuous funds for reallocation, the main advantage of automatic productivity cuts is that they make the spending units focus on efficiency and strive to continuously and systematically improve. The greatest potential for budget agility in governments over the medium- and long-term lies in well-designed spending reviews that draw on

performance information and are supplemented by automatic productivity cuts. This, in turn, requires other standard budgetary institutions to be in place, such as top-down budgeting, medium-term expenditure frameworks (MTEF), a strong central budget authority, etc.

The following sections will address the lessons learnt from the use of the first three key tools from Table 2.1).

Top-down spending cuts and revenue enhancements: Lessons learnt from the financial crisis

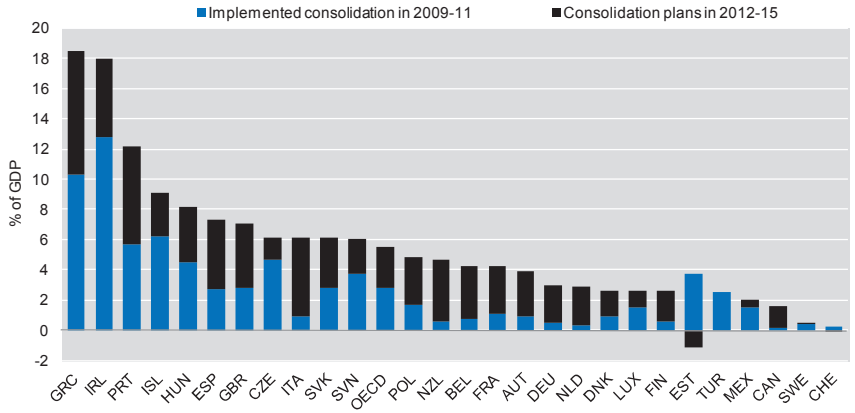
In the aftermath of the global financial crisis and the fiscal stimulus efforts that followed, most OECD countries have adopted fiscal consolidation programmes that reduce and reallocate expenditures both at the national and sub-national levels.

Central planning of fiscal consolidation

Between 2009 and 2011, OECD countries carried out fiscal consolidation of 2.8% of GDP and are planning an equally large effort of fiscal consolidation between 2012 and 2015 (Figure 2.1). Two-thirds of the fiscal consolidation is expenditure reductions; countries rely mostly on programme expenditure measures over operational ones in their efforts to reduce budget deficits and curb government debt. Welfare, healthcare, pensions and infrastructure are the four most frequently targeted programme areas for consolidation (OECD, 2012a).

The consolidation efforts that most OECD countries have planned and implemented since the financial crisis in 2008 five years ago have been decided under extraordinary circumstances. Such large expenditure reductions and reallocations often require the Ministry of Finance, Council of Ministers and parliament to take tough top-down decisions. For example, the Estonian government decided that the timeframe for taking decisions and making changes was very short. The Ministry of Finance prepared the consolidation plan and the main discussions were held in the Cabinet. Special working groups of academics were temporarily created to provide advice to the Cabinet. The Cabinet discussed the 2009 supplementary budget focusing on fiscal consolidation in a total of 37 meetings, and also discussed the 2010 budget and the 4-year medium-term budget strategy at the same time. The Parliament approved the consolidation measures during the process of approving annual/supplementary budgets. In addition, 29 laws were modified as part of the negative supplementary budget in 2009 (OECD, 2012b).

Figure 2.1. **Implemented (2009-11) and planned (2012-15) fiscal consolidation**



Notes: The data are the sum of annual incremental consolidation from 2009/10 until 2015 as reported by the national authorities.

Source: OECD (2012a), *Restoring Public Finances, 2012 Update*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264179455-en.

One-third of OECD countries reported in the 2012 OECD Fiscal Consolidation Survey that they used expert committees in the process of planning fiscal consolidation measures. Expert committees may be academics (e.g. Estonia and Slovenia), experts from international organisations (e.g. Greece, Iceland and Portugal), civil servants (e.g. Hungary), an appointed commission (e.g. Italy) or an existing group that normally contributes to the budget formulation process (e.g. Belgium and Canada). Expert committees may be more *ad hoc* and differ from spending reviews (see next section) both in purpose, composition of members and timeframe, although some countries used their ordinary spending reviews to develop their fiscal consolidation packages (e.g. Ireland and the United Kingdom).

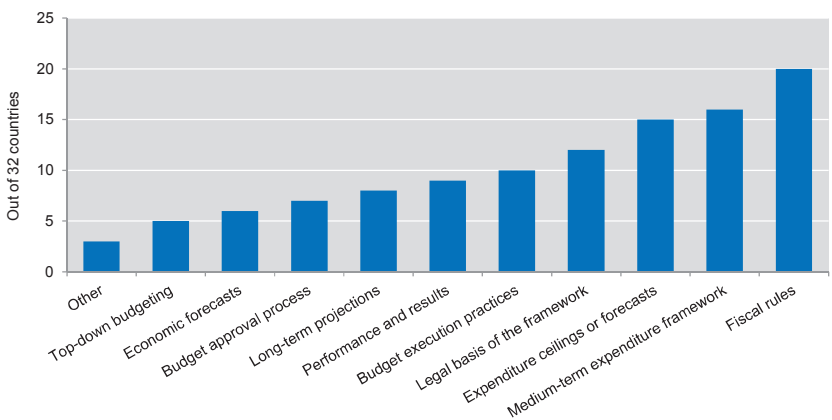
Three countries reported that the consolidation plan was based on a political agreement while one-fifth of countries indicated that they had followed a normal budget procedure while developing the fiscal consolidation plan. Nonetheless, the process of adopting and implementing fiscal consolidation plans resulted in a change of government in about one-third of the OECD countries (OECD, 2012b).

Taking the opportunity to change the institutional budgetary framework

Most OECD countries have taken the opportunity of the financial crisis to introduce changes in their institutional framework for budgeting. Twenty-seven countries reported such changes in one or more areas during 2008-12, and ten changed their framework in five or more areas. While many of these changes are designed to improve fiscal sustainability through greater budget discipline (e.g. fiscal rules, expenditure ceilings), others strengthen the central tools, information and processes that improve the CBAs' ability to support the strategic agility of government.

Twenty countries reported having changed their fiscal rules since 2008, 14 of which are members of the EU and are influenced by the ongoing process of renewed fiscal governance in the EU (Figure 2.2). Sixteen countries have made changes in their MTEF, and 15 have established expenditure ceilings. In addition, several countries are amending national laws, as well as constitutional laws, in order to regulate the new fiscal rules in the national legislation. This is a specific feature of the changes to the EU's fiscal governance (the so-called Fiscal Compact), and there may be more changes to budgetary frameworks in the next few years, partly because of ongoing efforts to strengthen the Stability and Growth Pact and establish the Fiscal Compact in the EU, and partly because of the exchange of experience during and after the financial crisis.

Figure 2.2. **Changed areas of budgetary institutional frameworks in OECD countries (2008-11)**



Source: OECD (2012b), "OECD 2012 Fiscal Consolidation Survey", OECD, Paris.

Schick comments that, during the financial crisis, the most affected countries bypassed conventional budget procedures and relied on *ad hoc* procedures to draft and adopt fiscal consolidation packages. Budget information and decisions have been tightly controlled by policy makers at the centre of government or the Finance Ministry. The crisis has concentrated budgeting in fewer hands, and, in some countries, given the Finance Ministry a disproportionate role in the process. He concludes that the concentration of information and power has reversed decades of progressive opening of the budget process through formal or informal consultations between government and stakeholders, and that sub-national governments and civil society have had little or no opportunity to influence the outcomes of the budget process during the worst of the crisis (Schick, 2013).

However, Schick does not expect the financial crisis's profound fiscal stress, intense conflict, concentrated power and political instability to be the template for budgeting's future. Although the crisis appears to have reversed the trend of incremental budgeting, the next generation of fiscal rules will likely push more governments to adopt top-down budgeting processes that set fiscal aggregates and sub-aggregates before bids are prepared by spending units and line ministries. This shift has already occurred in many countries that have made changes to the top-down budgeting practice during the years of the crisis. Top-down constraints are part of the process of transforming central budget offices from control agencies that oversee the details of expenditure to managers of fiscal policy that guard the country's fiscal position and analyse the budgetary impact of policy options.

Schick summarises the lessons learned from countries that have been able to preserve their fiscal balance that each country must summon the will to make and live by fiscal rules, to be fiscally prudent, to strive for results and to pay attention to programme effectiveness in spending public money. Outsiders can guide, but the most important success factor is for government leaders, programme managers and citizens to yearn to do the right thing.

While top-down budgeting is likely to improve budget discipline, it can also reinforce budget "silos", and so other budget mechanisms are needed to balance incentives for efficient budget management with the ability to prioritise and reallocate spending across government. The remainder of this chapter will discuss the general mechanisms that governments are using to create fiscal space for reallocations and consolidation under normal economic cycles and downturns. These mechanisms include spending reviews, performance budgeting and automatic cuts of productivity dividends.

Spending reviews may indicate areas to be cut and provide space for reallocation

Spending reviews are another major tool for fiscal reform. Typically, spending reviews are used to create fiscal space by reducing and/or (re)allocating budgetary expenditures due to a change in political priorities, a change in the demand for a service or the need to enhance efficiency. Spending reviews became a part of mainstream budget reforms in the 1990s, but have existed for much longer. Examples include the UK Public Expenditure Survey in the 1960s and the Australian Portfolio Management and Budgeting reform initiatives in the 1980s. According to the 2011 OECD Survey on Performance Budgeting, 16 countries out of the 32 that responded to the question used spending reviews in various forms.[2]

There are many different kinds of spending review, and the roles the institutional actors play also vary across countries and over time. A characteristic of a well-functioning spending review process is perhaps that it is continuously adapted to respond to current challenges. In the United Kingdom, spending reviews support the biennial revision of the expenditure framework and ministerial expenditure ceilings. The UK Treasury decides on the terms of reference, methodology and scope. Multi-institutional working groups draft the reviews, supported by line ministries. The reviews are approved by the Prime Minister and the Chancellor of the Exchequer. International organisations also use spending reviews in various forms. Both the OECD and the IMF (Robinson and Duncan, 2009) refer to spending reviews as a component of performance-based budgeting, which continuously reviews the appropriateness and effectiveness of existing programmes and uses performance information to identify programmes that can be cut, thus creating fiscal space. The World Bank[3] conducts "public expenditure reviews" of its borrower countries. These are meant to establish effective and transparent mechanisms for countries to allocate and use available public resources in a way that promotes economic growth and helps reduce poverty.

The OECD has emphasised three characteristics that differentiate spending reviews from other types of evaluation (OECD, 2011a):

- spending reviews not only look at programme effectiveness and efficiency under current funding levels, but also examine the consequences for outputs and outcomes of alternative funding levels
- the review procedure is under the responsibility of either the Ministry of Finance or the Prime Minister's or President's Office
- the follow-up to spending reviews is primarily decided as part of the budget process.

Spending reviews can be further sub-divided by their assessment criteria (Table 2.2). An efficiency review looks at inputs and processes to identify how an existing government service or programme can be delivered with fewer resources. Efficiency reviews can be applied to individual or multiple programmes or to an organisation or set of organisations to make operations more efficient and/or eliminate duplication. This type of review is meant to improve efficiency without calling into question the justification for the programme or organization itself. For example, Finland introduced the Productivity Programme in 2004 to maintain pressure to achieve public sector efficiencies. It included measures for improving government administrative structures, exploiting ICT and enhancing central government processes, as well as permanently reducing the number of government staff.

Table 2.2. **Typology of spending reviews and performance evaluation**

Primary objective		
Analysis: analyse management, structures and/or policy to improve efficiency and effectiveness	Create fiscal space: reallocate and/or reduce government expenditure for programmes or organisations	
Performance evaluation (programme, policy or organisational evaluation)	Spending reviews	
	Efficiency reviews	Strategic reviews
	Primary criteria: efficiency – identify how the existing policies can be conducted with less resources	Primary criteria: efficiency and prioritisation – identify what the government should or should not do
	Examples: – Finland: "Productivity Programme"(2005-15) – Korea: "Self-Assessment of the Budgetary Programme" (2005-)	Examples: – Australia: "comprehensive expenditure reviews"; "strategic reviews" (2007) – Canada: "programme reviews"(1994); "strategic reviews" (2009) – Denmark: "spending reviews" (ongoing) – Netherlands: "interdepartmental – policy review" (1982; 2009-present) – United Kingdom: "spending reviews"(1998-present)

As mentioned above, strategic reviews also assess the resource use. The objective of such an exercise is to prioritise programmes on the basis of policy objectives and performance. This will entail involving the political

level of government – either throughout the review process or when key decisions must be taken. An example of a strategic review is the Canadian program review, from 1994 to 1999, in which each department of the Canadian government was required to review its programmes and activities and identify the role of the government, the effectiveness and affordability of the programmes. These proposals were then reviewed by a steering committee of deputy ministers, a special Cabinet committee of ministers, and finally by the full Cabinet for decision making (Bourgon, 2009; Blöndal, 2001).

While both efficiency and strategic reviews look at programme efficiency, only strategic reviews compare the programmes' objectives (and the effectiveness in meeting them) against the changing priorities of the government, including a changing fiscal environment. When the savings to be achieved through efficiencies alone are insufficient, strategic reviews may propose solutions such as changes in service levels, programme terminations or restructuring to achieve fiscal goals and increase budgetary agility.

Preconditions for an effective spending review[4]

Political will is necessary to set the mandate and take the decision

Creating an effective spending review process requires a clear political mandate at the level of chief executive. Spending reviews must be seen as a solution to a political problem, rather than a technical bureaucratic exercise. The mandate should be to identify options for reducing baseline spending, reallocating spending and, if relevant, enhancing revenue in order to create fiscal space for new priority spending. With regards to revenue measures, it should be noted that, in general, spending reviews should not veer into tax policy. There may be cases, however, where non-tax revenue plays an important role in financing the effort or creating incentives for particular behaviour from citizens or institutions. In these cases, revenue measures can be relevant to include in the spending review.

The options proposed should be generated on the basis of sound research, but ultimately decided upon by the chief executive/Cabinet or another politically delegated entity (e.g. a ministerial committee) during the budget process.

Efficiency reviews should include reviews of issues that cut across policy areas, such as the organisation of support services, the use of ICT or procurement practices. Efficiency reviews should actively benchmark agencies and public institutions against each other and relevant private sector entities and similar institutions in other countries. A note of caution

should be voiced with regards to relying too greatly on generating fiscal space through efficiency measures. In order to secure results on the ground, the government should avoid the illusion that efficiency improvements alone will be sufficient to create substantial fiscal space in the short term. If significant fiscal space is to be created, it is essential to be willing to reduce or reallocate programme expenditure.

There is always the political danger that spending review will be attacked as a "small government" exercise. It is, of course, an essential tool for any government that wishes to reduce the size of the public sector. However, assuming that this is not the government's goal, it should be stressed publicly that the objective is to reallocate rather than to reduce aggregate government expenditure.

The review team must have the necessary political and technical capacity to produce the necessary recommendations

Spending reviews involve the creation of a spending review team which is explicitly responsible for putting forward options for cuts to baseline expenditure for consideration by the political leadership during the preparation of the annual budget. Experience from countries such as Australia and the United Kingdom seem to indicate that it is best to create spending reviews as a function within (not outside) the civil service. *Ad hoc* external reviews (e.g. conducted by notable businessmen) have often not been successful.

The spending review team usually draws on raw data, ordinary performance reports, evaluations and efficiency reviews (as well as the views of budget analysts from the Ministry of Finance). In some cases, the review team will be large enough to conduct the analysis on its own; in other cases it will rely on existing analysis or will commission data collection and analysis from the Ministry of Finance, line ministries, management consulting firms, think tanks, etc.

Options for identifying fiscal space usually come in four forms: savings from measures to improve efficiency; eliminating programmes (or elements of programmes) which are ineffective and cannot readily be reformed to become effective; eliminating programmes which are politically a low priority; revenue enhancement measures (usually non-tax revenue).

The need for the spending review team to focus on priorities in addition to efficiency and effectiveness makes it important for the review team to be not only technically competent, but to also be sensitive to the priorities of the government of the day. It may, therefore, be useful for the team to include specialists in public policy as well as persons with the ability to

gauge political reactions. Recognising that spending review is not a purely technical function, it should be under the direction of politically appointed officials who are sensitive to the priorities of the chief executive/Cabinet.

Government organisations must be obliged to provide the information requested by the spending review team. Some government organisations may resist such disclosure as it lays bare the inner workings of the organisation and undermines the information asymmetry on which it depends. Spending reviews are whole-of-government exercises, but bundling issues may provide better results. While it may be tempting to select programmes for review that look like potential candidates for budget cuts, this has to be weighed against the fact that such reviews may be met with strong resistance by the ministry under review. Thus, selection should be balanced and perhaps also include programmes for which there is some expectation that more funds will be allocated or for which a review will protect from additional cuts. This may make the ministry concerned more interested in participating.

The performance budgeting system should support spending review to the extent possible

The success of spending review in identifying options for cuts depends critically on ensuring that the officials who have responsibility for conducting the spending review have access to the performance information that is generated, including performance evaluations and performance indicators and reports.

Programme evaluations, which are part of the usual work of line ministries and focus on improving outcomes rather than reducing costs, should provide some information that hint at whether the programme is relevant for a spending review. In order to more clearly identify programmes or elements of programmes which can be reduced or reallocated, the standard terms of reference of programme evaluations should be required to include the cost of improving programmes, which, as presently designed, are ineffective. This includes an assessment of the probable cost of fixing the programme. Value for money audits carried out by the supreme audit institution may also be useful.

Performance indicators and reports are often part of the annual performance management framework. Experience shows that they are usually the most useful to the implementing agencies in their work and in their reporting. However, many OECD countries experience difficulties in generating key indicators that can be used to compare the efficiency and effectiveness of the operation and delivery of government services. There is no easy solution to this conundrum. Performance information should first be useful to those that generate it, otherwise it risks becoming an empty paper exercise where the data generated is neither accurate nor useful. The Ministry of Finance may be able to design a performance management system capable of providing some initial information in areas where efficiency and effectiveness are lacking.

Spending reviews have the most impact when change is necessary but effects may take a few years to emerge – links to the medium-term framework is important

Because cuts to existing programmes usually create some political resistance, the best time to carry out a spending review with a substantial impact may be when there is a change in leadership, which is often, but not necessarily, related to an election. In times of crisis, the purely political prioritisation strategic review is the most relevant as it basically becomes an exercise in reducing government expenditure. The impact of reviews concentrating on creating efficiency savings or changes in user behaviour leading to savings may not be seen until they have been in place for a few years. It thus becomes crucial that the effects of the spending review are built into the annual ceilings for each line ministry as per the medium-term framework. Without such a framework, the effects of the spending review may have to be renegotiated as part of every budget process and their impact may consequently be limited.

Consideration should be given to the appropriate frequency of spending review, and in particular to whether it should be an annual process. One possible approach would be to have periodic, in-depth spending reviews, and then a lighter spending review on an annual basis in between.

Spending reviews are part of the toolbox that enhances budgetary agility, as discussed at the beginning of this chapter. The preconditions discussed above thus form part of the foundation for budgetary agility.

Performance budgeting is a vital, but imperfect, tool

The public sector has traditionally been held to account for complying with rules and procedures. However, in the last 20 years, OECD countries have increasingly sought to develop a focus on the results achieved with the appropriations allocated through performance budgeting.

One of the challenges for performance budgeting is that it is expected to provide a great deal of information for different purposes, including:

- High-level outcome data that enables the executive leadership of government to pursue its strategic goals.
- Data on activities/processes, outputs and, most importantly, outcomes for parliament, the supreme audit institution and civil society that enables them to hold the government to account.
- Output and outcome data that can be linked with input data in a way that shows the efficiency and effectiveness of spending so the Ministry of Finance can monitor and steer the limited budgetary resources to where they matter most in a given political context.
- Input, process, output and outcome data for line ministers and their secretariats so that they can hold the executive agencies to account and have the ability to adjust policies in light of goals and actual developments.
- Input, process and output data that allows programme managers to adjust their operations so that services and programmes are delivered efficiently and effectively.

If the performance management system is consistently able to serve the needs of the various actors and deliver the specific information, the system should assure strategic agility, efficient and effective resource allocation as well as transparency and accountability. However, this is more easily said than done. In consequence, most systems have focused on gearing their performance management system towards the needs of selected actors.

Defining performance budgeting

The OECD identifies three broad categories of performance budgeting (Table 2.3):

- Presentational performance budgeting requires the publishing of performance information in budgets and other government documents (e.g. annual reports). The information can refer to targets, the results against them or both. While it serves to

disseminate information for greater transparency and accountability of government operations, it is not intended to play an explicit role in decision making.

- Performance-informed budgeting takes presentational performance budgeting a step further and requires that either proposed future or past performance be used to inform the allocation of resources during the budget formulation. Performance information is used along with other information in the decision-making process.
- Direct (or formula) performance budgeting requires the allocation of resources to be based solely on proposed future or past performance. This form of performance budgeting is only used in specific sectors, such as education and health. For example, the number of students who graduate with a Master's degree, either in the current year, in the past or a combination of the two, will determine the following year's funding for the university running the programme (OECD, 2007).

Table 2.3. **Categories of performance budgeting**

Type of performance budgeting	Link between performance information and funding	Planned or actual performance	Main purpose in the budget process
Presentational performance budgeting	No link	Performance targets and/or performance results	Accountability
Performance-informed budgeting	Loose/indirect link	Performance targets and/or performance results	Planning and/or accountability
Direct/formula performance budgeting	Tight/direct link	Performance results	Resource allocation and accountability

These three categories are not intended to be exhaustive. Variations exist within government and within programmes. In general, although there is widespread use of performance information in the budgeting process, the overwhelming majority of countries use this performance information simply to inform budget negotiations (OECD, 2011b).

The innovative aspects of performance budgeting

Performance budgeting reflects a number of innovations with respect to budget and management institutions in various countries. These include:

- Changing the budget classification from inputs to programme: Under traditional (input) budgeting, parliament appropriates funding

specified essentially by inputs (e.g. "salaries for a particular institution"). Performance budgeting entails government allocated funding to a political priority (e.g. "enhancing road safety"), which typically entails fewer line items.

- Reporting on non-financial performance information and lump-sum budgets: Traditionally, government accounts and audits focus on whether the appropriation was used lawfully. Performance budgeting reporting is meant to focus on outputs (e.g. the number of "drive safely" campaigns conducted) and outcomes (e.g. reduction in road fatalities). This enables an increased awareness of how much certain activities cost and what benefits they accrue. With more emphasis on what is delivered, a loosening of input control in favour of lump-sum budgeting is often used, and control of lawfulness rests with internal control procedures (Table 2.4). Lump sum refers to an appropriation of funds from parliament that is allocated to a particular agency or programme with few restrictions. This gives the head of the agency or programme flexibility in deciding the input mix – on what to spend the appropriation – which should increase efficiency.
- Using non-financial performance data as part of the management and/or budget process: This might take the form of performance-informed budgeting or formula budgeting; it might also take place in negotiations between the Ministry of Finance and the line ministries and/or between the line ministry and its executive units and agencies. There is great variation across OECD countries, but most commonly performance information is used by line ministries to manage executive unit's activities, possibly in the form performance contracts. These contracts are usually linked to the increased flexibility granted to these agencies in order for them to decide the appropriate mix of inputs that will achieve the desired outputs and outcomes. Lump-sum appropriations are one measure of flexibility. As can be seen in Table 2.4, approximately two-thirds of OECD countries use lump-sum appropriations, although the coverage of capital and operating expenditures vary.
- Tight monitoring of formula performance budgeting in order to maintain fiscal discipline. Performance budgeting does not imply that the centre of government abandons fiscal discipline. Even if additional flexibility is allowed and/or formula budgeting is used in certain sectors (e.g. health, education), overall spending ceilings – either at ministerial, programme or agency level – will be maintained by the Ministry of Finance.

- Use of medium-/long-term strategic plans and budgetary frameworks. As most policy outcomes can only be detected after a number of years, performance budgeting requires a medium-term perspective. For programming to be relevant, this also typically requires clear links between the government's electoral-cycle programming (for the parliamentary period or the life of the government, etc.) and its overall long-term strategic goals.

Table 2.4. **Do ministries/agencies receive lump-sum appropriations?**

	Number	Countries
For both operating and capital expenditures, without any sub-limits	3	Finland, Ireland, Switzerland[1]
For both operating and capital expenditures, with a sub-limit on wages	7	Czech Republic, Hungary, Italy,[2] Netherlands,[3] Portugal,[4] Slovak Republic, United Kingdom
Only for operating expenditures, without any sub-limits	4	Australia, Iceland, Norway, Sweden[5]
Only for operating expenditures, with a sub-limit on wages	3	Canada, Denmark, Poland[6]
No, detailed appropriations are set	13	Austria, Belgium, France,[7] Germany, Greece, Japan, Korea, Luxembourg,[8] Mexico, New Zealand, Spain,[9] Turkey, United States[10]

Notes: Based on *OECD Budgeting Practices and Procedures Database* Q. 49 "Do your agencies/executive organisations receive lump-sum appropriations?" and other data sources. 1. Switzerland: global budgets only exist for Management by Performance Mandate (MPM)-agencies, typically comprising of two lump sum appropriations (own operating and capital expenses). 2. Italy: some receive an amount as a percentage of tax revenues (e.g. revenue agency). 3. Netherlands: some agencies receive lump-sum appropriations covering operating expenditures; a large number of agencies are financed based on their output (i.e. formula budgets; price*quantity). 4. Portugal: typically receive lump-sum appropriations with two sub-limits for operating and capital expenditures. 5. Sweden: for smaller investment items (e.g. computers and office equipment) and larger items (e.g. software). Others with heavy investments (e.g. national road agency) receive one appropriation for the agency's operations and another for investments. 6. Poland: each agency receives a lump-sum appropriation covering expenditures linked to targets imposed by the central government. 7. France: appropriations are unrelated to the nature of the expenditure. 8. Luxembourg: appropriations are fixed on the basis of a detailed proposal provided by the agency. 9. Spain: depends on the agency/organisation and its expenditures. 10. United States: some small agencies receive lump-sum appropriations; Cabinet and major agencies do not.

Addressing the challenges of performance budgeting

A number of challenges need to be addressed when designing and using performance budgeting:

- What gets measured gets managed. Objectives and indicators have to therefore be comprehensive, reliable and measureable – easier said than done.
- Reforms need to be implemented at the agency/ministry level, which requires political buy-in and a willingness to change.
- Not all performance indicators are useful in the budget cycle. Legislators, ministers, policy analysts, service delivery professionals and concerned citizens are not necessarily interested in the same information at the same time; yet, all of them must be able to derive value from the system.
- Given the cross-government nature of some policy outcomes (e.g. child obesity), successful performance budgeting implies substantial, sustained cross-ministerial co-operation.

While there is great variation in the performance targets used by governments, many limit their number to prevent information overload. For instance, the United States has 3 700 performance targets followed by the Slovak Republic (1 641) and Korea (1 033). France, Japan and New Zealand have between 500 and 600 targets each and Sweden only has 48.[5,6] The performance measures fall into a number of broad categories (Table 2.5).

Table 2.5. **Types of performance measures**

Performance measures	Input measures	What resources are used?
	Output measures	What products and services are delivered? What is the quality of these products and services?
	Outcome measures	Intermediate: What are the direct consequences of the output? Final: What outcomes have been achieved that are significantly attributable to the output?
	Contextual measures	What are the contextual factors that influence the output (e.g. processes, antecedents and external developments)
Ratio indicators	Efficiency	Cost/output
	Productivity	Output/input
	Effectiveness	Output/outcome (intermediate or final)
	Cost-effectiveness	Input/outcome (intermediate or final)

Performance budgeting practices are widely implemented, but varied; while countries might face similar challenges and share a common need to focus on demonstrating the extent to which spending achieves policy outcomes, their performance budgeting system needs to be tailored to fit their particular circumstances.

No country directly links public expenditures to performance information. With the exception of a few areas (education and health, for instance), performance information is used to inform the budget, not determine it. Fiscal discipline is consequently not threatened with the introduction of performance budgeting.

Performance information is more commonly used for management and accountability purposes than for allocation of resources. Consequently, performance budgeting is generally decentralised within the central government (to line ministries and agencies), with the exception of spending reviews. There is generally no clear answer, however, to how government should react to poor performance.

While there is little doubt that performance budgeting information provides important input to all levels of government, it is difficult to apply it to a number of key steering tasks, particularly at the aggregate level. The second-best solution is to ensure that those who generate the most basic performance information – the executive agencies – gain value from the performance framework. This ensures it is relevant, truthful and contributes to policy implementation. A special and more tailored effort must then be set up to provide the remaining actors with their legitimate performance information needs, be it in the form of spending reviews, special evaluations or other focused information gathering and analysis efforts. The existence of relevant and high-quality performance information will be an important source of information for such tailored efforts as spending reviews and centrally governed top-down budgeting, thereby also providing a basis for budgeting agility and fiscal space.

Productivity cuts may provide some fiscal space for reallocation drawn on productivity gains

Definition of automatic cuts of productivity dividends[7]

When accompanied with budget flexibility at the organisational level, automatic cuts of productivity dividends (ACPD) can create pressure for ministries and agencies to work more innovatively and to reallocate resources within their administrative area in search of greater productivity and effectiveness. The ACPD procedures have the following characteristics:

- They are "automatic" in the sense that they are part of the regular budget process and that no special decision is needed from year to year as to their application.
- They are based on assumed productivity gains in the public production of goods and services in kind.
- In view of their rationale, they are at least applied to the operational expenditures of central government.

Productivity is generally defined as a measure of the amount of output generated per unit of input. Productivity growth can be achieved by a better combination of inputs (the allocative efficiency of production), better quality of inputs and better operational efficiency (changes in the production process). The main obstacle to output measurement in the public sector is the lack of market prices, but measurement is also affected by the difficulty of accounting for changes in the quality of services.

Which countries use automatic productivity cuts? What is their rationale and how have they been implemented?

The ACPD procedures are applied in several OECD countries. Their rationale – and reason they are accepted in the national discussion about fiscal institutions – is that there is productivity growth in the public sector, and that without these automatic cuts, productivity growth would lead to backdoor increases in service levels without explicit budgetary decisions. Table 2.6 present examples of the experience of using automatic cuts of productivity dividends in five OECD countries.

In principle, automatic cuts on productivity dividends are designed to be applicable to all operational costs of government. Operational costs include compensation of employment and intermediate consumption and investment.[8] However, the appropriateness of such a broad coverage has been questioned.

Experience with automatic cuts of productivity dividends

Empirical data suggests that the long-run public sector productivity growth is usually estimated to be below that of the private sector by 0.5-2% per year. This interval is consistent with the ACPD arrangements that countries like Australia (1.25%), New Zealand (0.8%) or Sweden (2%) have built into their budget procedures on a permanent basis.

Table 2.6. **Automatic productivity cuts in selected OECD countries**

Country	Terminology	Size	Coverage
Australia	Efficiency dividend	Applied at the rate of 1.25% per annum (varying over time 1.0%-1.5%). An additional one-off efficiency dividend of 2.5% was applied in 2012-13 to departmental appropriations.	Applied to the operational expenses of all agencies in the general government, unless they are specifically exempted, and to the total net departmental appropriations, excluding some specific receipts. It does not apply to administered expenses such as grants, subsidies and benefit payments.
Denmark	Re-prioritisation contribution	A uniform 2% cut in the budget baseline; the actual outcome of the budget process may be different.	Applied to the operating expenditure of central government. Institutions and programmes subject to special political agreements are exempted from the cut (approximately one-third of central government operating expenditure).
Finland	Programme for Effectiveness and Productivity	From 2011, an increased focus is put on the effectiveness of government functions, the availability and quality of services, and human resources management. There is no current absolute target but the financial impact is to be achieved in line with the previous staff cutting target of 8 414 by the year 2011 and a further 5 034 between 2012-15.Between 2007-11, only half of the efficiency savings on staff costs were cut from the appropriations of administrative branches. From 2012-15, 25% of the savings will be cut.	Quantitative top-down targets were decided for ministries and agencies based on ministerial productivity plans. Measures to achieve these were proposed by ministries and negotiated between the Ministry of Finance and the line ministries, approved by the Cabinet.
New Zealand	Fixed nominal baselines and additional efficiency savings as of July 2012	Fixed nominal current operational expenditures are used as a baseline in the annual budget cycle. Inflation has to be absorbed. Given that the inflation rate has been around 2.5% for the last few years, ministries have had to achieve at least a similar productivity gain in order to maintain their existing level of output. In addition, the efficiency savings will be added to the savings caused by the fixed nominal baselines. The size of the required savings is 3% for small agencies and 6% for larger agencies.	Fixed nominal baselines for operational expenditures are applied to the entire central government budget, without exception. The efficiency savings introduced by 1 July 2012 apply to core government administration as defined by the full-time equivalent (FTE) cap.

Table 2.6. **Automatic productivity cuts in selected OECD countries** (*cont.*)

Country	Terminology	Size	Coverage
Sweden	Deduction in productivity growth (DPG)	It is assumed that agencies can produce a constant output with decreased wage resources because of the corresponding increase in the productivity of labour. The productivity gains in the public sector are assumed to be the same as in the private sector. The DPG is calculated as the average productivity growth in the public sector over the last ten years. Since its introduction, the DPG has remained within the range of 1-2%, and is applied to the wage index part of the price and wage adjustment (PWA) index.	The PWA applies to *ca*. 28% of the total state budget (FY2012). It applies to *ca*. 16% of the total budget (which is the base amount subject to the DPG, not the actual deduction resulting from application of the DPG). Cuts are applied to multi-annual estimates of the agencies' operational costs, as an integral part of the budget process. These estimates are put up in real terms but annually converted into nominal terms by an aggregated wage and price index.

There is consensus that there is productivity growth in the public sector, and there are approximate insights in the order of average growth in the government sector as a whole. This is sufficient to establish an effective ACPD arrangement. However, policy makers should avoid a too- direct connection between the outcomes of productivity research and the parameters (cut rates) of an ACPD arrangement. A direct connection may lead to a permanent policy debate about the appropriate cut percentages in the various sectors of public service provision and a politicization of productivity research.

It appears from the literature reviewed by the OECD that small agencies and relatively labour-intensive government divisions and agencies may have more difficulty in realising uniform ACPD targets than large and less labour-intensive agencies. Without differentiating APCD targets, this problem can largely be solved by allowing the reallocation of savings targets within ministries or between ministries.

The size of the ACPD cuts is usually chosen below measured average productivity growth in the private sector, which contributes to political acceptability. There have been *ad hoc* and one-off increases of this percentage in some countries to solve budgetary problems in upcoming budget years. This may lead to politicization of the mechanism and may undermine its long-term sustainability.

A uniform cut percentage costs less to implement than a differentiated one, leads to less discussion and avoids the politicization of productivity research.

It has been argued that, given the lack of market incentives (competition, profit), at least a part of the savings should be used to reward the agencies that achieve productivity gains. The literature mentions advantages and disadvantages of ACPD arrangements that allow ministerial divisions and agencies to use part of the savings for investments that can lead to savings or improved levels of service.

Taking into account that cuts of productivity dividends provide a limited amount for annual reallocation due to the low percentage and the restricted coverage of cuts (normally on the operational expenditures of central government), automatic productivity cuts have a minor impact on budgetary agility in the short run. However, in the longer term the cumulative impact may create substantial fiscal space for the government. It should indeed also foster a culture of continuous innovation and a pursuit of savings.

Conclusion

This chapter has studied governments' capacity for resource agility – or the ability to flexibly reallocate resources to changing priorities and strategic changes of direction. It discussed the challenge of achieving resource agility by balancing budget discipline with information, incentives and flexibility. Four mechanisms were considered: top-down spending cuts, spending reviews, performance budgeting and automatic cuts of efficiency dividends. Although experience from governments' responses to the financial crisis has shown that OECD countries have gained from top-down spending cuts and revenue enhancements in the short and medium run, the greatest potential for budget agility in governments over the medium and long term lie in well-designed spending reviews drawing on performance information, supplemented by automatic productivity cuts.

Many countries have integrated top-down budgeting into the institutional framework for budgeting. This practice provides line ministries with the possibility to adjust budget allocations within their responsibility, but may leave the CBA with a need for other mechanisms to achieve long-term budget agility. During the financial crisis, some governments used top-down spending cuts and revenue enhancement – often leapfrogging the conventional budgeting procedures in governments. Top-down spending cuts and revenue enhancements are used for short- and medium-term adjustments of budget allocations, but may not be sustainable in the long run.

In many countries, however, one of the consequences of top-down budgeting is a diminished ability for the Ministry of Finance to create fiscal space as part of the annual budget process. The basic reason for this is that line ministers have been able to use the regular budget process to put forward new spending proposals, while minimising the chance of new savings proposals being applied to their portfolios. Ministries of Finance are faced with a quandary: the move towards top-down budgeting has given them better control over overall expenditure and helped to align incentives at the line ministry level so that they manage resources efficiently by acting as their own "Ministry of Finance". At the same time, however, decentralised control over budget decision making exacerbates information asymmetries in the budget process. Not only do Ministries of Finance generally know less now about individual programmes and organisational performance, but line ministries also have a diminished need to provide savings proposals that will reduce their budget allocation. In keeping with the nature of top-down budgeting, line ministries identify and reallocate efficiency gains within their own area of responsibility.

Performance budgeting has often been presented as a means of filling the "information gap" by providing a reporting mechanism between the Ministry of Finance and the line ministries/agencies covering inputs in the form of budget resources, institutional information, outputs and outcomes. The results, however, have been mixed in terms of providing clear, useable and timely information for Ministries of Finance to take informed budget decisions, in particular with regard to prioritisation across spending areas. Ministries of Finance have oftentimes found themselves overwhelmed with copious amounts of performance information of limited use to the budget process. There is also increasing awareness that performance information needs are different for the management of service delivery in executive agencies compared to budget (re)allocation functions in the Ministry of Finance. For instance, calculating impact and its cost is difficult, since attributing causal relations between societal outcomes and public sector outputs and processes is complex, difficult and prone to time lags. Information may be biased in favour of the agency generating the data and indicators may simply be chosen because they are measureable, rather than because they are meaningful. In addition, the political element of pursuing political programmes and the political impact of inputs plays a significant role in the calculus by which resource allocation decisions are made. Tying resources to performance indicators (i.e. performance budgeting) is therefore difficult and rarely done in OECD countries.

A spending review procedure is part of the institutional response to the above conundrum when there is a need to identify fiscal space and prioritise expenditure. Ideally, spending reviews will have a clear political mandate

defined by the chief executive or Cabinet, thus making the spending review a whole-of-government effort and all ministerial portfolios legitimate targets of inquiry. Information asymmetry should also be mitigated by the reviews, since they are designed to collect data, analyse it and make recommendations for change. Spending reviews are becoming a more frequently used measure for budget agility in both the short and longer term. They may provide political options for cuts, reallocations and general fiscal space that would be sustainable over the medium or long term, focusing on efficiency and political strategic priorities (politically determined effectiveness).

Performance information still plays an important role in the budget process, however. It is widely used in OECD countries, and while its direct role for budget allocation seems to be in decline, it is a source of information in spending reviews and in developing long-term strategic directions for budget allocations. It also provides the legislature, the supreme audit institution and civil society with essential background for assessing accountability of the government.

Automatic cuts of efficiency dividends provide a rather limited source for reallocation in the short run due to their limited size as percent of the total budget. Such automatic cut schemes may, however, result in a culture of efficiency where managers and agency heads persistently focus on efficiency, perhaps providing more room for reallocation over the long run.

Notes

1. On these issues, related to the fiscal space available to a government for policy initiatives see the presentation given by Mario Marcel on "Budgeting for Results and Fiscal Space after the Big Recession", at the G20 seminar held in Mexico in September 2012, www.g20.org/en/financial-track/522-seminario-del-g20-sobre-retos-y-perspectivas-de-la-economia-global.
2. See the results of the "2012 OECD Survey on Performance Budgeting and Spending Reviews" presented at the annual meeting of the Network on Performance and Results, 26-27 November, Paris.
3. See http://wbi.worldbank.org/boost/tools-resources/public-expenditure-review.

4. This section draws on Hawkesworth et al. (2012).

5. OECD Budgeting Practices and Procedures Database (www.oecd.org/gov/budget/database) Q. 75.

6. Results of the "2012 OECD Survey on Performance Budgeting and Spending Reviews" presented at the annual meeting of the Network on Performance and Results, Paris 26-27 November.

7. This section is based on Luinaud and Wilhelmsson (2012).

8. Intermediate investment includes investment in support of government operations but not investment in final capital goods, such as infrastructure.

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Chapter 3

Using human resources management strategies to support strategic agility

Resource flexibility, one of the key elements of strategic agility, is not only about budgets, but also about ensuring that the right human resources can be acquired, developed, and deployed in line with shifting priorities. Recent reforms to downsize the public service workforce, coupled with constant pressures to contain costs and increase value for money, are leading countries to strive for leaner, more strategic public services. At the same time, it is important to ensure that budget cuts do not unduly compromise the quality of public services. This chapter looks at the various tools and strategies countries have been using to make the public sector more agile, including strategic workforce planning, skills and competency management, promoting greater mobility in the public service, targeted recruitment and hiring, using performance management and compensation as incentives, fostering diversity, and changing the public service culture.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

After the budget, human resources management (HRM) offers some of the key tools that policy makers need to ensure strategic agility in the public sector: that is, the flexibility to acquire, develop and allocate resources to meet shifting priorities. The successful management of human resources requires strategic workforce planning, attention to competencies in the workforce and the use of traditional HRM tools such as recruitment, compensation and staff development. Designed and implemented correctly, HRM policies have great potential to contribute to agility in the public sector.

While modernising public sector human resource management presents policy makers with many challenges, a number of OECD countries have made significant reforms to the management of their public sector workforce over the last 30 years. Very valuable lessons can be drawn from those reforms to support agility and strategic realignment of public sector resources. This improves government's capacity to adapt its workforce to shifting circumstances or priorities while maintaining or improving public service competencies and ethics and inspiring employees to strive for greater efficiency (OECD, 2012a).

This chapter presents options for countries to consider as they develop sustainable, long-term HRM policies to improve their capacity to anticipate and prepare for future challenges.

Current context: Policy responses to the financial crisis, government restructuring and agility

Many countries have used staffing and salary cuts as part of their recent reforms to adjust human resources in the public sector in response to the global financial crisis. Almost two-thirds of OECD countries surveyed in 2014 indicated that they had reduced staff numbers since 2008, and three quarters reported introducing remuneration reforms in the same time period.[1] While such adjustments demonstrate governments' determination to correct fiscal imbalances, if they are not managed carefully they can also have long-term consequences on the capacity of the public workforce to meet citizens' expectations. Wage cuts and staff reductions decrease the attractiveness of the public sector as an employer by lowering morale, damaging the perception of public service careers and limiting governments' ability to attract and retain high-qualified staff. Hiring freezes not only have an immediate impact on the capacity of the public sector to deliver public services, but they also have an impact on an organisations' capacity and agility over the long term, by limiting their ability to restructure and reskill.

Some downsizing measures may even have direct negative impacts on a country's finances. According to an assessment by the National Treasury Employees Union, a 6% reduction in staff at the US Internal Revenue Service could result in as much as USD 4 billion in uncollected annual revenues.

For these reasons, the repercussions in terms of capacity, as well as the incentives and internal prospects within the public sector, need to be addressed. However, if carefully managed and associated with innovative HRM policy tools, downsizing also presents opportunities to for governments to promote agility in the public workforce for years to come. These measures, and the constant pressures on governments to demonstrate efficiency gains and value for money, have contributed to a growing trend among OECD countries toward a leaner and more strategic public service. To achieve this, governments will need to be agile, focused on outcomes and results, and more flexible to adapt to changing needs and related human capital challenges. OECD countries are using strategic workforce planning to shape the size and profile of the public workforce to maximise the use of financial and human resources in a more efficient and effective manner. Strategic workforce planning is a process that ensures that an organisation has the right number of people with the right skills in the right place at the right time. Once limited to calculating the gap between talent supply and demand, workforce planning is now a far more sophisticated process that enables an organisation to adjust and respond quickly to immediate and future changes (Huerta Melchor, 2013).

Although the crisis – and governments' responses to it – has had a significant impact on public service capacity and morale, it has also presented an opportunity for countries to develop HRM policies that will enhance the agility of the public workforce, enabling it to better respond to future crises. Ireland's Public Service Agreement is one example of an HRM reform that recognises the importance of flexibility in a country confronting severe financial constraints (Box 3.1).

OECD countries have been using a range of strategic HRM practices to help them align their people management with the strategic goals of public sector organisations (Figure 3.1). These practices not only help governments meet strategic objectives, but also contribute to agility by increasing efficiency, responsiveness and quality in service delivery. Strategic HRM also encourages governments to look to the future, thinking strategically about the right mix of people and skills that will be needed to respond to changing societal needs (OECD, 2011b). Although nearly all OECD countries (30) use some degree of forward-looking planning, many countries do not consider issues such as civil service demographics, possibilities for

outsourcing or possibilities for relocating staff in this planning, suggesting that opportunities exist for more expansive planning.

Box 3.1. **Ireland: Increased flexibility and mobility through public service reorganisation**

Facing reduced resources and staffing levels, in 2010 the Irish government recognised the need to reorganise the Irish public service to continue its contribution to the return to economic growth and prosperity. As part of this effort, the government and sector unions signed the "Public Service Agreement 2010-2014", aimed at building an increasingly integrated public service that is leaner and more effective, and more focused on the needs of citizens. The agreement directs public bodies and individual public servants to increase their flexibility and mobility to work together across sectoral, organisational and professional boundaries.

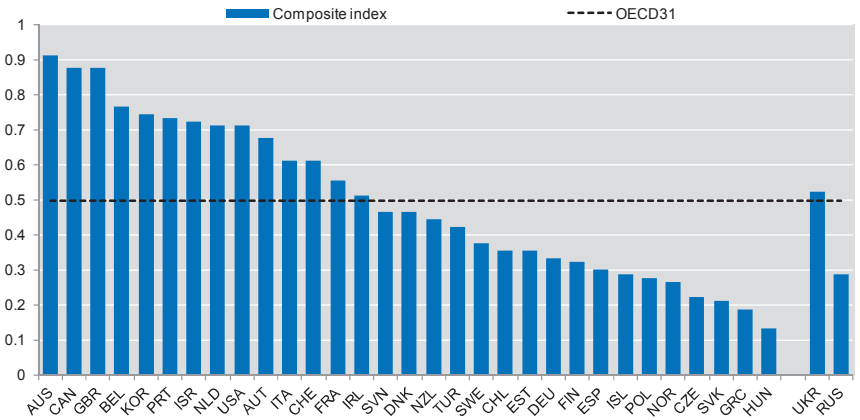
The core concern for the Irish government is to restore public finances and to reduce the deficit to less than 3% of GDP by 2014, in part by achieving sustainability in the cost of delivering public services relative to state revenues. The government has acknowledged that public servants have made a very significant contribution towards this goal and the recovery of the economy with over EUR 3 billion saved between 2009-10 from the potential public service pay and pensions bill. This contribution included: *i)* foregoing general round pay increases due in 2009; *ii)* a general moratorium on recruitment and promotion throughout most of the public service; *iii)* a pension-related deduction of an average of nearly 7% on all the earnings of all public servants; and *iv)* a reduction in rates of pay and allowances.

In order to sustain the delivery of excellent public services alongside the targeted reduction in public service numbers, the agreement recognises that efficiencies will need to be maximised and productivity in the use of resources greatly increased through revised work practices and other initiatives. The agreement commits the government to delivering an ongoing reduction in the cost of delivering public services without sacrificing the quality of those services. Specific commitments include:

- reduction in public service numbers
- redeployment in an integrated public service
- reconfiguration of the design and delivery of public services.

Source: Irish Government (2010), *Public Service Agreement 2010-2014*, Department of Public Expenditure and Reform, Dublin.

Figure 3.1. **Utilisation of strategic HRM practices in central government (2010)**



Source: OECD (2010c), "2010 OECD Survey on Strategic Human Resources Management in Central/Federal Governments", OECD, Paris, unpublished.

The potential for strategic workforce planning to improve the agility of the public service

Doz and Kosonen (2008) have identified resource flexibility as one of the three mechanisms that form the basis of strategic agility. Resource flexibility is the ability to move resources (personnel and financial) to changing priorities if and as needed; to identify and promote innovative ways to maximise the results of the resources used; and to increase efficiencies and productivity for both fiscal consolidation and reinvestment in more effective public policies and services. A core aspect of government agility is the capacity to change the numbers, skills, competencies and allocation of the public workforce. Flexible employment frameworks contribute to this agility by enabling the redeployment of resources after they have been committed and the movement of staff to areas of strategic priority. Ensuring that public servants have the necessary capacity and capabilities to anticipate and respond to whole-of-government challenges, and that they can be deployed within the public service to effectively meet these needs, are another element of resource flexibility. The ability of governments to recruit, train, promote and dismiss employees is a key determinant of their capacity to obtain staff with the skills needed to provide public services that meet clients' needs, and to face current economic and governance challenges. This requires both the use of workforce planning

and succession planning to determine capacity and capability, and a focus on workforce mobility measures (OECD, 2010a).

The misalignment between strategic intentions, resource allocation (both people and budgets) and performance management systems limits an organisation's ability to prioritise and (re)deploy resources as conditions change (Määtä, 2011). When properly aligned, however, performance objectives should cascade through the public administration, starting with whole-of-government objectives, through agency-wide and senior management performance goals, to individual employees' performance objectives. Strategic workforce planning can help governments better align these objectives. This alignment can also increase employee motivation and morale, by providing staff with a clear picture of how their performance contributes to the achievement of overall government objectives.

Linking workforce planning to budget planning is an important step in the planning process, especially in the current fiscal climate, as governments are undertaking significant consolidation measures that affect the size and allocation of the public workforce. Some OECD countries have begun to make this link through a combination of tools to manage the workforce, particularly through a better integration of HRM instruments – such as competencies and skills strategies, and compensation – with budgeting instruments such as automatic productivity cuts, performance management and spending reviews. In many countries, workforce and budget planning remain separated, and the central HRM body is not always included in budget discussions. As a result, HR managers may not have a complete understanding of business issues, complicating efforts to align current and future workforces to meet future product and service demands.

Several OECD countries have adopted performance budgeting to align the allocation of funds to measurable results. However, the workforces of individual agencies are not always considered in this process, and a lack of funding affecting staffing levels limits the ability of key agencies and ministries to achieve their missions. To help meet budget constraints, agencies are cutting their workforces through hiring freezes and attrition. However, as countries continue to cut budgets without scaling back agencies' missions, their ability to serve the public is compromised. Co-ordinating workforce planning, performance measurement and budgeting can help alleviate this problem and retain sufficient numbers of staff to achieve agencies' core missions without resorting to furloughs or reductions-in-force. Linking performance budgeting to workforce planning may thus provide a solid basis for determining the right number of people to be deployed in the right place, enhancing government's flexibility to allocate resources effectively (Huerta Melchor, 2013).

Workforce planning also helps governments operate in increasingly complex and uncertain environments. It prompts governments to consider the future and think strategically about the mix of people and skills required to respond to changing societal needs. By identifying existing competencies and skill gaps, governments can begin to determine the skills they need. Such efforts to map the capacity, skills and training in the public workforce are increasingly important in countries with ageing workforces. Doing so prepares them to redeploy resources to meet new priorities and acquire and develop new competencies, while also identifying obsolete or surplus competencies. Australia recently undertook a planning exercise aimed at increasing the public service's agility in addressing emerging challenges (Box 3.2).

Box 3.2. **Australia: Enhancing agility in the public service**

In 2010, the Advisory Group on Reform of Australian Government Administration issued *Ahead of the Game: Blueprint for the Reform of Australian Government Administration*. This blueprint is an effort to enhance the ability of the Australian public service (APS) to address challenges such as an ageing and growing population, shifting global economic relationships, pressure on education and skills, Australia's vulnerability to environmental issues and national security. One of the reforms proposed in *Ahead of the Game* was strengthening the public workforce to address the challenges and concerns regarding workforce planning and capability requirements. Specifically, its vision for the future was "an agile, capable and diverse APS workforce equipped to meet future challenges." To achieve this vision, *Ahead of the Game* recommended:

- a consistent approach to workforce planning that identifies systemic workforce challenges
- efficient, transparent and applicant-friendly recruitment processes that address agency skills gaps and issues of diversity, and distinguish candidates on the basis of merit
- a co-ordinated approach to learning and development to identify and respond to skill and capability gaps
- an effective and consistent performance framework
- a mobility strategy that encourages and assists employees to pursue diverse work opportunities to develop their capability.

Source: Advisory Group on Reform of Australian Government Administration (2010), *Ahead of the Game: Blueprint for the Reform of Australian Government Administration*, Commonwealth of Australia, Canberra.

Emerging cross-cutting challenges require a whole-of-government perspective that encourages horizontal co-operation

Many challenges confronting governments today are not confined to neatly defined departmental boundaries and thus require a whole-of-government response. For example, responding to climate change can include Ministries of Interior, Environment, Energy, and Commerce, among others, while security challenges require a joint approach by Ministries of Defence, Foreign Affairs, Justice and Interior in addition to intelligence agencies. However, the structure of many governments hinders their ability to address such cross-cutting challenges, much less anticipate them, because they are comprised of strong departments operating relatively independently of one another. More agile governments can overcome this silo perspective by fostering a whole-of-government perspective among their workforces.

To achieve horizontal goals, governments should provide incentives for collaboration by linking horizontal programmes to the budget process. Without such a linkage, managers responsible for horizontal programmes may not have sufficient staff to accomplish programme goals and may not be able to compel other organisations to share resources. Strategic workforce planning that aligns whole-of-government objectives with human resources and budgets is an important mechanism to provide this linkage.

Workforce planning can help public administrations promote a whole-of-government perspective within the public service in a variety of ways. It facilitates better competency management, increasing government's ability to acquire skills that lead to agility such as risk-taking and innovation. An analysis of skills gaps in the public workforce can support policies to increase mobility and the government's ability to redeploy resources. Workforce planning also entails greater attention to performance management and rewards, which can provide incentives for inter-agency co-operation and sharing of intelligence and information. Finally, workforce planning can include diversity policies to develop a workforce with different backgrounds and experiences that is better able to approach challenges from multiple perspectives.

Attention to competency management can help create a flexible workforce

A key element of workforce planning that contributes to organisational agility is competency management. While change in the public service is a major factor behind the need to implement competency management practices, the reasons for introducing competency management in the public service vary by country. For example, Australia, Belgium and the

Netherlands cite a need to create flexibility while Korea indicates a desire to strengthen government competitiveness, among other reasons.

Box 3.3. **What is competency management?**

Competency management is a way of defining the abilities and behaviours employees need to do their jobs well and linking several HRM activities to ensure that an organisation is staffed by people who perform effectively. The use of competency management in OECD countries has increased steadily in recent years and has been linked to demands for increased flexibility and autonomy in workforce management.

For further details, see OECD (2011a).

Competencies are often defined as the combination of knowledge, skills and behaviours that result in good performance. The behavioural aspect is crucial: employers understand that, for example, communication, teamwork, flexibility and interpersonal skills are closely related to employee performance. Many countries see competency management as a vehicle for bringing about cultural change and injecting more flexibility, adaptability and entrepreneurship into organisations. Competencies can improve workforce planning and recruitment and selection processes, so that these critical activities are based on an analysis of the competencies needed by public services. In France, for example, the Employment, Workforce and Competency Planning (*Gestion prévisionnelle des emplois, des effectifs et des compétences* – GPEEC) initiative introduced the notion of competencies in the French civil service. The GPEEC explored how recruitment methods might incorporate competencies without abandoning the established principle of selection through competitive examinations (OECD, 2011a).

What competencies are needed?

As part of workforce planning, governments should consider what competencies they will need both to deliver public services in the future service delivery and to promote agility in the workforce. By examining demographic trends, governments can anticipate how the supply and demand of competencies will change in the future. For example, countries with ageing populations will need more healthcare workers and staff able to administer social security and pension programmes; they will also need to develop policies to mitigate the loss of capacity due to retiring public employees. In addition, developing solutions to horizontal challenges will require the ability and willingness to work across organisational boundaries. Managers will also need to know how to mobilise resources and competencies that may be distributed among several organisations (Määtä, 2011).

Several OECD countries have begun to identify the critical competencies they will need in the future. For example, Australia explicitly puts an emphasis on two global competencies for the future: strategic thinking and agility. The Australian Public Service Commissioner notes that "leaders need to ensure their organisations have the strategic and operational agility to change direction when necessary as circumstances dictate, including in current and future 'tight times'" (Sedgwick, 2012). Other countries have identified competencies related to agility such as "innovative and creative capacity" and "flexibility" (Belgium); "initiative and creativity, including experimenting with new ideas" and "network collaboration" (the Netherlands); and "collaborative mindset," "flexibility" and "seeking alternative viewpoints" (the United Kingdom). Based on this list, the OECD has grouped eight key future competencies clustered into four meta-competencies: creative thinking, flexibility, co-operation and strategic thinking (OECD, 2011a).

An agile organisation also requires staff capable of identifying and promoting innovative ways to maximise the use of resources and managing increased complexity and uncertainty. Developing these competencies will require a change in the culture of the public service to become less risk averse. Training managers and employees to manage risk will facilitate this change, but governments will also have to establish explicit guidelines for staff to clarify what levels of risk are acceptable. In creating these policies, governments should recognise that some level of uncertainty will always be unavoidable.

Admittedly, changing the culture of the public service and introducing values such as innovation and risk-taking may be particularly difficult when governments are freezing or reducing the size of the public workforce. If fewer staff are expected to do the same work with fewer resources, they will concentrate their effort on implementing their programmes and will have little or no time to develop creative solutions or think strategically. Staff may even resist new ideas that are intended to increase agility or productivity, especially if they see these ideas as a distraction from the organisation's core mission or as threats to their positions.

Competency management and mobility are interdependent. On the one hand, governments can use mobility to give employees a wider, whole-of-government perspective on policy challenges and to develop new competencies. On the other hand, mobility within the public sector is effective only when employees possess transferrable competencies that can be applied to multiple positions. As Hämäläinen et al. (2011) note, gaps in competencies can inhibit resource transfers if the workforce cannot take on additional tasks. Organisations should thus consider mobility in their competency planning in order to maximise their agility; indeed,

organisations can use mobility as a means of providing on-the-job training in specific skills as well as in broader public service values.

Greater mobility in the public service, especially among senior management, can increase agility

Identifying the type and location of competencies of the public service is a key element of workforce planning, but without policies that enable mobility within the public service, governments cannot allocate these competencies effectively. Although mobility is not normally a primary goal of workforce planning, it can contribute to it by promoting generic competencies and increasing internal flexibility. Greater mobility within the public workforce fosters a corporate, whole-of-government perspective on new challenges. It can help prevent employees from identifying too strongly with a single organisation, reducing the likelihood of department-based silos developing within government. A mobile workforce is more likely to recognise the value of collaboration among different organisations to address challenges and thus to contribute to the agility of government. In addition, employees with experience in different positions are more likely to be able to act quickly in complex environments where resources are scarce (GAO, 2009). Mobility also has benefits for recruitment and retention, as varied job experiences are often attractive to applicants and keep employees motivated.

Certain baseline conditions are required to enable internal mobility in the public workforce. In particular, centralised workforce planning, uniform employment and pay regulations can all facilitate public servants moving from one position to another. In recent years, many OECD countries have seen an increase in internal mobility, and several more have plans to increase mobility in the future. As shown in Table 3.1, ten OECD countries reported a trend toward increased internal mobility in 2010, while only three reported that mobility was decreasing. Sixteen countries have plans to increase internal mobility in the public sector, through publicising open positions more, establishing staffing pools, increasing the incentives for mobility. France, for example, has reported that it is planning to increase mobility through all of these actions.

In addition to setting these conditions, governments can actively promote mobility. Organisations can establish job rotation, either within the organisation or across other organisations, as a requirement for promotion for both management and staff. For example, following the 11 September 2001, terrorist attacks, US intelligence agencies established a "Joint Duty Program," which made service in more than one agency a requirement for promotion into certain senior positions. This programme is intended to help

create a culture of collaboration within the intelligence community, improving its ability to share information and respond to threats. In Austria, new civil servants are obliged to rotate through another organisation for two months during their initial training. While a job rotation scheme can help an organisation redeploy skills, it has to address the challenges the organisation faces by not hiring additional employees and requires the organisation to have sufficient data on employees' skills and competencies.

In some countries' public sectors, however, the OECD has found that the culture and legal framework do not provide any incentives for individual initiative. This so-called legal formalism reflects the excessive use of internal administrative processes to frame the work of the administration, so that more attention is paid to these processes than to underlying policy work, including HR policies. In Greece, for example, this situation has generated a framework which is both very detailed and very inflexible. As a consequence, the mobility of personnel across ministries is seriously compromised and there is an aversion to mobility among many civil servants, especially among older staff (OECD, 2011c). In the case of Greece, the OECD has recommended that the government promote mobility by: reducing the number of job categories in the public administration; harmonising service requirements (for salaries, pensions, leave, allowances, etc.); extending the system of secondments to the general government; publicising job openings; and organising open competitions for every post.

External mobility – movement of employees outside of the public service to gain experience in the private sector – is promoted by OECD countries in a variety of ways. Eleven countries actively encourage mobility by: granting staff the right to return to their previous post or a similar one when they rejoin the public service (Japan, Portugal, the United States and others); considering external mobility in promotion decisions (Austria, Norway, Switzerland and others); and/or implementing secondment and training programmes (Finland, France and the United Kingdom). Eight countries, including Belgium and Estonia, accept external mobility without actively promoting it, while another eight countries, such as Germany and Slovenia, neither promote nor accept external mobility. In half of OECD countries, employees are not penalised if they leave the public sector and do not return. In the others, public servants' pension rights and/or future career prospects may be affected by not returning to the public service, which may decrease their willingness to take a position in the private sector, even temporarily.

Table 3.1. **Mobility trends within the public service in OECD countries (2010)**

	Trends concerning mobility within government			Plans to increase or reduce mobility within departments/ministries				
	Up	Steady	Down	Increase publicity of available positions	Increase establishment of pools of available staff	Increase incentives to staff and recognition of benefits of mobility for staff	Reduce mobility	None
Australia	-	-	-	●	-	-	-	-
Austria	●	-	-	-	●	-	-	-
Belgium	●	-	-	-	-	-	-	●
Canada	-	-	-	-	-	-	-	●
Chile	-	●	-	-	-	-	-	-
Czech Republic	-	●	-	-	-	-	●	-
Denmark	-	●	-	-	-	-	-	●
Estonia	●	-	-	●	-	-	-	-
Finland	●	-	-	●	-	-	-	-
France	●	-	-	●	●	●	-	-
Germany	-	-	-	●	-	-	-	-
Hungary	-	●	-	-	●	-	-	-
Iceland	-	-	●	-	-	-	-	●
Ireland	-	●	-	-	-	-	-	●
Israel	-	●	-	●	-	-	-	-
Italy	●	-	-	●	-	●	-	-
Japan	●	-	-	●	-	-	-	-
Korea	-	●	-	●	-	-	-	-
Mexico	-	-	-	-	-	-	-	●
Netherlands	●	-	-	-	●	-	-	-
New Zealand	-	-	-	-	-	-	-	●
Norway	-	-	-	-	-	-	-	●
Portugal	●	-	-	●	●	-	-	-
Slovak Republic	-	-	-	-	-	-	-	●
Slovenia	●	-	-	-	-	-	-	●
Spain	-	-	●	-	-	-	-	●
Sweden	-	●	-	-	-	-	-	●
Switzerland	-	●	-	●	-	●	-	-
Turkey	-	-	●	-	-	-	-	●
United Kingdom	-	-	-	●	-	-	-	-
United States	-	●	-	-	-	-	-	●

Table 3.1. **Mobility trends within the public service in OECD countries (2010)** (*cont.*)

	Trends concerning mobility within government			Plans to increase or reduce mobility within departments/ministries				
	Up	Steady	Down	Increase publicity of available positions	Increase establishment of pools of available staff	Increase incentives to staff and recognition of benefits of mobility for staff	Reduce mobility	None
Brazil	-	●	-	-	-	-	-	●
Russian Federation	-	●	-	-	●	-	-	-
Ukraine	-	-	-	-	-	-	-	●
Total	10	12	3	12	6	4	1	16

Source: OECD (2010c), "2010 Survey on Strategic Human Resources Management in Central/Federal Governments of OECD Countries", OECD, Paris, unpublished.

Private sector companies actively promote mobility, as their experience has shown that rotating managers through different units early in their careers can contribute to a company's success. When new business opportunities emerge, these companies can more easily reassign managers, whose experiences in diverse areas have made them more versatile.

Countries that have separate systems for managing senior civil servants can use these systems to focus on mobility at top-level positions. Promoting mobility with the senior management cadre strengthens coherence and cohesion by instilling shared values and a whole-of-government perspective in this group. In addition, policies that allow external recruitment into top management positions help create a more dynamic management culture. OECD (2008) identified three general reasons given for establishing a formal senior civil service system, two of which contribute to the overall agility of the public sector:

1. overcoming fragmentation into silos or compartmentalised ministries by creating a corporate culture and allowing better mobility across ministries and departments
2. enabling flexibility in recruitment and employment conditions
3. clarifying boundaries between politics and administration.

However, even when the goals of establishing a senior civil service include sharing a broad perspective of government and a public service commitment, such systems do not guarantee increased mobility at the top. In the United States, for example, a 2012 report on mobility within the senior executive service found that only 8% of senior executives had changed

agencies, whereas 48% had never changed positions (the remainder had changed positions within the agency or subcomponent) (Partnership for Public Service and McKinsey & Co., 2012). When managers themselves are resistant to change, they are unlikely to be prepared to manage change within their organisation. The report described several barriers to mobility, both at the agency and individual levels:

- many agency leaders value technical expertise over leadership skills
- agencies tend to hoard talent
- agencies are unprepared for transitions
- executives often see mobility as punishment, not advancement
- mobility, especially across agencies, goes unrewarded
- there are neither consistent standards nor adequate financial assistance for geographic relocation.

OECD (2010a) also found that mobility is limited when organisations prioritise technical specialisation over general management skills. In Finland, it noted that many leaders are experts in their field but did not have a good cross section of experience and thus lacked horizontal and whole-of-government skills. A government committed to strengthening agility in its workforce, especially among senior managers, should consider how the incentives it currently provides might reinforce these barriers, and how it might overcome them. France, for example, has undertaken significant HRM reforms to restore flexibility and mobility in the civil service (Box 3.4).

Performance management and compensation as incentives for agility

Encouraging agility in the workforce requires developing the right incentives, both through individual performance management systems and compensation. A first step in this process is establishing clear government-wide and organisational objectives, then linking individual employee's performance goals to these objectives. In a 2006 survey of business executives, nearly 40% of respondents indicated that linking company strategy and individual performance objectives was the biggest contributor to agility in their organisation (McKinsey & Co., 2006). As noted above, making this link explicit can help employees change the way they approach their work, as they have a clear understanding of how their performance contributes to the whole-of-government mission. It also helps build a collective commitment within the public workforce to shared

outcomes, which Doz and Kosonen (2008) identified as a key component of strategic agility.

Box 3.4. **France: Fostering mobility in the public sector**

In 2007, the French government launched an unprecedented reform initiative known as the "General Review of Public Policies" (*Révision générale des politiques publiques*, RGPP). The RGPP has made the modernisation of human resource management one of its priorities, both as a way of supporting the optimisation reforms and as a means of reinforcing the structural conditions essential to government flexibility.

Among the reforms accompanying the RGPP was the Law on Mobility of 6 August 2009, which removed legal obstacles to secondment and integration into corps and job frameworks of the same category and the same level. It also instituted the right to integrate after five years of secondment to another corps or framework, the possibility of direct integration into another corps or framework, and recognition of the advantages acquired during a secondment. Lastly, this law offers new guarantees for employees assigned to a unit that is being reorganised, in support of the RGPP restructuring reforms.

This stress on mobility gives the French career system the means to function better. Continued efforts in this direction could bring the system closer to the degree of responsiveness and flexibility found in some other OECD civil services. An employee should be able to be much more mobile, and the pool of employees from which a position can be filled should be expanded, thus promoting a better allocation of positions and personnel. Today, although geographic mobility is fairly high in the central civil service (around 5%) and category mobility (among the three broad levels of the civil service, C, B or A)[1] is also high, mobility between ministries is very low, at 0.3% in 2007-08.[2]

Mobility is also favoured by a new online tool introduced in France in 2008, the *Bourse inter-ministérielle de l'emploi public* ("Inter-ministerial Jobs Platform") which offers vacant positions for government units, with a counterpart at the regional level. Many OECD countries have had similar services for many years and they encourage not only mobility but also transparency in careers and transfers.

Lastly, the efforts made since 2006 to introduce an "inter-ministerial catalogue of occupations" (*Répertoire inter-ministériel des métiers*) is part of this new approach for improving mobility in the central government and encouraging a common human resources language among the different spheres of government.

Notes: 1. Category A civil servants are those performing functions corresponding to policy making, supervision and management; those in Category B have functions corresponding to policy application and drafting; and those of Category C have functions corresponding to execution (a higher education degree is not an entry requirement). 2. Figures obtained during interviews with the *Direction générale de l'administration et de la fonction publique*.

Source: OECD (2012), *OECD Public Governance Reviews: France: An International Perspective on the General Review of Public Policies*, OECD Publishing, http://dx.doi.org/10.1787/10.1787/9789264167612-en.

To be effective, individual performance management objectives should also be tied to the key competencies that organisations have identified to address emerging challenges. For example, to encourage horizontal performance, competencies such as collaboration and corporate thinking should be included in performance plans as a means of strengthening commitment to whole-of-government objectives.

Incentives need to be built into workforce planning to ensure that behaviour supporting agility is encouraged. Simply providing opportunities for collaboration across organisations, or for increased mobility within the government, is not enough. The competencies gained from a diversity of experience must be valued and publicly recognised as a priority by the government. Making promotion contingent upon job rotation, as described above, is one way of doing so. Staff in line ministries often do not see how horizontal co-operation will benefit them, and therefore lack incentives to collaborate (OECD, 2010a). One province in Canada has begun to incentivise this behaviour, starting with senior managers (Box 3.5). As this example demonstrates, a degree of flexibility in pay schemes helps governments provide efficient incentives for collaboration.

Box 3.5. **Canada: Incentivising agility and collaboration in Alberta**

In Alberta, Canada, officials agreed that getting departments to work together is the biggest challenge to public service and that achieving this depends on the behaviours of senior officials in the departments. The most effective incentive to joining up has been to explicitly link the performance pay of senior officials to horizontal policy initiatives. For deputy ministers, the heads of the departments, 20% of their remuneration package is based on performance, and 75% of this is based on their performance in horizontal issues. For the assistant deputy minister, 50% of his/her performance pay is based on horizontal initiatives. This has created a meaningful incentive to focus on the success of the government's horizontal initiatives, even if it requires reallocating resources away from achieving the goals in the department's business plan.

Source: Määtä, S. (2011), "Mission possible: Agility and effectiveness in state governance," *Sitra Studies*, No. 57, Finnish Innovation Fund, Helsinki.

Countries can also consider how their compensation systems contribute to agility in the public sector. As noted above, the wage freezes and cuts taken by many countries in response to the financial crisis have undermined the ability of governments to restructure and reskill. One of the key lessons from past experience in the public and private sectors is that when pay cuts and freezes are deemed necessary, it is suggested to assess the savings relative to the costs – such as the loss of institutional knowledge, the time

that will need to be devoted to reorganisation and the retraining of staff (OECD, 2012d).

The Canadian government, for example, has not provided funding for wage increases since 2010-11, requiring departments to fund any increases through internal efficiency gains. Departments have been granted the flexibility to fund wage increases in the way that best suits their specific situation, either through reduced employment levels, reallocation from other spending to personnel or a combination of both. Departments can determine how best to address these constraints while maintaining their programmes. This policy aims to avoid the potential disruptive impact of a hiring freeze, as recruitment for specific skills can continue where needed.

Countries can also develop more flexible compensation systems by aligning public salaries with the overall labour market. OECD countries like Canada, Japan, New Zealand and the United States have policies to consider prevailing market pay levels in planning pay adjustments (OECD, 2012d). However, the public workforce includes a wide range of occupations and governments thus compete for talent in multiple labour markets. The labour market puts different values on different skills at different times, thus the relative balance of supply and demand for labour governs compensation increases. For example, several OECD countries have responded to shortages in teachers by adjusting pay: Denmark and the United Kingdom, among others, have concentrated salary increases early in teachers' careers; Austria, Japan and Portugal have provided comparatively larger increases to mid-career teachers; and Hungary and New Zealand have focused their efforts on more experienced teachers. These different approaches indicate a targeted and market-sensitive approach (Buchanan and Black, 2011). The heterogeneity of government positions suggests that differentiated pay increases, aligned with external market rates by occupation, may be an effective way to retain skills in high demand while staying within constrained budgets.

Japan and Portugal have introduced reforms to their compensation systems over the last several years (Box 3.6) which have resulted in more flexible compensation systems by, for instance, linking wages to local conditions and to employee performance.

Box 3.6. **Japan and Portugal: Developing more flexible compensation systems**

Japan introduced changes to its remuneration system in 2005. To promote efficient personnel management while maintaining the morale of employees, Japan built a remuneration system that would restrain seniority-based remuneration increases and ensure appropriate compensation based on each official's duties and responsibilities or performance results. The main points of the reform were:

- To reflect local wage levels in public employee remuneration. The Japanese government lowered the average salary level by 4.8% and introduced Area Allowances to increase the salary levels of public employees in high-income regions. This reform was gradually implemented between FY2006 and FY2010.
- To reflect performance in pay step increases. The government divided the only existing pay step into four steps to make increases more flexible. In addition, the government consolidated the regular step increase and the special step increase into one step based on performance.

Portugal introduced changes to its remuneration system as one of the pillars of the public administration reform in order to rationalise the number of pay scales, pay steps and remuneration supplements, which had prevented transparency in the compensation system. The new remuneration system included three main parts:

- Basic remuneration: There is a single pay scale that includes 115 pay steps. Each category of careers includes a variable number of pay steps. For example, single category careers have a minimum of eight pay levels, and for multi-category careers the number of steps varies according to the number of categories.
- Remuneration supplements: Supplements are no longer automatic or permanent in nature; however, they have been maintained for positions with demanding conditions, assuming functions are being performed well on an ongoing basis.
- Performance bonuses: Workers and middle managers are now eligible for performance bonuses based on the Integrated System of Public Administration Performance Assessment. However, bonuses should be based on a predefined credit which should be distributed successively by category, career, activity, academic qualifications and professional groups; all decisions regarding bonuses should be made public.

Source: Presentation given by Bunzo Hirai and Yuki Yokomori, Japanese delegates to the OECD Public Employment and Management Working Party, and Teresa Ganhão, Portuguese delegate to the OECD Public Employment and Management Working Party, during the annual meeting in December 2010.

Changing the culture of the public service to enhance agility

Creating a more agile workforce will require a change in culture in the public service from one based on rules and regulations to one based on creativity and collaboration. Shifting from departmental culture to a

whole-of-government culture with shared values will help reduce the tendency for governments to operate in silos. Strengthening the collective values of the public service can enhance government's capacity to respond to problems that require co-ordinated action by different organisations. For example, issues such as urban renewal, social inequality and environmental pollution do not fall neatly within the purview of one government department or agency. OECD countries are addressing the need to build the collective culture of the public service through various initiatives, including more cohesive senior executive groups, articulation of common values, promotion of networking, mobility initiatives and incentives for co-operation (OECD, 2010b).

Changing the bureaucratic culture to achieve an agile, responsive government also requires an innovative and risk-taking workforce, where employees are given space to fail. These skills are echoed by officials in the US Department of Defence, who have stressed that the key to promoting agility is to encourage competition, including the competition of ideas, which requires innovation, creativity and the willingness to take risks (Katz, 2012) (Box 3.7). Organisations can encourage and facilitate the development of these skills by soliciting creative solutions to workplace challenges and by involving employees in identifying improvements (GAO, 2009). However, developing a culture that encourages responsible risk taking requires increased trust by management in its employees.

The success of efforts to change the culture of the public workforce will depend in large part on how well organisations manage change and on the receptivity of employees to change. Previous OECD work has found that many countries underestimate the importance of managing change while designing and implementing policy reforms (Huerta Melchor, 2008). Finland's experience with Finwin – a change management programme developed to help the government manage the challenges associated with its ageing civil service – provides several lessons for countries implementing change initiatives. These lessons include:

- The need for a vision that gives managers and staff a sense of direction and for a communication strategy designed in parallel to the reform policy in order to provide timely information to all stakeholders and avoid misunderstandings and negative perceptions.
- The importance of dialogue among all stakeholders during the whole change process. Communication and dialogue are two interlinking factors, fostered by well-functioning communication channels.

- The relevance of leadership in facilitating change – even when senior managers are not necessarily the authors of the reform initiatives – and the need for managers to understand and be committed to lead the change process.
- The need for senior civil servants to be both managers, to minimise risk in implementing the new programmes, and leaders, to create the basis for a new culture in the public service.

Box 3.7. **United States: How agility and employee creativity contributes to improving an organisation's resilience to crises**

The United States government has developed the concept of organisational resilience to help assess agencies' agility following a crisis. Although this concept is used primarily in emergency preparedness, it can be applied to several areas of government planning and includes elements that can contribute to an agency's broader strategic agility. The US Government Accountability Office (GAO) defines organisational resilience as "the quality that would enable an organisation to restore itself or thrive following a disruption, by which we mean a sudden and externally imposed circumstance that has the potential to substantially compromise an organisation's ability to accomplish its mission. A highly resilient organisation is identified by the speed and agility it demonstrates in achieving a return to its normal state (or new normal state) and its resulting enhanced ability to respond to future disruptions."

An agency's ability to respond to disruptions with flexibility and agility relies, in part, on employee creativity and innovation. Specifically, employees who can think independently and use creative problem-solving skills will likely be more resourceful and able to improvise after a disruption. The GAO has identified several steps that organisations can take to encourage and facilitate the development of these skills in its workforce, including:

- creating opportunities for employees to propose solutions to workplace challenges
- involving employees in the identification of improvements
- offering related training
- developing job descriptions or competencies for employees that set performance expectations for their ability to think creatively and apply new ideas
- recognising employees who introduce new processes and ideas with awards that are visible within the organisation.

Source: GAO (2009), *IRS Management: IRS Practices Contribute to Its Resilience, But It Would Benefit from Additional Emergency Planning Efforts*, US Government Accountability Office, Washington, DC.

Fostering agility through diversity in the workforce

Several countries have included policies on diversity as part of their workforce planning. While the goals of such policies generally relate to enhancing public service values, improving representativeness and creating equal opportunities, increased diversity can also contribute to a more agile workforce. Diversity of thought and experience can lead to new ways of tackling old problems. The combination of different types of knowledge can lead to strategic insights through the co-operation of staff with different backgrounds and diverse expertise. When managers surround themselves with staff with similar backgrounds and values, the risk of "groupthink" increases, inhibiting the organisation's ability to anticipate emerging challenges or find creative solutions to existing ones. Policies that promote mobility, both within and between the public and private sectors, can break down narrow, departmental loyalties and limit the risk of groupthink by increasing diversity among senior management. Experienced leaders can learn new skills and perspectives through the challenges that come with assuming new responsibilities (Hämäläinen et al., 2011).

Governments have taken a variety of approaches to increase diversity and improve gender balance in the public sector. In addition to developing flexible employment frameworks that allow more casual and part-time work (see below), many countries have increased workplace flexibilities to improve the work-life balance in the public sector. For example, variable working hours, opportunities for telework, equal parental-leave entitlements and access to affordable childcare can all lead to increased female participation in the labour force (OECD, 2012c). Opening recruitment to a more diverse talent pool can also help countries address the challenges associated with an ageing workforce.

Using HRM tools and processes to promote strategic agility

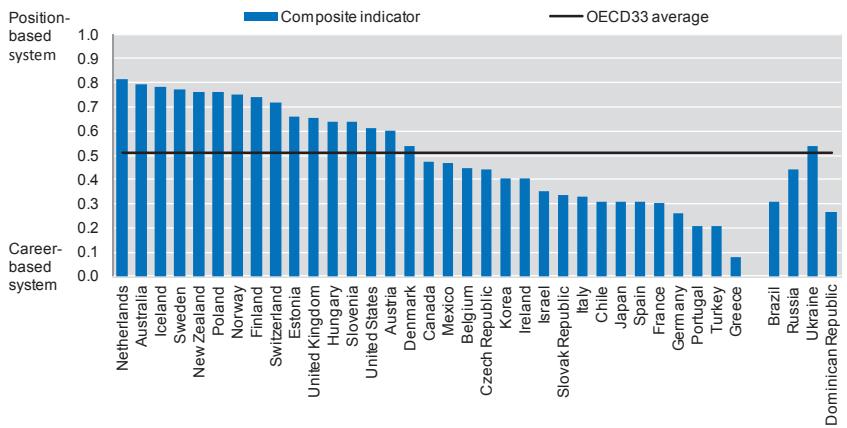
Recruitment and hiring strategies to acquire targeted skills

While workforce planning can help governments foster agility among existing public servants, governments can also use their hiring process to inject new skills and staff into the public service. There are two basic models for recruiting staff into the public service: one based on careers and one based on positions. In career-based systems, public servants are selected competitively early in their career, and higher-level posts are open to public servants only. In position-based systems, candidates apply directly to a specific post and most posts are open to both internal and external applicants. Most OECD countries reflect a mix of these two models. Figure 3.2 shows the level of openness of OECD countries' recruitment

systems, including their openness to applicants from outside the public service.

Each system can contribute to agility in the public workforce in different ways. Countries with career-based systems may have more flexibility to reallocate resources within the government and may be able to facilitate mobility more easily. In position-based systems, governments can hire targeted skills for specific positions more easily at all levels, resulting in a better match between candidates and the needs of the position. Position-based systems are also more likely to have staff with a diversity of experience and thinking at all levels, which can facilitate agility. In general, recruitment systems that are open to external candidates at any point in their careers provide managers with the possibility to adjust their workforce more quickly in response to changing conditions. Countries with more position-based recruitment systems also appear to grant line ministries more authority to take HRM decisions, leading to greater flexibility (OECD, 2010a). Over the years, some OECD countries have moved towards more position-based systems. For example, both Italy and Poland have recently done so in order to increase flexibility.

Figure 3.2. **Type of recruitment system used in central/federal government (2012)**

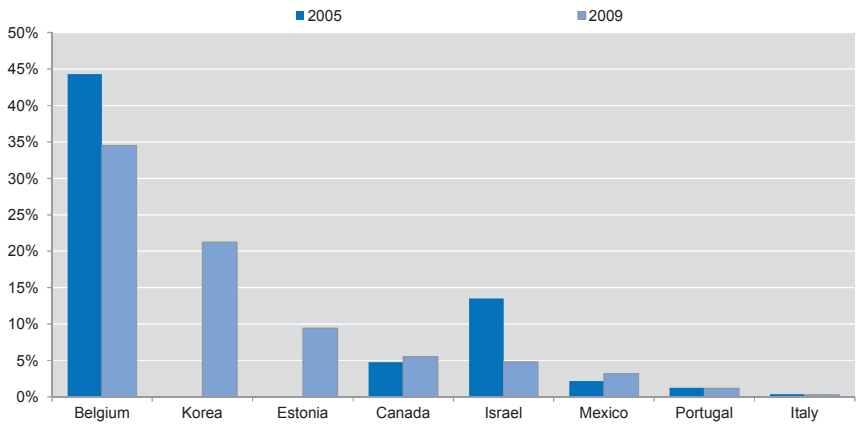


Source: OECD (2010), "2010 Survey on Strategic Human Resources Management in Central/Federal Governments of OECD Countries", OECD, Paris, unpublished. Data revised in 2012.

In some OECD countries, governments have the authority to hire temporary, or casual, workers outside of traditional employment frameworks to meet emerging challenges.[2] Such a "just-in-time" workforce is generally

not subject to the same rigid hiring policies as other public servants are and allows governments to increase or reduce the numbers and skills of an organisation's workforce relatively quickly. New arrangements for government employment can help countries avoid some of the weaknesses of traditional employment frameworks, such as their tendency to generate a risk-averse culture that inhibits innovation and limited flexibility in arranging a varied skills mix (OECD, 2008). Currently, however, few OECD countries report using casual staff, and the proportion of such staff outside of the general employment framework remains low (Figure 3.3). For example, both Chile and Mexico have increased flexibility in their public workforce in recent years, through the increased use of *contrata* (Chile) (Weber, 2012) and *confianza* (Mexico) (OECD, 2011d). In addition, several countries, including Denmark, Estonia, Germany, Israel and Sweden have made all or some of their public sector staff subject to general labour laws in order to increase flexibility.

Figure 3.3. **Proportion of casual staff in government employment in selected OECD countries**



Source: OECD (2010), "2010 OECD Survey on Strategic Human Resources Management in Central/Federal Governments", OECD, Paris, unpublished.

Table 3.2. **Part-time employment in the public service** [1]

	Total for all employees under the general employment framework (2009)	Number of part-time workers (2009)
Australia	162 009	23 252
Austria[2]	47 300	8 855
Belgium[2]	33 567	26 060
Canada	255 572	9 669
Denmark[2]	32 266	10 938
Estonia	16 055	747
Finland	121 923	10 524
France[2]	1 940 011	214 117
Germany[2]	192 694	26 370
Hungary	21 901	477
Iceland[2]	12 251	5 158
Ireland[2]	37 424	5 564
Israel	63 147	14 133
Italy	490 605	21 564
Japan	-	148 162
Korea[2]	154 317	21
Netherlands[2]	115 294	32 779
New Zealand[2]	44 672	3 473
Norway	143 747	23 177
Poland	120 908	-
Portugal	519 348	-
Slovak Republic	2 525	-
Slovenia	18 101	779
Spain	525 204-	7 898
Sweden[2]	47 582	5 145
Switzerland[2]	32 280	4 996
Turkey	1 776 412	-
United Kingdom[2]	489 400	106 860
United States	2 038 183	-
Russian Federation	2 089	-

Notes: 1. Number of part-time employees in central government in relation to total government under the general employment framework. 2. GEF data provided as FTEs. 3. Data for Spain are from 2011. Information not available for Chile, Czech Republic, Greece, Mexico, Poland, Portugal and Slovak Republic.

Source: OECD (2010), "2010 Survey on Strategic Human Resources Management in Central/Federal Governments", OECD, Paris.

Nearly all OECD countries have policies allowing the employment of part-time workers in the public service (Table 3.2). The availability of part-time work increases the flexibility of both the employer and its employees. For many employees, part-time work ensures greater labour market participation because it allows them to combine work with family or other non-work activities; however, part-time employment often leads to lower pay and fewer career opportunities in the long run. Increasing opportunities for part-time work may affect the diversity of the workforce, as 70% of part-time workers are women in OECD countries, but it may also have a significant impact on the pay gap between women and men. Policies enabling casual and part-time workers contribute to agility by enabling the government to tap into a broader, more diverse labour pool and help mitigate the loss of skills by encouraging older employees to transition gradually from work to retirement.

Dismissal, rehiring and retraining policies

The ability to restructure and reduce staff numbers, even during periods of financial stability, is also a key indicator of agility in the public service. However, traditional employment arrangements in the public sector tend to include greater protection against dismissal than in the private sector. For example, public servants in 15 OECD countries have guarantees in favour of life-long employment, compared to 5 countries with similar protection for private sector workers. Among countries that allow the dismissal of public employees, only six report doing so regularly. In countries with more flexible dismissal policies, dismissed public employees are often entitled to minimum periods of notice (e.g. 2-12 months in Sweden) and access to professional or vocational training. As part of Canada's Work Force Adjustment Agreements, employees whose positions have been eliminated can opt for either a priority consideration for open positions elsewhere in the government or a cash-based transition support measure of up to one year's salary. Retraining and education assistance are also available. Such policies give governments greater flexibility to control staff numbers and improve mobility, while retaining some protections for employees.

However, the loss of too many employees at once, such as through an increased number of retirements resulting from an ageing workforce, can decrease agility due to the loss of critical skills. In response, some countries have developed policies to retain older workers and transfer their skills to younger employees, which may involve changes to retirement rules and pension programmes. In the United States, some government agencies are allowed to rehire recent retirees without the employee losing his or her annuity. At a time when a government is facing challenges in hiring and retaining talented workers, which is exacerbated by an increasing number of

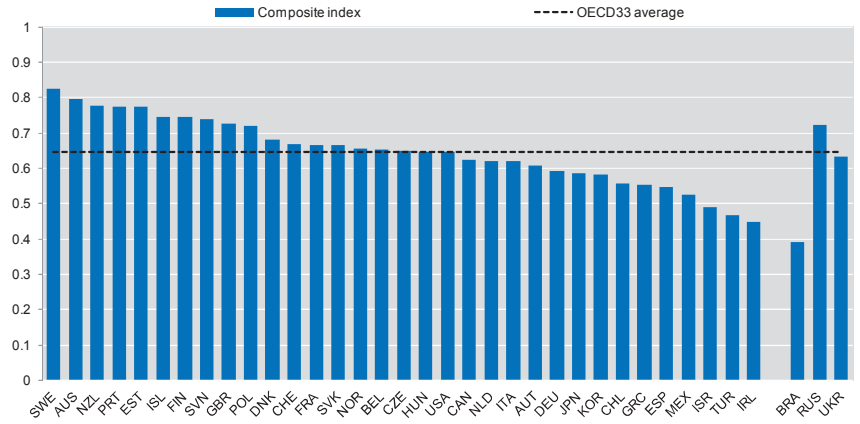
retirements, the authority to provide so-called "dual compensation" enables agencies to fulfil certain mission-critical functions more easily. Senior officials in the US Department of Health and Human Services report that this authority provides two primary benefits – appointment agility and compensation agility – which have enabled them to hire scientists and other skilled professionals to quickly fill competency gaps to respond to medical emergencies (GAO, 2012).

Governments can also mitigate the loss of skills and create a more flexible workforce by developing retraining programmes, allowing employees whose skills are obsolete or whose positions have been eliminated to remain in the workforce. Under the terms of the Work Force Adjustment Agreements in Canada, retraining is made available to facilitate the redeployment of employees. Portugal has designed training courses to help older employees acquire new vocational skills, particularly ICT skills, which has helped modernise the workforce without excluding older staff. Retraining policies can help shift the focus of restructuring measures away from the overall size of the public workforce toward facilitating change to achieve greater organisational efficiency and effectiveness.

How decentralisation of HRM authority affects agility

In many countries, recent reforms have included the decentralisation of HRM authority, as governments give line managers more flexibility to adjust the size and composition of their staff. Countries like Australia, New Zealand and Sweden have decentralised HRM practices by increasing the role of line ministries in determining the number and types of positions in the organisation; the allocation of the budget between payroll and other expenses; staff compensation levels; and employment conditions, among others (Figure 3.4). By doing so, these governments have attempted to allow managers to tailor their HRM practices to meet their organisation's specific business needs. Previous OECD work (2010a) has shown that greater levels of HRM delegation to managers in line ministries can provide greater flexibility in moving staff quickly in response to changed environments. Such delegation is common in the private sector, where managers are held more directly accountable for the performance of their unit. Indeed, a 2006 survey of business executives found that pushing decision-making authority as far down the organisation as possible was one of the most important contributors to agility (McKinsey & Co., 2006).

Figure 3.4. **Extent of delegation of human resource management practices to line ministries in central government (2010)**

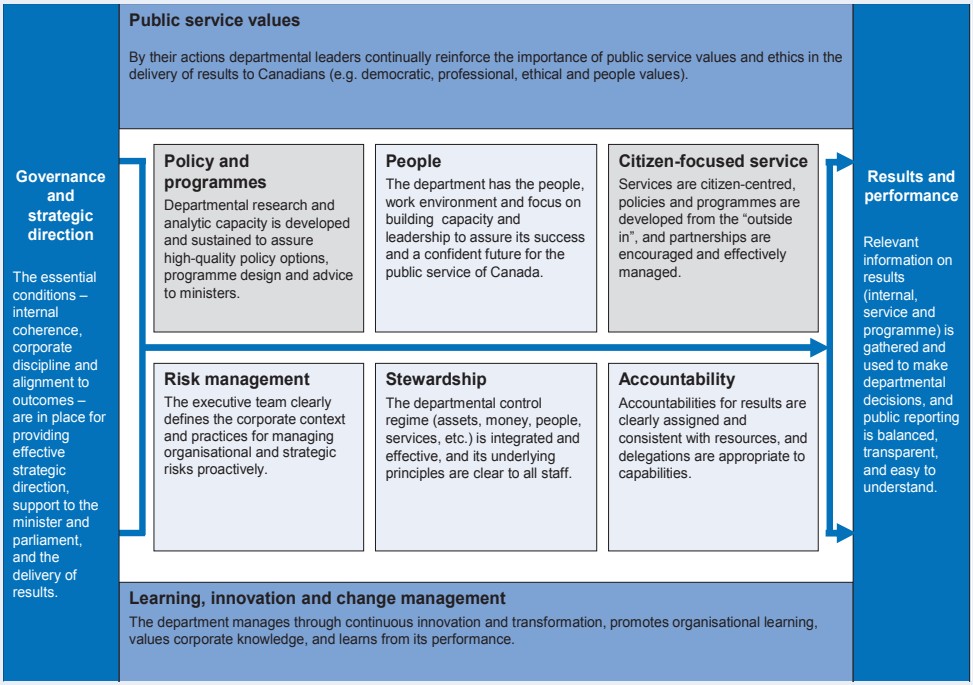


Source: OECD (2010), "2010 OECD Survey on Strategic Human Resource Management in Central/Federal Governments", OECD, Paris, unpublished.

Decentralisation in the public sector should be accompanied by a sound accountability framework to ensure consistent application of HR policies. Furthermore, managers need sufficient HR expertise within their unit to execute delegated responsibilities effectively. Developing and implementing a management accountability framework and ensuring an adequate distribution of HR skills can help improve the effectiveness of the government's workforce planning. Canada has developed such a framework that helps to ensure accountability in a delegated environment (Box 3.8).

Box 3.8. Canada: Using management accountability frameworks to enhance HRM decentralisation

In the context of increased emphasis on results and performance management and delegation of management functions to departments, the Canadian government has developed a Management Accountability Framework (MAF) to ensure departmental accountability for management results, including human resources. The MAF is structured around ten key elements that collectively define "management" and establish the expectations for good management of a department or agency. It sets clear indicators and measures that can be used to gauge performance over time to help managers, deputy ministers and central agencies to assess progress and to strengthen accountability for management results. The MAF is part of the government's efforts to move away from prescriptive rules and heavy central regulation to focus on risk-based monitoring and accountability for results. The government uses annual MAF assessments to identify management strengths and weaknesses in individual departments and agencies and ultimately government wide. The assessment process leads to a joint agreement on specific management improvement action plans and ultimately public reporting on the state of management. The MAF assessment now also factors into deputy ministers' performance appraisals.



The "people" component of the MAF provides a common structure for assessing HRM in departments and agencies. It sets out a vision, expectations, key performance indicators and associated measures for sound HRM. It centres on key workforce, workplace, leadership and HR infrastructure outcomes, and associated measures. The outcomes are:

Box 3.8. **Canada: Using management accountability frameworks to enhance HRM decentralisation** (*cont.*)

- a workforce that is talented, professional, representative, engaged and productive, with the required competencies and values to meet current and future needs
- a workplace that is healthy, safe and fair and enables employees to work effectively in a supportive environment and a culture of excellence
- strong leadership and management capacity to effectively lead organisations and people in a complex and dynamic environment
- effective infrastructure, which facilitates effective organisational planning supported by strategic and enabling HRM and achieves high levels of client satisfaction.

The key "people management" performance indicators provide a solid foundation on which managers at all levels, including deputy ministers and human resource professionals, can build their accountability regimes for quality HRM and assess their organisation's business and human resources outcomes. Every department and agency (except for small and micro agencies) in the federal public service is assessed in each component of the MAF. Each MAF component is further subdivided into areas of management (AoM), each of which has lines of evidence with associated rating criteria and definitions to facilitate an overall rating by AoM. The four-point assessment scale measures each AoM as either strong, acceptable, opportunity for improvement or attention required. The annual performance assessment of deputy ministers takes their department's MAF performance into account.

The MAF assessment process is performed annually by the Treasury Board Secretariat (TBS) (OCHRO performs an assessment of the "people" component of the MAF), based on evidence submitted from departments and agencies to support the defined quantitative and qualitative indicators within the framework. Assessments are completed by TBS representatives, including a quality assurance process to ensure results are robust, defensible, complete and accurate.

Source: OECD (2010), *OECD Reviews of Human Resource Management in Government: Brazil 2010: Federal Government*, OECD Publishing, http://dx.doi.org/10.1787/10.1787/9789264082229-en.

Conclusion

Even during times of fiscal austerity, strategic HRM has the potential to help governments develop a more agile public sector. This does not simply mean reducing and replacing staff to create a leaner, more efficient workforce that does "more with less". It involves reviewing the current policies and skills of the existing workforce and determining how to use those to address emerging challenges. Strategic workforce planning provides the overall framework for governments to identify, acquire and develop the competencies it needs now and in the future; it provides a tool for allocating resources where they are most needed; and it helps align individual performance management with overall strategic objectives. By facilitating mobility to develop a whole-of-government perspective in the workforce and to diversify the experiences and skills of its staff, government can enhance flexibility within the public sector and improve its ability to develop creative solutions to cross-cutting challenges. In addition, by providing incentives for risk taking and innovation, governments can foster a culture that is willing to accept change and is not scared by the risk of failure.

Governments can also use traditional HRM tools to increase the flexibility of the public workforce. The experience of many countries suggests that across-the-board staff reductions and hiring freezes are often detrimental approaches to fiscal consolidation. If workforce reductions are needed to meet savings goals, workforce planning can help governments make targeted cuts that limit the impact of staff losses on future capacity. More open recruitment systems in which governments can hire new staff at all levels allow employers to acquire specific skills when they do not already exist in the current workforce. Similarly, employment frameworks that include casual and part-time workers also increase governments' agility by allowing them to increase, decrease or reallocate staff quickly as conditions change.

These lessons could be further enriched in the future through case studies, as more countries are experimenting with innovative practices to facilitate strategic change and adjustment in their public sectors.

Notes

1. Responses to the "OECD Survey on Managing Budget Constraints: Implications in Central Government HRM Policy" (OECD, 2015 - forthcoming).
2. Casual workers can include short-term employees, students or contractors.

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Chapter 4

Achieving public sector agility through information and communication technologies

Information and communication technologies (ICT) have the potential to help government foster resource flexibility and strategic realignment throughout the public sector. They can help the government adjust to changing demands and pressures, and even inspire new approaches to government functions or services -- through the use of cloud computing, mobile-based services and social media, for example. ICTs can also make it easier to adjust back-office operations to create more agile, citizen-centred structures. Online services can improve accessibility and convenience for users. Technology can help increase collaboration both within government and with external partners to improve results. Finally, ICTs in used in conjunction with open government data can help government become more open, agile and connected – which should lead, ultimately, to better overall public sector outcomes. This chapter describes current practices in countries as well as the challenges that need to be overcome to realise the huge potential offered by new technologies.

Introduction

Advances in technology have transformed the reality of societies. New technologies are part of people's daily lives and shape our environment, behaviour and understanding. At the same time, citizens and stakeholders are also calling on governments to proactively address complex emerging issues, to respond to their changing needs and to offer a creative vision for the future. Citizens increasingly expect to engage with the government, and also expect the quality of public services – especially those delivered online or via mobile technology – to be equivalent to that of the best in the private sector.

The effective use of new information and communication technologies (ICTs) can help government adjust to changing demands and pressures. ICTs can inspire new visions for the future and the creation of innovative strategic opportunities. They can make it easier to develop agile structures, processes, and networks to support effective government policy making, operations and service delivery. They can help governments foster strategic realignment throughout the public sector and better match resources with policy objectives.

E-government policy makers see the potential of an ICT-enabled agile and mobile state as part of a more knowledgeable, collaborative and networked society overall. Greater use of ICTs can help strengthen national competitiveness as well as public sector capacity. For instance, cloud computing can provide governments with flexibility to deliver results quickly while reducing costs.

Cloud computing and social media both reflect an era of virtualization and openness in which data and knowledge are increasingly gravitating to online venues for processing, storing and sharing. Both are intertwined with the emergence of Web 2.0, a more participative Internet environment based less on one-way communication and more on collaboration and active engagement.

Cloud computing – built to some degree upon the open source software movement that has challenged traditional proprietary models of intellectual property and control – represents the *technical* architecture of a more open and participative web (i.e. the tools and systems used by individuals and organisations to undertake tasks), while social media represents the new *social* and *participative* architecture (i.e. the creation and sharing of content online). Across both cloud computing and social media spheres, competing forces are at play. Governments face the daunting challenge of understanding both sets of motivations in order to promote and, where necessary, regulate the use of these technologies.

Given the unparalleled advances of mobile communication technologies, governments are turning to "m-government" to harness these technologies for improving social and economic development, public service delivery, operational efficiencies and active citizen engagement. The interoperability of mobile applications, which support quick access to integrated data and location-based services, paves the way for innovative public sector governance models – also called mobile governance or m-governance – based on the use of mobile technology to support public services and information delivery.

Box 4.1. **New technologies**

The term "new technologies" is used here to refer to the following:

Social media: This can be defined as "a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of user-generated content" (Kaplan and Haenlein, 2010), i.e. social media are interactive online platforms that mediate human communication. When the technologies are in place, social media is ubiquitously accessible, and enabled by scalable communication techniques. In 2012, social media became one of the most powerful sources for news updates through platforms such as Twitter and Facebook.

Cloud computing is the use of computer resources (hardware and software) that are delivered as a service over a network (typically the Internet) and used on demand and in a flexible manner.

Mobile technology is the technology used for cellular communication. Mobile technology has evolved rapidly over the past few years. Mobile phones and Smartphones, GPS navigation devices, embedded web browser and instant messaging systems make this technology increasingly important for public service delivery and citizen engagement. Many experts argue that the future of computer technology rests in mobile computing with wireless networking. Mobile computing by way of tablet computers (e.g. iPad) is becoming increasingly popular.

From an e-government perspective, technology can help pursue the following goals:[1]

- **Increase collaboration to improve results.** Historically, ministries were structured to solve sector-specific problems; ICTs and better information flows across organisational boundaries can help improve co-ordination and collaboration to achieve more agility through better policy and service delivery. Governments can use new technologies to leverage operational gains and reduce transaction costs.

- **Improve service delivery to meet expectations.** Ministers and the public expect "always on" and more responsive governments. The Internet, mobile technologies, social media and cloud computing can help strengthen agility and restructure back-office and front-office processes and procedures to deliver more agile, innovative and responsive public services, and can also facilitate the involvement of the private sector in providing public services.

- **Promote open government data to increase agility.** Open government data (OGD) is an important component of open government. It can be used not only to increase openness through transparency and the inclusion and empowerment of stakeholders, but also to enhance agility in policy making and service delivery and to stimulate innovation. One aspect of OGD is making public sector information and data accessible and reusable to enable public participation in designing agile responses to public needs (e.g. co-production and delivery of services through newly developed applications). Another aspect is enabling governments to use public datasets coupled with information and knowledge from the public to make more informed policy choices and improve responsiveness and efficiency. Today, governments also want to use OGD to make public sectors more coherent, connected and agile in their actions. Since governments opened up their data to the public, public sector departments are sharing and collaborating with each other i in areas where they did not collaborate before. This can have an enormous impact on the agility, productivity and quality of the public sector.

This chapter discuss the value of ICTs to achieve the above-mentioned goals in relation to overall public sector agility.

The potential of ICTs to foster joined-up governments

In an environment of top-down cost reductions with a strong focus on efficiency, policy makers are trying to find ways to be more agile, flexible, effective and responsive. To this end, many countries are focusing on the creation and use of common ICT platforms to be used by all agencies, rather than continuing to use individual systems. Such platforms can help defragment governments, encourage joined-up approaches and increase co-ordination.

This approach provides an opportunity to free up resources, create synergies within the public sector and drive innovation. It can also help e-

government policy makers find new ways to best use technologies to deliver results and remain up to date and relevant.

Some actions must also be taken to ensure that these benefits are captured. For instance, consolidating information systems to allow information to cross ministerial boundaries can lead to cost reductions, but this change will require many government officials to work in a new way.. Similarly, moving from collaboration to co-operation will require the public sector workforce to acquire new skills. Working across agencies is one of the biggest challenges facing e-government policy makers, because there are few rewards and incentives to collaborate; this is true for collaboration within government, across levels of government and outside government (with civil society and the private sector). Having a strong shared vision across all sectors of government as a partner in e-government projects may help break down the barriers to collaboration.

In pursuing defragmentation, governments should avoid rebuilding assets that are already in place elsewhere in the public sector, including at sub-national levels, and, where possible, exploit common capabilities and focus on consolidation and standardisation. This can be achieved by adopting better internal collaboration and co-ordination across sectors and levels of government; adopting mandates or legislation that compel agencies to share and reuse data or systems; or using financial controls at the national level (and in negotiation with sub-national levels).

A stronger focus on consolidation and standardisation has led to reduced government expenditures on ICT. Examples of how this has been achieved include:

- Reassigning infrastructure budgets to a single central agency with a mission to standardise.[2]
- Consolidating hosting and data centre operations and increasing the use of cloud computing, with the aim of saving a significant percentage of operating costs and better using capital budgets.
- Renovating legacy systems to reduce operating costs.
- Developing national interoperability frameworks, including catalogues of standards, to overcome communication barriers among ICT systems across agencies and levels of government.

Redesigning architectures and breaking down silos

E-government cannot reap the potentially significant benefits it promises unless the various stakeholders at different levels, both inside and outside government, share tasks and information. Users, whether citizens or

businesses, demand effective, rapid and high-quality services and policies, and are generally not interested in back-office questions about how they are provided or who provides them.

In this context, government agencies are increasingly changing the way they work both internally and with other agencies and actors to create "joined-up governments". Internal agency re-engineering is typically driven by the adoption of e-government, but also tends to lag far behind its full potential. This is not only because inertia is embedded in historical, cultural and organisational structures, but also because re-engineering is far from straightforward or easy. It typically requires strong political will as well as a clear focus on objectives. Government agencies need to co-operate with outside stakeholders and re-engineer external links and processes across organisational boundaries. Initiatives such as "P-Direkt" in the Netherlands show how e-government can help break down interdepartmental barriers, create public-private partnerships, increase flexibility and reduce costs.

As part of such reengineering, respective responsibilities and powers need to be reconsidered, and this can lead to the blurring of roles and jurisdictions, particularly those of the stakeholders that become involved in areas that were previously the reserve of the public sector or specific agencies. The role of the public sector is changing; it is becoming just one player among many in a new form of "open-source governance", in which it may only play the role of arbiter, co-ordinator, funder or regulator for the activities and involvement of others in delivering public value.

Redesigning governance architectures and breaking down silos can help ensure balance and stability in this changing context. One way to do this is to group services that users need at different points in their life into "life-event packages", . Each life-event package can be composed of a number of building blocks identified and built for reuse by other life event packages or by any other service. Such building blocks can be integrated in clusters for specific service configurations, constituting a service-oriented architecture (SOA). In addition, tools can be made available to users to design and deliver their own services derived from these building blocks, thereby promoting user-driven innovation.

The life-event approach in designing public services has served to redesign e-government programmes in OECD countries. The "Life Event Access Project" in the United Kingdom[3] is one of many national practices that can be mentioned in this regard. Another example is in Canada, which since the late 1990s has focused on developing seamless services through initiatives such as Government On-Line (GOL) and Service Improvement Initiatives (SII). The main goal of this approach has been to promote collaboration among departments that share common clients, and thereby

reduce wait times, increase interoperability, and make programmes and services easier to find and access – particularly online. The GOL and SII have introduced a user-focused approach to services and changed how the public interacts with the federal government. The Canadian approach is based on the Public Sector Service Value Chain, which focuses on getting the right programmes, services, knowledge and information to the right people and organisations at the right time – a so-called "just-in-time" approach for high-quality and user-focused service delivery. The main idea is to develop and implement joined-up services through focused collaboration and co-operation across the four different levels of government (one federal, ten provincial, three territorial and more than 5 000 municipalities) (Treasury Board of Canada, 2006).

Another interesting example of promoting collaboration and breaking down organisational silos is the Electronic (Effective) Service Delivery (ESD) network[4] in the United Kingdom. This network has a membership of over 23 000 local agencies and authorities who have developed a range of toolkits and shared services for collaborative working and evidence-based improvements of locally delivered services. The ESD is a secure, online resource that allows all local authorities to record, compare and monitor their public services against those of other participating local authorities based on shared metadata standards. Tools include a framework of standards (the architecture), a technical infrastructure, proactive face-to-face and online processes, and peer support for structuring information within and between local authorities for more efficient service delivery.

Collaboration can be complemented by sharing services and resources across and between public administrations, through shared service centres, e.g. ICT applications, e-government building blocks, information and data, and common business processes. This can also make it easier to outsource services to other actors, inside or outside the public sector. The establishment of shared service centres is an opportunity to increase public sector agility. There are two distinct models for the creation and use of shared service centres across OECD countries: the top-down model and the bottom-up model. In the top-down model, the decision to use a shared service centre is taken at the Centre of Government, and the support services personnel is transferred from the line ministries to the shared service centre. In the bottom-up model, the use of the shared service centre remains voluntary for the line ministries, but incentives may be in place to stimulate use, such as personnel reduction operations (sometimes specified for support services) or permanent automatic productivity cuts. Austria, Denmark, Finland and Spain have adopted the top-down approach, while the Netherlands, Norway and Sweden appear to follow a bottom-up approach. Canada is a combination of the two.

Finally, when it comes to new technologies, cloud computing and new concepts involving both private and non-governmental service providers are expected to give rise to the next phase of significant cost savings, efficiency and flexibility across the public sector as a whole. The appeal to governments is the possibility of using cloud computing – whether public, private or government-operated clouds – to reduce the large operational costs of running their own infrastructure, applications and services, and to enable greater flexibility and responsiveness for government and the administration to deploy new policies and programmes. Cloud computing is expected to provide economies of scale and efficiency gains by making it easier to quickly access innovative IT solutions and share and/or consolidate systems. Such savings will, however, be dependent upon a competitive marketplace, clarity about the government not funding the capital investment for a market entrant or provider, and the cost effectiveness of a "service offer" under the cloud (OECD, 2012).

Beyond e-government: Networked governance to support better policy outcomes

Politicians are questioning the capacity of the public and private sectors to deliver the expected results of e-government projects. The need for new skills is evident: effective project and risk management, strong communication, ICT governance, agile decision making, embracing new technologies, information sharing, and managing public data and stakeholder involvement are some examples. ICT investments need to be more directly related to policy outcomes, such as better education, economic performance, safer communities and increased life expectancy.

Achieving the traditional e-government model – designing, building and deploying a final product or service – is no longer viable, as it is not realistic in a changing context of networked governance. Governments are not the sole source for delivering high-quality e-government services, and the demand for engagement with citizens and the private sector is increasing. Working more effectively with innovators and stakeholders outside government can provide e-government policy makers with additional insight that is not otherwise available, and enables them to launch projects that start small, pilot them and learn what works and what does not, based on feedback from the community. This can be hard, as some sectors, including the major government IT solutions providers, still think about government in traditional ways, which can present a barrier to new ideas. E-government initiatives that are widely owned within government and in the wider society, and based on a common mind-set for boosting ICTs to achieve policy goals, can secure the required level of buy-in. Policy makers need to ensure that the responsibility for leading change is shared across many

government agencies, not only at the centre.[5] Open Government Data Initiatives such as data.gov in the United States and Directgov.uk in the United Kingdom can act as a catalyst for change and agility across government.

Box 4.2. **United Kingdom: Cloud computing through the CloudStore G-Cloud**

Inspired by successful private sector examples such as the "App Store", and cognizant of the potential change brought about by cloud computing in the economics and sustainability of ICT, the UK government has developed an online store –. the CloudStore G-Cloud – where any public agency can buy ICT services. The development of the CloudStore is part of the G-Cloud Programme, which is a cross-government initiative led by the Ministry of Justice and supported by the Home Office under the direction of the Chief Information Officer Delivery Board as part of the Government ICT Strategy.

The initial focus is on introducing cloud ICT services into government departments, local authorities and the wider public sector. In order to do this, the UK government has undertaken a G-Cloud procurement framework for services. These services can then be reviewed and purchased through the CloudStore. At present, there are four categories of services: infrastructure, software, platform and specialist services. The G-Cloud site is the portal to the CloudStore and is expected to ensure that everything relating to the programme can be found in one place. The government intends to continue building it as well as blogging about progress and other relevant events.

The G-Cloud is an iterative programme of work that is expected to deliver fundamental changes in the way the public sector procures and operates ICT, and in the way it collaborates internally and with external vendors.

The UK G-Cloud strategy expects to:

- achieve large, cross-government economies of scale;
- deliver ICT systems that are flexible and responsive to demand in order to support government policies and strategies;
- take advantage of new technologies in order to deliver faster business benefits and reduce costs;
- meet environmental and sustainability targets;
- allow government to procure in a way that encourages a dynamic and responsive supplier marketplace and supports emerging suppliers.

Source: HM Government (n.d.), "The G-Cloud Programme", Crown Copyright, London, http://gcloud.civilservice.gov.uk.

However, the existence of legacy systems and traditional processes can get in the way of agile government and leave the potential for better collaboration and co-ordination untapped. In the case of procurement, for

instance, evaluations based solely on price can deliver poor value. Many governments continue to rely on large vendors, and it is difficult for governments to move to new and niche partners with contemporary skills and expertise. By dividing work into smaller contracts, government can become more innovative and agile, and partner with more small local firms. This can also make it easier to integrate open data, cloud computing, cyber-security and sustainability into government operations.

Social media and collective intelligence dynamics can be used in the public sector to foster a more mobile and flexible workplace. For instance, the Bring Your Own Device (BYOD) trend allows staff to use their own end-user devices for professionally related tasks. However, adopting such approaches, as well as improved collaboration across levels of government, more distributed governance models, and flexibility with performance and environmental benefits, can be a challenge.

First, there are a range of management issues posed by civil servants' use of social media to support their functions within the public sector or to interact with the public. It can be difficult to negotiate the line between "freedom of information" and civil service values (e.g. discretion).The effective management of the use of social media depends on several core factors:

Box 4.3. **Korea: The Smart Work Project**

Korea's Smart Work Project aims to create working centres to decongest Seoul, raise productivity and make Korea greener. Launched in 2010, the target of the Smart Work Project is to have 30% of the public sector workforce – which is about 8 million employees – work in wireless broadband-enabled smart working centres located in areas outside of Seoul, a densely populated metropolitan area where one quarter of the country's population lives, by 2015. The underlying idea is for work to become more mobile and flexible, thus producing happier, more creative and more productive employees.

Also, in an aging society, the Korean government wants to encourage more women to work and make it easier for the elderly to continue to work. Thus, the government's plan is to enable at least one third of all employees in the public sector to work from home (or from the so-called "smart working centres") by 2015. The idea is to change the mentality of a public workforce that works long hours and appears to have a rather unhealthy work-life-balance, to clear clogged roads (Seoul is listed in rankings of cities with the world's worst traffic), and to curb carbon emissions, which have risen faster than in any other OECD country.

Nationwide high-speed Internet-access, tech-savvy citizens and the prevalence of Smartphones in Korea (penetration is now at 20%) are seen as positive preconditions for the project to work, as civil servants get used to the idea of increasing work mobility. All high-ranking officials in the Korean public administration have subscribed to the concept of Smart Working, which is an additional key precondition for its success.

- Political leadership or sponsorship (e.g. government endorsement of Gov 2.0 or enhanced freedom of information as the framework in which the public sector operates).
- More attention and support from agency heads (e.g. in several OECD countries public servants, and not political appointees, are at the top of the agency, thus providing a politically independent leadership).
- An adequate enabling environment (e.g. social media policies and strategies, guidelines such as user manuals, regulations to enable appropriate use, risk management and the adoption of prompt responses in case of need, good records management).
- Incentives for collaboration and data-sharing (many OECD countries have explored ways to release public sector information from central and local governments, such as alternative financial mechanisms to compensate for the elimination of fees charged for retrieving data, and awarding prices for organisations that have proven capable of improving efficiencies through greater information sharing and collaboration).

Second, the traditional government mindset towards communications and the withholding of information may clash with the rising pressure for openness and sharing. New strategies and skills are needed to use social media in a meaningful way. It is essential that e-government policy makers work with other leaders to build capability across government to use new technologies in a way that fosters a cultural change toward more networked governance and sustains public sector reforms. Governments can enhance the capabilities and skills of the public sector workforce by encouraging officials to use social media and providing them with training on the established policies for use, or by developing relevant complementary skills to build and ensure in-house capacities (e.g. identifying internal requirements and specifying them accurately in the case of cloud computing; undertaking effective market approaches including evaluations of offers and contract negotiations).

One of the recommendations of the Australian government's 2009 *Report from the Government 2.0 Taskforce* is to encourage public servants to engage online. Revised online engagement guidelines for public servants have been issued, including the declaration that Web 2.0 provides public servants with unprecedented opportunities to open up government decision making and implementation to contributions from the community. Similarly, in many other OECD countries, employees are encouraged and enabled to engage online. Agencies support this by providing access to tools

and guidelines (such as in the United Kingdom or the German city of Hamburg) , and by addressing internal technical and policy barriers. Innovative Government 2.0 tools can be used by employees to engage with their customers, citizens and/or communities of interest in different aspects of the agency's work. This is why some countries, such as the United States, offer training to their public servants to improve their negotiation or communication skills.

However, a culture needs to be created that allows civil servants to experiment and develop new opportunities for engagement on their own initiative. Such a culture should reward those who create new engagement and participation tools or methods that can become mainstream practice and improve the performance of the department or agency. Successful practices in OECD countries include the creation by lead agencies of online forums through which agencies can share their initiatives and the lessons learned (see Australian Government Information Management Office, 2009).

This is particularly relevant as a demographic divide exists within the public sector in terms of attitudes, ability, awareness and tolerance regarding new technologies. (The shift towards using them tends to be more disruptive for experienced and aging generations – including many senior civil servants - and more seamless for younger workers and new entrants into the public service. France provides an example of the changing needs in terms of skills in the public sector workforce. Aware of the increasing risk of cybercrimes, the national agency in charge of the security of IT systems, which is attached to the centre of government, hired over 260 engineers, mathematicians and data experts in 2012 to manage the risk of attacks and sound early warnings when needed. The aim is to double the size of the workforce carrying out tasks related to cyber security. Similarly, the Dutch police, in collaboration with Deloitte and ForensicPlaza, produced the Program Awareness & Digitalization programme. This programme provides a flexible and innovative way to raise the police force's awareness of risks and opportunities in the cyber environment and to develop skills in dealing with the emerging challenges of an increasingly digitisalised society.

In sum, it is important for governments to devise specific strategies so that:

- Frontline staff have the skills they need to use ICTs for agile service delivery.
- Managers can manage data and understand data release.
- Directors and managers have formal training in ICT, including on the importance of designing systems that are secure, resilient and sustainable.

- All civil servants have the necessary digital literacy skills to form part of a modern workforce.
- Legal and organisational settings facilitate the use of ICT for greater work flexibility ("smart work").
- Work environments support a range of end-user devices.
- The use of ICTs is marketed through effective and flexible policies, allowing public servants to use their own devices.

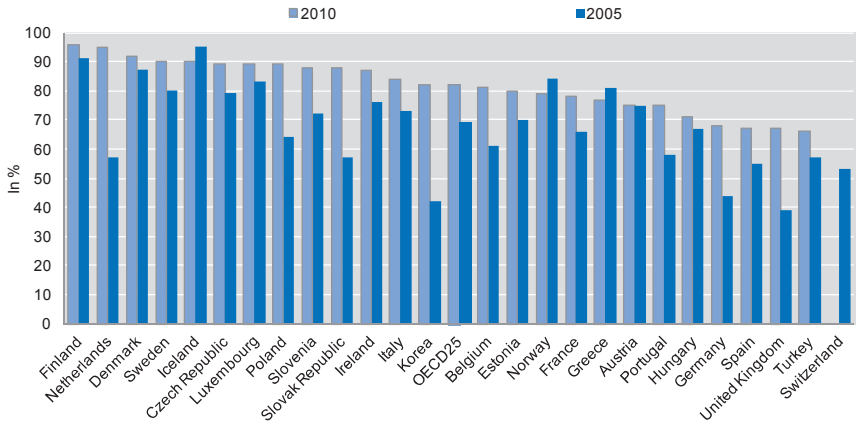
The efficient adoption of new technologies requires that public sector staff, who are on the front lines of public sector modernisation and transformation, to adopt flexible working in a way that also improves the quality of their work and their working lives. New types of skills and competencies are also needed, including basic and advanced ICT skills to understand how to use technology to strategically solve problems and nurture social engagement. The future generation of civil servants will need to include more data scientists capable, for instance, of conducting predictive analytics to identify patterns in citizens' needs and behaviours. This is essential to ensure that the smart use of ICT and new technologies supports change management and the redeployment of capacities and resources in the public sector, thereby making it more agile, dynamic, efficient and effective.

The potential of ICTs for innovative service design and delivery

Countries have made tremendous progress over the last 20 years in rolling out e-government services. For example, the data available for a range of European countries show that full online availability of 20 e-government services increased from 20% in 2001 to over 80% in 2010, while online sophistication increased from 81% in 2007 to 90% in 2010. However, the levelling-off of citizens' use of e-government services between 2004 and 2010 remains a concern. Although there was an increase in use from 23% to 30% between 2005 and 2007, by 2010 this had only risen a further 2% to 32% (see Figure 4.2). The use of e-government services by businesses has, in contrast, continued to rise steadily (see Figure 4.1). Similar findings relate to the strategies adopted by countries to rethink e-government services (OECD, 2009). One report on e-government 2.0 (McKinsey, 2009) also noted, "despite the continued allocation of enormous resources, progress on the e-government front appears to have reached a plateau over the past few years." Many countries still seem to be in a "Government 1.0" paradigm in which take-up is low and initiatives are expensive and often fail (Millard, 2010).

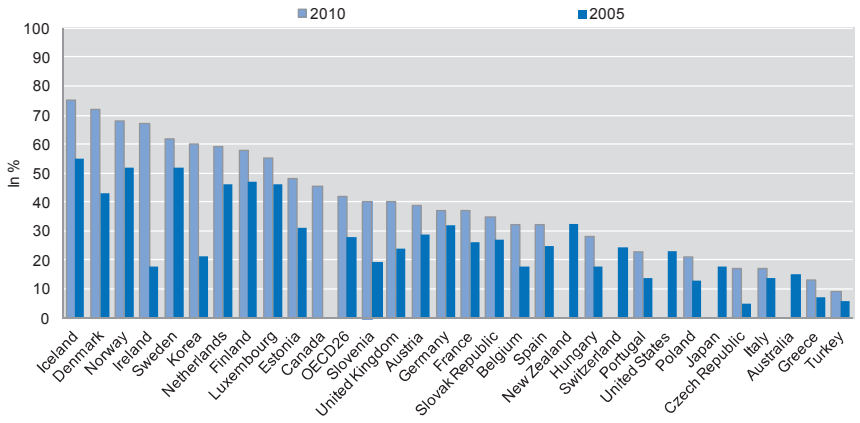
Evidence shows that the public sector is facing important challenges and needs to rethink how public services can be oriented towards the creation of public value and user empowerment. There needs to be a strong move towards ensuring that e-government serves the needs of society rather than those of the government. Many user surveys show that, although citizens who use the Internet also tend to use e-government services and find them useful, they typically do so only two or three times per year.[6] Such services

Figure 4.1. **Businesses using the Internet to interact with public authorities (2005 and 2010)**



Note: Data for Mexico has not been included in this figure.

Figure 4.2. **Citizens using the Internet to interact with public authorities (2005 and 2010)**



Note: Data for Mexico has not been included in this figure.

Sources: Eurostat Information Society database, *OECD ICT Database* and Korean Survey by Ministry of Public Administration and Security on ICT usage. Data for Chile and Israel are missing. For Australia, Japan and the United States, 2005 data refer to 2003. For Switzerland, 2005 data refer to 2004. For Denmark, France, Germany, New Zealand and Spain, 2005 data refer to 2006. For Canada and Mexico, 2010 data refer to 2007. For Iceland, 2010 data refer to 2009. Data for 2010 are missing for Australia, Canada, Japan, New Zealand, Switzerland and the United States, and these countries are not included in the average (OECD26).

tend to deliver large-scale administrative services designed to make existing government functions work more efficiently and effectively, such as tax and procurement systems, automation of registrations, permits and licenses, etc., rather than really thinking about what citizens need in their everyday lives. It is clear that most current e-government services are simply existing services put online –basically silo-centric, top-down services – using little service innovation, and resulting in just as many failures as successes. In other words, their main focus remains first and foremost finding greater efficiencies for the government, whereas a more agile government is also expected to better serve the needs of the end users of public services.

Many efforts have already been made towards more agile service delivery, based on transparent and user-centric governance. These are services that are proactive, automatic and offered through online self-service platforms. Some recent attempts across OECD countries include service personalisation, or the development of personal service pathways, which means services that directly benefit the user and are likely to be used frequently. There has also been a strong increase in services developed by local and regional governments, especially in large cities. Finally, we are witnessing the widespread use of new technologies by governments and societies that enhance the involvement of third parties (citizens, businesses and non-governmental organisations) in the co-production and co-delivery of services. However, all of this is far from being mainstreamed. A paradigm shift to Government 2.0 focusing on universal personalisation and participatory services, although now being actively discussed within many governments, is still in the future The sections below highlight some of the key emerging trends in the use of new technologies to deliver services that better respond to the changing demands of end users. The "Government Digital Service Team" under the United Kingdom's Cabinet Office is piloting agile ways of developing online services. Development of the new government portal www.gov.uk included several rounds of testing with individuals, including from vulnerable and minority groups. The result is a government online portal that sets new standards for accessibility, simplicity and effectiveness. The *Lina Amica* in Italy is another example (Box 4.4).

The changing needs of digital citizens

Demands for public services are increasingly diverse, while public budgets are being cut because of the financial crisis and other fiscal constraints. Not only are there new demands, but existing demands require more sophisticated responses. How people understand public services and use them has been evolving significantly over the past few years and there is no sign that this trend will change. For instance, users of public services are becoming more reluctant to accept standardised relationships with large, impersonal organisations. The more we learn about the factors shaping well-being, lifestyles and quality of life in the 21st century, the clearer it becomes that current services do not always meet the particular needs of individual users (Leadbeater et al., 2008). In the early days of e-government, the focus was on its potential to change the relationship between governments and constituencies, such as in the shift from static websites to interactive portals. What is different and compelling today is how social media and Web 2.0 are turning everyday citizens into digital citizens who can initiate and profoundly change the dynamics of the citizen-to-government relationship. They can assert new expectations in terms of interaction as well as content and delivery of public services.

New models of service delivery require governments to redesign services, their content and the supporting delivery processes to better meet the needs of citizens, businesses and other public service beneficiaries. The value of ICTs to meet some of these challenges is widely recognised across the OECD. It is, however, essential that e-government services are well designed to improve efficiency in service delivery and shift progressively to exclusively digital delivery for the segments of the population that are ready for it.[7] Moreover, many citizens still do not have easy or regular access to new technologies. Governments should therefore consider the need to prevent the new digital divides from emerging while exploring the potential of new technologies to develop new content and services, identify new modes of delivery and provide opportunities for the public to co-design and co-deliver them.

Box 4.4. **Italy: Setting up a friendly help line (*Linea Amica*)**

The "*Linea Amica*" initiative, launched in January 2009, brought together the Department for the Public Administration, which was sponsoring the initiative; the Department for the Digitization and Technological Innovation (Formez PA), which was providing the know-how and was in charge of implementation; and the digital information agency (*Agenzia per l'Italia Digitale*). This project was part of the overall plan for reforming the public administration (the Brunetta Reform), which focused on increasing efficiency and agility. *Linea Amica* aims to improve the relations between the public sector and citizens by informing, helping and serving them in more agile ways, and offering a single point of access to the administration. *Linea Amica* is built on three axes:

- open dialogue between citizens and the public administration to enhance transparency and accessibility;
- improved service delivery through the adoption of ICTs with more agile communication and more efficient collaboration;
- network of multi-channel points of contact to bring services closer to the users and make them friendlier.

Approach and underlying values

Linea Amica combines ICT-led innovation with a modernised interface between citizens and the administration. Based on a problem-solving approach, *Linea Amica* follows a process until the citizen's request has been addressed. The service provides citizens with information (simple or complex) and transfers their requests to the relevant public entity; it acts as a mediator between the citizen and the public sector throughout the entire process to solve a specific problem; and it is actively involved in finding concrete solutions with the administration.

Linea Amica's core values are: listening to citizens, treating them with professional courtesy and helping them rapidly solve their problems. Increasing citizens' engagement is also a key goal of this initiative. *Linea Amica* provides opportunities for active participation, enabling the use of new technologies (e.g. mobile and social media platforms). Citizens can provide feedback on the quality of public services, put forward suggestions for cutting red tape and improving service quality, using smartphones. Feedback helps to map needs and reasons for dissatisfaction, and to resolve recurring issues.

The largest European customer relations network and knowledge repository

Linea Amica now brings together over 1 250 contact points in Italian administrations and represents the largest European customer relations network. It includes contacts with social security for pensions (INPS – Gestione ex INPDAP, INAIL), the Revenue Agency, the municipalities of Rome and Milan, the Health Reservation Desk for two regions (Lazio and Emilia Romagna), various ministries, other regions and local authorities. A citizen calls *Linea Amica* through a local number, and reaches an operator who either answers his question or transfers him to a centre of expertise.. The network generates 60 million contacts per year, 50 million of which are through operators. *Linea Amica* uses 200 operators, half in the back office and half in the front office.

Box 4.4. **Italy: Setting up a friendly help line (*Linea Amica*)** (*cont.*)

The front office answers the calls and provides immediate information, and replies to less complex requests. Back-office staff analyse more complex demands and co-ordinate the requests throughout the administration. The idea is to improve the portal as much as possible through up-to-date information and an extended knowledge repository and set of FAQs in order to lighten the back office. Feedback from front-line operators also helps improve the knowledge base. The most critical challenge is to move towards a completely automated knowledge base.

Impact and results in terms of increased public sector agility

Linea Amica improves service availability and quality, contributing to greater transparency and responsiveness. By providing better knowledge of users, it can help in designing more targeted services. It also contributes to cultural change and an increasingly digitised public sector. Contacts via *Linea Amica* increased by around 23% between 2009 and 2012, and the number of requests for assistance managed without an intervention from the back office increased by 18.5% during the same period. This reflects the preparedness of the *Linea Amica* frontline operators, and the richness of the underlying common database. The capacity of the front office operators to respond has helped to speed up responses and increase efficiency: the response time for requests managed by either the front office or the back office has decreased from an average of 8 hours and 37 minutes in 2009 to 2 hours and 51 minutes in 2011. The service has extended and diversified the areas of assistance (e.g. *Linea Amica* Immigration, *Linea Amica* Health, assistance for public exams, assistance in the use of certified mail) thus increasing the richness of the service provided. Users' satisfaction has reached a level of 91%. The online portal was revamped in 2011, and the number of visits increased.

A multi-channel service delivery approach can help provide consistent services via an Internet portal, a Smartphone application, a service centre and a call centre. Governments have tried to improve their back offices through greater consolidation, integration and data interoperability, which eliminates repetitive requests for the same data from citizens. High-volume transactions, such as registration and payments, can be standardised across all government agencies.

In redesigning services agencies, governments could also focus on making it easier for citizens to use government data in their own workflows. This would better enable citizens to actively participate in business process improvement and service design. Usability is also important, and governments can explore the use of new technology platforms to encourage co-creation with private and non-profit sectors. This would, in turn, increase the government's capacity to innovate and rapidly launch new services that respond to users' needs.

The case for personalised services

To use resources effectively, governments are considering the personalisation of public services as a way to promote public value. Personalised services represent a more sophisticated mode of service delivery, moving beyond a user-centred approach. Personalisation means more than being able to choose different options or service suppliers. It requires services to be actively shaped in response to individual profiles. This does not mean separate, isolated pathways, as many of the activities involved in being healthy, learning effectively or using any public service are collaborative and intensely social. But it does mean that provider organisations must be capable of adapting and reconfiguring what they offer to ensure that it fits individual needs. This, in turn, requires governance, resourcing and accountability structures that reward better outcomes and support the agility required to offer personalisation on a mass scale. The smart use of ICT is clearly essential in this regard.

As back offices become more and more integrated by ICT and able to share data and resources, a growing trend is the ability to offer a personalised service at the front office through self-services where the user is the initiator of a service and in full control of navigating, choosing and terminating a set of offers from the agency. The same back-office integration also enables the public sector to offer proactive services where the government itself initiates actions to deliver or enhance personalized services. For example, when a user is warned that an action may be required, the government can pre-fill data in an application form that it already possesses to the extent permitted by law, such as for e-taxation services in which pre-filled forms are sent to taxpayers. Of course, such services may raise personal privacy and trust issues.

A further possibility is completely automatic service delivery, in which the agency takes full responsibility to initiate, deliver and terminate a service. In this case, the input and responsibility of the user are minimised and may even disappear altogether. For example, the birth of a child could automatically trigger regular child benefit payments or the automatic allocation of a new tax code because of a taxpayer's new family dependent. Such services are sometimes termed "disappearing services" because the user does not need to act and may not even notice them, although she might notice if the service was not delivered (Millard et al., 2004; European Commission, 2007a).

Proactive and automatic services are reflections of the increasing recognition that public services should be delivered in more agile and smarter ways. This implies both that services should be joined up and that governments need to engage with users to learn what really matters to them,

and then act on that information (HM Treasury, 2007). Proactive and automatic services are clearly not appropriate for all types of service, but tend to be restricted to services for which most, if not all, necessary data already exist within the public sector, or to which the public sector has legal access. They also often tend to be more routine, though not necessarily simple, services. Making services proactive, especially to disadvantaged groups, requires highly robust data protection, as well as updated regulations about the data to which governments have legitimate access (e.g. personal bank accounts).

Another approach to personalised services, of which there are as yet few real-life examples, is pre-emptive or early-intervention services. Some new local initiatives (such as in Colorado in the United States and Nottingham in the United Kingdom) are experimenting with early-intervention schemes to prevent potential future problems. These are seen as long-term programmes, imposing up-front costs but eventually leading to much larger savings, although this inevitably involves some risk as no immediate results are visible. Using ICT-enabled simulation and decision-support tools through analysing longitudinal socio-economic data on social deprivation, anti-social behaviour, crime, health, educational needs, etc., potential future problems are identified. The lessons are then applied to high-risk individual community, family or personal situations before the problems themselves actually appear. Conversely, however, it could be seen as an attempt at intelligent intervention, which, is a significant change in how we think of the welfare state, and a considerable expansion of the type of services and the role of the public sector not seen before and largely enabled by ICT.

Thus personalisation means that ICT can help in performing two important tasks:

- Eliminating data and information presented to a user that he or she does not need in order to benefit from the service – simplification for the user in the front office.
- Eliminating administrative procedures and processes as well as transaction costs that the agency does not need to employ when offering and delivering a service – burden reduction for the agency in the back office.

Participatory services through new technologies

As technologies such as social software and social networking tools become more ubiquitous and are deployed on a larger scale, existing public values are changing to include users in new user-producer relationships. The production and distribution of relevant content, information and services is now moving from formal organisations to broader networks, often with an

ad hoc character. Consumers become "prosumers" and thus take up new roles in the value chain, leading to what has been called the "democratisation of innovation" (Von Hippel, 2005). The following sections highlight how ICTs are increasingly facilitating the participation of multiple stakeholders in the design and delivery of public services.

Democratising the value chain of public service delivery through Web 2.0

Web 2.0 tools are beginning to "democratise" the means of production, distribution and supply, i.e. the whole value chain. If we add the widespread availability of other tools, such as cameras, recording equipment and sensors, which used to be the preserve of professionals but can now be purchased by the public, the portfolio of tools widely available becomes a potentially potent mix. These technologies enable bottom-up and personalised communication and information sharing, and have immense potential for user-driven services, systems and innovation, where users or user groups are themselves involved in designing and delivering services, thus further blurring the line between suppliers and users (Leadbeater, 2004).

These new networking tools are starting to make it possible to combine and exploit the interests and expertise of huge numbers of people, so that potential designers and suppliers of goods and services can identify each other, work together and deliver. This would hardly be possible in the world of purely physical products and services. On the demand side, the technology enables demand pooling, for what would otherwise remain dispersed and largely unknown minority needs. These can create markets that are commercially viable and/or are sufficient to warrant public sector service supply.

The sharing of tasks between governments and users is already visible, especially in terms of information gathering. Police departments are increasingly using pictures taken by citizens with their mobile phones of offences such as violence or hooliganism. Public broadcasters use citizen weblogs as sources for their reports, and urban planning practitioners use SMS messages from citizens reporting on infrastructural defects in order to plan repair schedules.

Box 4.5. **United Kingdom: Managing diabetes through Participatory E-Health**

Over the past several years, some experiments in the United Kingdom have been applying a much more bottom-up approach to the public sector (Leadbeater, 2006), especially in health, education and crime, where few designers have traditionally worked. One example is how the UK government is dealing with diabetes, which costs the National Health Service GBP 5 million per day and is one of the main causes of premature death. The average diabetic spends just three hours a year with doctors, but thousands of hours a year managing his condition himself. The biggest gains will come from enabling diabetics to become more effective at self-diagnosis and self-management, for example by equipping them with appropriate ICT tools, techniques and peer support. Similarly, 90% of healthcare is delivered in the home. People want more home-based solutions that they feel in control of. The health information available to patients on the Internet is transforming their role – no longer passive, they can question and participate.

Much of this sharing remains on a small scale. Often leading the way is neither the government nor the public sector, but civil society organisations, social entrepreneurs and the private sector. Many of the early innovative user-centred services, like FixMyStreet launched in the United Kingdom in 2007 (Box 4.6), have been designed by civil society organisations as web portals for personal computers (PCs) connected to the Internet.[8]

Box 4.6. **United Kingdom: FixMyStreet**

FixMyStreet[1] was designed and is run by the mySociety[2] civil society organisation staffed by volunteers. This service allows any citizen to report problems in their street or neighbourhood ranging from broken street lights or paving, abandoned vehicles or rubbish, graffiti, etc. The citizen does not need to know which authority is responsible as the site automatically passes the complaint on to the correct department and then traces and tracks its progress on behalf of the citizen until the problem is solved. To do this, mySociety had to obtain the relevant public sector information and data about authorities' roles and procedures, contact points, etc. Many, although not all, of these data were already in the public domain but were widely scattered and not easily accessible digitally. The value added which mySociety brought was to gather dispersed data, "mash" them together in appropriate ways, and visualise and map them in an easy to use format for citizens. They had to reach across administrative silos, something which is perhaps difficult for the public sector to do itself.

Note: 1. FixMyStreet, "built by mySociety using some clever code": www.fixmystreet.com. 2. www.mysociety.org.

The private sector is increasingly playing an active role in public service delivery in many areas, and health is one of these. Google has announced its move into the health market, which makes less use of ICT than other sectors of comparable size, by offering secure repositories for all of an individual's health-related data. "Health information should be easier to access and organise, especially in ways that make it as simple as possible to find the information that is most relevant to a specific patient's needs" (*The Guardian*, 2008). Microsoft is entering the same market as part of a concerted move to provide commercial services for patients to manage their own care. The idea is, first to put the patient in control by choosing which professionals see their personal data, and, second, to enable better remote monitoring to cut down on the number of office visits and hospital emergencies. The two companies believe that, because of mobility and longer lives, people's medical records may be left behind when they move. It is entirely possible for someone in his 50s to discover that he does not have an accessible medical history and may not know, for example when he was vaccinated or against what.

More recent initiatives in the Netherlands, the United Kingdom and elsewhere include trials in the management of personal budgets for social services. As part of the "Putting People First" programme, 2 000 disabled persons across the United Kingdom have been granted a financial allocation, which can be in cash form or held by the local authority to be spent in line with the their own wishes once a care plan has been approved. This can be used to pay their choice of care assistants, to join clubs rather than day centres, and to go to hotels or on package breaks rather than to residential homes for respite care. Although the pilots have not yet been fully assessed, the results so far are very positive. The government has decided to make the approach the basis of all adult social care services. ICT has been used to link the six government departments whose efforts and resources needed to be integrated to implement these trials, and has also been used by some of the disabled people and their carers to access necessary information and make their choices.

Crowdsourcing government through Web 2.0

New approaches to "crowdsourcing government" are appearing in which content and inputs are sourced from a wide range of users and others actors who have particular knowledge and interests not possessed by the government itself. The grassroots initiative "Let's do it" in Estonia helped to clean up illegal waste and garbage in the entire country in just one day.[9] Through their website (and other media), the initiators involved government, businesses and volunteers. Over 700 participants mapped approximately 10 000 tonnes of waste, including all the toxic dumps in the country left

over from the Soviet era (using Internet-enabled phones) and more than 50 000 volunteers were mobilised to clean up the garbage. Other examples include the self-help networks using SMS, mobile phones and Internet for citizens hit by natural disasters.

Many citizen groups, such as mothers of young children or patients with heart disease, are increasingly forming both offline and online social networks not only to provide mutual social support but also to exchange and build real knowledge and value about child rearing or heart disease. The role of government and professionals in this context is at times to facilitate or to provide legal or other professional advice or financial resources. For example, civil servants who are experts in a particular area could be mandated to service such groups, with caveats that are already in place concerning, for instance, the need to manage the risk if something goes wrong. Such social networks could also themselves become a source of expertise, and government could assist in sharing this with other groups or individuals who may need it. The opportunities provided by social media platforms are certainly very relevant in this regard.

Shifting some responsibility and control to the individual user can provide significant advantages, both because doing so enables users to determine when, where and how the service should be used, and also because they can determine the precise features of the service they wish to exploit. It also enables individual users themselves to follow the progress of service implementation from initiation to fulfilment, for example by using ICT-enabled transparent tracing and tracking functions. Further advantages include the ability to check for data inaccuracies or inappropriate information, to more quickly update user data, and to check that the public sector possesses only the data that it is entitled to, and/or that the user wishes it to have.

The power of m-government for agile service delivery

People are turning to mobile phones, particularly smart and G3- or G4-enabled ones, for much of their daily personal and commercial communication needs. Mobile phones provide precise locations and navigation support for all services and activities. These include surfing government sites; accessing and creating information; sending and receiving messages from governments; using personal "public" services; taking, sending and receiving pictures and video; and traditional voice services. Mobile government services are becoming increasingly important. By the end of 2012, half of the OECD's adult population had high-speed access to the Internet via a mobile device. In the leading countries, Korea and Sweden, almost 100% of the population accesses the Internet while on the move (OECD Broadband Portal).[10]

Mobile government can reap the benefits of the significant growth of smart devices and improve the reach of public services where mobile phones are more widespread than land-line connections to the Internet. Mobile government solutions can, for example, bridge spatial divides in the delivery of healthcare and provide new treatment opportunities to people living in underserved areas or to people with disabilities. Mobile devices are arguably the best placed to meet this demand now that bandwidths are rapidly increasing and becoming widely available and affordable. This situation is likely to accelerate in the future as countries switch from analogue to digital broadcasting as part of the so-called "digital dividend". This switch, and the vastly improved capacities it represents, is also likely to refocus attention on the potential of digital TV as another universal everyday medium.

There is thus an explosive growth of m-government services directed at these new mobile devices, exploiting the fact that mobile platforms enable the delivery of highly flexible and personal services accessible from anywhere at any time. Mobile devices for civil servants in the field can also provide increased flexibility and effectiveness, by offering access to data and connectivity when visiting citizens in their home or workplace.

An important premise is that technology communities are better able than governments themselves to use government data to develop mobile applications. For example, in the United States in 2009 the "Apps for Democracy" competition in Washington, DC awarded USD 20 000 in prizes for developers and yielded 47 web, iPhone and Facebook applications (or "apps") in 30 days with a value to the city of USD 2 300 000.[11] Also in 2009, the United Kingdom's Power of Information Taskforce ran competitions entitled "Show us a better way – what would you create with public information?" and offered a GBP 20 000 prize fund to develop the best ideas. In 2010, Victoria (Australia) launched an apps contest for government.

M-government opportunities are described in depth in the recent OECD report: *M-Government: Mobile Technologies for Responsive Governments and Connected Societies* (OECD/International Telecommunication Union, 2011). If we look at what people are using in their everyday lives, there is already massive growth in mobile, smart and "augmented reality" apps for personal and commercial purposes, often offered for highly specific uses on local scales. However, m-government is still very much in its infancy. For example, only a small fraction of the iPhone's 185 000 apps are related to public services. However, public service and democracy apps are starting to appear, particularly in the United States, and the focus on this huge potential is growing in Europe, albeit slowly.[12]

Location-based services

The increasing impact of GPS will enable local services to be developed in real-time to handle both routine and non-routine tasks, including emergencies, dependent on where the user is located. This includes location-based participation, for example helping to redesign the park citizens walk in, or the hospital that did not deliver the expected level of quality. Thus, a location or an event creates the opportunity for services, content and dialogue.

Given this, it is highly likely that location-based services will become increasingly important. E-government using multiple channels, intermediaries and adapted value chains empowers communities and localities. The "Love Clean Streets" initiative in the London Borough of Lewisham enables residents to use mobile phones to upload photos of junk, graffiti, vandalism or any other problem on the streets.[13] This provides both evidence and better information about the problems citizens wish to report to the local authorities. A Smartphone can capture the GPS co-ordinates together with the image, and can directly route these to the municipality's street cleaning teams, who use their own mobile devices on the streets to adjust their work schedules. Once the problem is fixed, the street team takes and uploads photos of the completed work. These can also be emailed back to the original complainant, who can also be alerted by SMS or RSS feed. Staff can therefore directly integrate data and evidence from citizens into their work scheduling, which is one step beyond simply enabling citizens to send in information on problems to a civil servant sitting in an office.

These developments show how local resources, know-how and skills can be leveraged for developing new services, as well as new forms of advocacy, support and social capital, which can both strengthen diverse cultures and interests as well as bridge them. This leads to "everyday e-government", in which government and public sector services are built around users' needs in specific locations. Such services are being created in areas including health, education, care, transport, infrastructure, utilities, parking, accidents, clean and safe environments, congestion and pollution watch, culture, amenities, leisure, sports, security, crime watch, weather, participation, engagement, etc.

Many e-government services have become more locally oriented in recent years, where they appear to have the most impact, often in co-operation with local civil society and private sector actors. The focus on geographical localisation and place-related services are expected to expand even more over the next few years, particularly in the context of "localised modularization" which is already successfully used by commercial services to deliver huge cost reductions and quality improvements.

Box 4.7. **Sweden: The Stockholm e-government programme**

The Stockholm e-government programme is implementing more than 50 e-services:

- online application for parking permits (reducing the administrative process time from ten minutes to one minute and customer waiting time from one week to an immediate response), booking and payment of swimming lessons, booking for marriage ceremonies (100% increase in processed booking with a 50% reduction in total processing time)
- complaints and comments
- e-invoicing
- online care diary, online applications for choice of day-care and school.

In addition to these administrative services, everyday e-government services are also being rolled out in Stockholm that relate directly to local circumstances and needs, such as personalised pedestrian navigation and travel information. The Stockholm Compare Services website allows the user to identify, compare and locate public services within a specific neighbourhood. The website incorporates contact information for the city's various agencies and covers approximately 4 000 municipality services from child and senior citizen care to waste recycling centres. Two-thirds of Stockholm's inhabitants find the Compare Services website helpful, allowing them an increased degree of choice. The site is used by 100 000-150 000 citizens every month (Kelly and Meyerhof Nielsen, 2011).

Leveraging open government data for more agile governments

Public sector information and data are recognised as a huge public asset,[14] and ICTs enable more agile processes to gather and analyse useful information in a timely manner. Making public data and information easy to find, access and reuse (i.e. releasing them in structured and machine-readable formats), as well as relevant to the citizens, can help not only to increase government transparency and accountability but also empower non-government stakeholders to create products and drive innovation - ultimately leading to increased public sector agility, flexibility and efficiency. Similarly, information flows can enable better policies and regulations, e.g. by providing evidence to ground policy choices. It can also support more informed decisions by individuals in key areas of public service provision, e.g. educational choices, healthcare decisions, energy use patterns.

There are considerable opportunities to increase government's agility. Governments can join-up their activities and share data in through

ubiquitous sensing and data collection in order to develop unobtrusive systems that support, assist and serve citizens in highly personalised ways. Benefit-checking applications could, for example, analyse whether a given action in a specific context for a specific person would help or respond to their needs. Providing locality information about crime, air pollution or congestion could help citizens choose where, when and how they move around, or where they want to live. Once a choice is made, the system may offer, implement or accelerate the action.

"Big data" trends are also leading governments to rethink the way they use evidence to devise public policies and the way they engage the public in policy making and public service delivery. This is the "open government data" of governments today: to use and leverage the potential of "Big Data" for social innovation, and for better and more open government. This refers not only to citizen engagement, e.g. "hacktivism", but it also means that governments are becoming more coherent, joined up and agile in their actions. Since governments have increasingly opened up their data to the public, sharing and collaborating between government departments is happening in areas where it did not exist before. This can have an enormous productivity and quality impact on the public sector. More than EUR 100 billion could be saved in operational efficiency improvements alone by using big data. In addition, big data can be used to reduce fraud and errors and to boost the collection of tax revenues (McKinsey, 2011).

A number of studies point to the potential social and economic gains from releasing public sector data in machine-readable format. A UK study (Newbery *et al*., 2008) showed that releasing data stimulates business innovation, growth and jobs through value-added services and new products. Moreover, the benefits outweigh the loss of income from licence fees by more than EUR 200 million per year for just six data sources alone. In May 2009, the European Commission reported that the commercial impact of common EU rules on the reuse of public sector information would be about EUR 27 billion.[15] The 2010 "Open Data Study"[16] provides evidence that "there are substantial social and economic gains to be made from opening government data to the public" (Transparency and Accountability Initiative, 2010). In Spain, studies have shown that the Aporta project, which encourages the reuse of public sector information by providing access to over 650 government datasets in reusable formats through a public data portal, has allowed enabling up to EUR 0.5 billion in private sector turnover per year (Ubaldi, 2013).

Initiatives such as the Green Button and Blue Button in the United States and Midata in the United Kingdom represent promising avenues for "smart disclosure", i.e. governments leveraging the economic potential of "making available high-value data for purposes other than

decreasing corruption in government" (Howard, 2012). Opening government data for consultation and contribution by third parties is supposed to directly generate business value and be a new and complementary source of growth in the context of "big data" developments.[17] However, a solid methodology for measuring the economic return of making public sector information and data still appears to be missing.

The public can use government data as a platform for innovation in service development and delivery.[18] Many governments have moved beyond the initial stages of publishing data.[19] Standards are now emerging in the data community, so that the technology needed to analyse large datasets (i.e. semantic analytics) can be built once and reused many times.

The value of open data can be enhanced by the emergence of new technologies and the increased relevance of e-participation and citizen feedback. Many tools for participation and consultation are emerging.[20] Social media tools can be used to build dialogue and mediate political issues; different stakeholders, with different perspectives, can provide different interpretations based on the same open government data and therefore contribute to more agile governments. Twenty-first century governments play a role in providing a platform for multi-stakeholder analysis and dialogue, and thereby jointly develop better policy outcomes. However, citizens need the skills and motivation to connect and participate, and to know that their voice is being heard. It is therefore important to use these tools on issues that are pertinent, and to focus on building capacities in the society at large to take up these new opportunities.

Gartner talks about a move from joined-up to "mashed-up" government, driven by Web 2.0 tools, which could enable public information and services to be combined – or "mashed up" – by third parties that are better capable of responding to user needs (Di Maio, 2007). Much of the information and many of the services governments put online could be available for use and reuse by others, enabling greater co-creation of services in a variety of different contexts. In other words, both services and information should be designed for sharing, reuse and remixing, including "mashability", i.e. mash-ups leveraging content and logic from many web sites and web applications. (Di Maio, 2007; Millard, 2010). The DigitalNZ initiative launched in 2008 by New Zealand represents an excellent example. It aims to make New Zealand digital content easy to find, share and use across government departments, publicly funded organisations, the private sector and community groups.[21] DigitalNZ tests and develops approaches and support tools that increase the amount of New Zealand content flowing through the Digital Content Life Cycle:

- creating digital content, using a selection tool and a "Make it Digital" helpdesk
- putting digital data online, using a shared respository and an open source software for community digital libraries (called "community kete"
- making the data findable through a metadata aggregator and a tool for user-enhanced metadata
- sharing the data through common application programming interfaces (APIs)
- encouraging use and reuse through a custom search builder, a remix editor and hosted search.

Getting data out, having it standardised across jurisdictions and ensuring quality, remain important challenges. Collaboration within and across levels of government and with the private sector and civil society organisations may help develop global standards. It will be important to foster an ecosystem of users and a better understanding of how to engage citizens; how to implement internal organisational changes and adopt guidelines on how data is gathered, validated and promoted in a way that is relevant to the public; how to organise the workflow for release and approval of public datasets; and how to develop the right capacities and knowledge in the public sector to deal with issues such as semantic web, linked data and measuring outcomes and impact. It is also important that government initiatives related to the digitisation of information flows and open government data not be debated, evaluated and introduced in isolation from other emerging trends in the Web 2.0 arena (e.g. cloud computing, social media). Nevertheless, social media adoption is still in its infancy, and if we consider the number of individuals becoming authors, contributors, publishers, sharing and collaborating, there is no doubt that the phenomenon is growing at a fast speed, even if governments do not yet know where this evolution is going and what the end of this phase may look like. One of the big challenges organisations face with the explosion of social media and consumer-generated content is the ability to extract, process and leverage contextually relevant data in real-time, and to capture feedback and identify the significant comments from the rest. Understanding social media adoption and how to manage new data, which is growing both quickly and daily, is essential.

Governments need to address, the following questions:

- What will the social web look like once under-represented segments of the society join the conversation?

- What is the best strategy for filtering and managing data that is important for policy making as the sources of information grow exponentially?
- What are the best criteria to understand when and how an emerging trend or topic is likely to require new policies, strategies and actions?

Conclusion

Governments are increasingly facing complex and multidimensional challenges that require combined and co-ordinated actions by all of society. Policy makers are trying to spur the use of Web 2.0 to make government more collaborative, open and agile. This could lead to deep transformations in the role, functions and culture of the public sector.

In order to deliver better services and better governance, technology is helping to turn the public sector inside-out, exposing the way it works and pushing its activities out into society. For example, e-government enables civil servants and politicians to leave the confines of the town hall and engage directly with citizens on the streets or in their homes and with businesses on their own premises, while always being in touch with the intelligence and knowledge they need in the back office. Technology is also opening up the public sector by inviting commercial users and citizens to participate in delivering services as well as providing them with the tools to join in policy design.

E-government is also about how to improve the overall quality of policy and decision making through more flexible public sectors and broader interactions between users and government. Government 2.0 promises to make government more agile, open and empowering, as it is by its very nature bottom-up and multi-sourced. Mass collaboration tools, although not yet mainstreamed, are increasingly breaking down silos within the public sector, fostering a cultural change that enables the contribution of many stakeholders to help governments address complex and multidimensional policy issues in a more agile manner. Web 2.0 can increase the use and impact of e-government. Although current awareness across the public sector is still low, it is racing ahead in the private and civil society sectors, thereby affecting the daily lives of citizens and businesses. When the "net generation" (those who have grown up with PCs, mobile devices and the Internet), come of age in the next five to ten years, it is almost certain that they will demand greater engagement.

However, the effective use of new technologies requires an appropriate environment. This includes security, identity and access controls to ensure

privacy, data quality and protection where appropriate. When technology is not used wisely to promote user-centric policy and strategy development, problems arise that can be compounded by a number of inherent challenges that also need to be tackled:

- The threat of inadequate accountability and "street politics", because many online activist groups are beyond formal democratic control, although they typically respond to actual on-the-ground and real-time needs. This raises questions about whom they represent, as well as who gains and who loses from their actions. Many of these groups can act as self-selecting elites, exacerbating digital exclusion. Much current evidence shows that the small number who already use e-participation are often already participating through other channels, so that ICT simply strengthens their involvement, while by-passing the majority who do not participate.
- Governments have to be aware of the danger of trivialisation and short-termism, which already bedevil the political system. They could be made worse by the introduction of new tools and methods for participatory decision making without educational and informational support structures, and without clearly identifying responsibility for decisions on the part of those participating.
- New sets of skills and capacities need to be developed to enable the public sector workforce to adequately support the increasing use of new technologies and fully capture their value.

For all of these reasons, governments have to implement broad-based strategies that are cognisant of the risks identified above. It is important that Web 2.0-based approaches are not implemented in isolation. These technologies have the potential to strengthen the reciprocal value-added in terms of public sector agility when adopted as part of a single strategy. As the use of the Internet increases, and with the coming of new generations, countries will generate a wealth of policy experiences that can be captured and will help in better diffusing innovative practices within the public sector. The Observatory of Public Sector Innovation will also have the potential to help share and catalyse good practices in this field.

Notes

1. The 2012 OECD High-Level Meeting on E-Government "New ICT Solutions for Public Sector Agility" (26-27 March, Mexico City) provided an opportunity to discuss how technological advances can increase public sector agility, efficiency and productivity and thus boost national competitiveness and growth.
2. Canada has long focused on ICT consolidation in the public sector and created a new agency, Shared Service Canada, whose mandate is to standardise and consolidate IT services to save resources and improve the security of the government network.
3. LEAP (Life Event Access Project), www.leap.gov.uk.
4. www.esd.org.uk.
5. The United Kingdom adopted a federated model; for example, the CIO for Defence is responsible for the provision of network services for all government agencies.
6. For example in Denmark, from the user surveys Rambøll (2006) and Millard (2006).
7. Denmark intends to make government services available exclusively through online channels from 2015.
8. Note that FixMyStreet is also now available for mobile phones as an iPhone app written by MySociety from the App Store in iTunes. There is also an Android app written by a volunteer, Anna Powell-Smith, available from the Android Market.
9. www.teeme2008.ee and www.letsdoitworld.org/news. This initiative virally disseminated to other countries, including, India, Latvia, Portugal and Slovenia.
10. www.oecd.org/sti/ict/broadband.
11. www.appsfordemocracy.org (accessed 28 November 2009).
12. Mobile e-government services are starting to appear in Europe but do not yet feature in most authorities' strategic plans. The main exception appears to be in the United Kingdom, e.g. "Directgov on your mobile": www.direct.gov.uk/en/Hl1/Help/YourQuestions/DG_069492.
13. www.lewisham.gov.uk/NewsAndEvents/News/LoveCleanStreetsCleansUp.htm?wbc_purpose=Basic&WBCMODE=Pr; http://lovelewisham.wordpress.com; www.bbc.co.uk/programmes/p006h6qf.

14. See also the principles laid out in the 2008 OECD Recommendation on Public Sector Information (PSI). The recommendation is currently undergoing a review.

15. The PSI Directive put in place in 2003 (IP/02/814: http://ec.europa.eu/information_society/newsroom/cf/itemdetail.cfm?item_id=4891).

16. Transparency and Accountability Initiative, 2010 (*op cit*).

17. See, for example, Government of Spain (2011), a study outlining the contributions to GDP and employment of companies reusing public sector information.

18. The United States has started to release data into communities, for example the energy community (up to 20 communities now in place). Korea publishes more than 200 000 datasets annually; they are not all accurate, but people inside and outside government are now working on making them more accurate.

19. For example, most national commitments under the Open Government Partnership (OGP) include explicit strategies to harness open data for greater openness and quality of democratic governance. The OGP has more than 50 country members and several countries endorsed the OGP declaration of principles at the annual meeting in Brasilia on 17-18 April 2012.

20. For instance, the Ideas Portal in Chile enables citizens to provide ideas for modernising the public sector.

21. www.digitalnz.org/about.

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Chapter 5

Exploring the concept of "strategic agility" for better government

The concept of strategic agility was developed in the context of the private sector and builds on three key levers: strategic sensitivity, resource flexibility and leadership unity. This chapter looks at the interaction between the public governance approach and the private sector strategic management approach to see how the concept of strategic agility can be applied to a wide range of national and institutional settings. It discusses what governments need to do to become more strategically sensitive to emerging policy issues, to better align government policies and activities to shared objectives and the public interest, and to facilitate the timely reallocation of human and financial resources to emerging policy needs. It also discusses effective leadership in times of transformation and how senior executives can create shared visions in the public sector and sustain momentum for reform.

Introduction

This chapter offers a reflection on the concept of "strategic agility", which provides a framework for exploring the challenges of public sector reform. The concept of strategic agility was discussed at an international workshop held on 10 November 2011 at the OECD, which brought together researchers and practitioners to discuss whether and how the private sector model of strategic agility could be applied in public governance.[1] The summary below provides interesting insights on how to discuss, test and develop the concept of strategic agility for better government. What does strategic agility imply? What has been the experience so far? How does it fit different country contexts and starting points? What effect have the recent fiscal challenges had? What issues need to be further developed? Workshop participants came from a range of backgrounds including SITRA, the OECD Secretariat, academics and country practitioners, to discuss their experiences in improving government effectiveness and responsiveness. This summary is structured around the four main sessions of the workshop and includes direct quotes from participants.

Governments are ready for change: The dimensions of strategic agility

The context of government decision making has changed, and governments are under pressure, not only from the financial and economic crisis. The problems they face are increasingly complex and involve a multitude of actors and stakeholders. Governments are now part of a network in society. They also face an historical adjustment challenge, with the rapid pace of change in their technological, economic and social environments, and with globalisation. The old, hierarchical model of government decision making no longer works. Ministerial silos make it difficult to address more complex, interdependent policy challenges. These complex, systemic and horizontal policy challenges call for innovation in public governance. A framework is needed for enhancing strategic agility in public governance in order to create a proactive, resilient, responsive, efficient and accountable government that can deliver better public services and enhance national competitiveness.

- How can governments and public administrations become more strategically sensitive to emerging policy challenges and opportunities?
- How can public policies be better aligned to shared strategic objectives and the public interest?
- How can human and financial resources be reallocated in a timely manner to emerging policy issues?

- What new frameworks are needed for enhancing strategic agility in public governance?
- How can governments identify and act on the issues that need attention?
- How can resources be moved quickly to address these challenges and other unforeseen situations?
- Can strategic agility be applied across a range of country settings?
- What does government need to do to become more strategically sensitive to emerging policy issues, better align government policies and activities to shared objectives and the public interest, facilitate the timely reallocation of human and financial resources to emerging policy needs?

Box 5.1. **The key levers of strategic agility**

As presented in Box 1.1, strategic agility builds on three key levers of strategic sensitivity, resource flexibility and leadership unity. The key levers of strategic agility are thus relational, cognitive and organisational, as well as emotional (commitment, pride, motivation). The concept of strategic agility has the potential to help governments act faster and more effectively, creating more openness in society and enhancing the mobility of people and knowledge. This concept can be adapted to the public sector and was used as a framework to develop the *OECD Public Governance Review of Finland*, undertaken in 2009-10. The Finnish government asked the OECD to carry out a review in order to assess its ability to deliver government objectives as well as its preparedness to meet current and future challenges. A particular theme of the review was horizontality within the state administration. Although the Finnish administration had achieved positive results in several areas, some critical remarks that emerged from the review centred on the lack of operationalisation of the government's whole-of-government vision, a lack of collective commitment and incentives in performance management, a disconnect between budget and policy objectives, and silo-based leadership at the Centre of Government and at the political-administrative interface. In response to the review, Sitra, the Finnish Innovation Fund (an independent public foundation promoting societal well-being under the supervision of the Finnish parliament, with its responsibilities stipulated by law) asked the Talent Partners Public Consulting Group to draft a paper for a future governance model for Finland. A second paper, "Mission possible: Agility and effectiveness in state governance", was then commissioned to contribute to international discussion on the topic. The paper notes that the end purpose of strategic agility in the public sector should be greater effectiveness of state governance. While discussing the means, it is important not to lose sight of what we want to achieve.

Building a broad framework such as strategic agility requires some soul-searching about the relationship between government, the central

public administration, the wider public sector and the rest of society, with an examination of leadership, hierarchy, networks, centralisation (or not), risk and innovation in the public sector context. The practical application of strategic agility requires close critical scrutiny from a range of perspectives, including the differences between countries and between the public and private sectors, and the tension between hands-off stewardship and a strong directional centre. Many analysts consider that New Public Management has been overtaken as part of the discussion. However, the debate is far from over on the new approach. Strategic agility has much to commend it, but its implementation may be problematic.

Understanding the challenges and the overall objective. Before investing in a new approach, we need to be clear what the challenges are. Strategic agility yes, but what is the end game? This is not just – or any longer – about GDP alone. There is a growing focus on well-being, exemplified in the OECD's Better Life Index.

High expectations of a renewed public sector. Countries face critical societal trade-offs: growth vs. environmental objectives; fiscal consolidation vs. job creation; preserving resources for future generations vs. addressing inequalities in the short run. These are creating expectations for better governance systems that are able to deal with these contradictions more effectively. The public sector is, in fact, loaded with expectations of an evolution that embraces many virtues: responsiveness, evidence-based approaches, accountability, integrity, a capacity to work across organisational boundaries, to foster innovation, improve learning and sharing of solutions, etc.

The crisis of hierarchy. The crisis of hierarchy, which began in the 1970s, was addressed differently in the public and private sectors. Firms broke down hierarchy and created co-operative arrangements while governments separated management from operations and decentralised authority with strict objectives. Hierarchies do not work anymore – but can the networked approach do any better? This raises a further question: Are governments simply part of a network, one cog among many in the machine? Or do they represent something more, over and above the network and other actors? And if so, what is this role, beyond the old-style hierarchies? Is there a need to (re)invent centres of government and the strategic state (but not in the old hierarchical sense)? Is this a disguised call for (re)centralisation? And, if so, is there anything wrong with that?

The failure of New Public Management (NPM). Policy making and its execution were separated under New Public Management. This has not worked; a new model is required. Do we move away from NPM and toward leadership and a more strategic state? It is important to discard what has not

worked, but if there is to be a new approach, there is a need to overcome the trends of past decades which stand in the way of new approaches, such as management at the expense of policy.

> *"Everybody is having this [Finnish] experience; the (NPM) idea of separating management from execution has failed."* – Charles Sabel (Professor of Law and Social Science, Columbia University, United States)

After NPM, where to next? We need a governance approach that is dynamic enough to deliver positive and sustainable effects in our societies in times of uncertainty and ambiguity. A systemic governance model based on agility and effectiveness could serve this purpose. The levers that can be used to deliver on a government's agenda include the management (the activities and processes of government), the system of interactions (engaging citizens, businesses and communities) and the underlying culture of government (values and social behaviour, leadership, levels of trust).

If strategic agility is the answer, how easily can it take root? It currently suffers from an implementation deficit, and no country has fully mastered it yet. It needs to take root in the context of current governance structures that are ill-adapted to the concept. New Public Management has implied devolution, specialisation, autonomy and decentralised solutions to problems. But strategic agility requires a centre.

The importance of leadership. Leadership unity is critical, but may be hard to achieve. Companies find leadership unity hard (although there are large differences between companies). The private sector model is anything but consolidated. Political, as well as administrative, leadership is essential.

> *"Strategic agility won't work without a strong centre."* – Guy Peters (Maurice Falk Professor of American Government, University of Pittsburgh, United States)

Moving away from system control, towards system stewardship. No single agent, not even the state, can pretend to know the whole story, or propose a solution for all problems. There is no monopoly on wisdom about what will work. Central government increasingly needs to see its role as one of system stewardship. The nature and outcomes of a policy are often adapted by many different actors working together in the system. System control does not work in this context, so the question is how to establish a system that allows diverse actors the space to develop on their own terms (within a high-level framework of goals). This requires confident central leadership which can embrace a "letting go" approach. System stewardship involves policy makers overseeing the ways in which the policy is adapted, and steering the system toward high-level outcomes.

> *"We must ask ourselves: what should be consigned to the public governance museum?"* – Katju Holkeri (Head of Governance Policy Unit, Public Management Department, Ministry of Finance, Finland)

Addressing central-local tensions in the new approach. These tensions can be observed both in practice and conceptually. NPM promoted a strong form of decentralisation, moving policy implementation and execution away from the centre. But it has not worked. We have been witnessing a reversal of this trend over recent decades toward decentralisation and decoupling management from policy making. Yet the centre cannot, and should not, take charge of everything. How can strategic agility finds its place in a system which needs to embrace the sub-national levels as an essential part of the picture? Strategic purpose is needed at the centre, but agility is needed at the local level; the local level also matters because it is close to the citizen. Local governments are, in fact, often more agile than national governments, and may have some lessons to share. How can strategic agility be reconciled with resistance to centralisation, both in federal countries as well as unitary ones?

> *"Strategic agility is not about decentralisation. You need smartness at the top, better co-ordination, and a lot of action and experimentation at the bottom."* – Mikko Kosonen (President, Sitra, Finnish Innovation Fund, Finland)

Securing both agile adjustments and a long-term view. This is the promise made by strategic agility. But how can the need to maintain long-term policy goals and "credible commitment" be reconciled with the need for rapid, short-term adjustments?

> *"Public governance projects can be like bush fires, spectacular while they last, but afterwards?"* – Carmel McGregor (Deputy Public Service Commissioner, Australia)

The pressure to focus on immediate challenges, and move very quickly. The immediacy offered by information technology and social media, and demanded by citizens is making it harder for governments to focus on the long term. Governments need the capacity to take – and fund – rapid, well-founded decisions, to follow through on those decisions and to adjust course as they go along. The media, social networks and the markets are unforgiving observers of government's capacity to act fast, decisively and effectively. Governments are required to be agile as well as long term and bring a diverse range of stakeholders along with them. There can be institutional constraints to speed, for example, public sector unions.

"You have to consider what you are going to do when an issue that you haven't anticipated or identified, or on which you were in denial, hits you from behind." – Yves Doz (Solvay Chaired Professor of Technical Innovation, INSEAD)

Failure and risk taking in the public sector. Governments cannot allow themselves to fail – or can they? And, if so, within what limits? How much risk can governments afford to take (the private sector will answer this question differently)? This issue is poorly addressed, partly because of a cultural antipathy to examining past failures, which means that we do not have a clear view of the consistent areas of failure in public policy, on which better policies and a better assessment of risk can be built in the future. Governments are inherently conservative and risk averse, and do not want to fail. The fiscal crisis applies further pressure in this direction. Financial risks are clear, from the events of recent years. But what is failure? If it is defined, then it becomes easier to address risk effectively, through the lessons learnt of past failures.

Innovation in the public sector and moving away from the idea that the public sector does not work. Public sector players can be innovators, and we should look at how innovation can percolate across the public sector (and not only between the private and public sector). It is a myth that only the private sector can innovate. There is a lot of innovation in the public sector, but we do not have any way to measure it, as we do in the private sector, with prices, markets, patents. However, public sector innovation links to the issue of risk and raises the question of financing and how much risk governments can take with public money. Some parts of the public sector do work, very effectively, in a decentralised but linked way, through dialogue and exchange. We need to find ways to connect these "islands of success". We need to support such dialogue in stable, self-improving ways, relying less on hierarchy.

One size does not fit all. Among OECD economies, there is a strong diversity which shapes governance. Countries vary in a range of dimensions: large and small (population and geography); unitary and federal; historical and cultural frameworks; legal systems (continental European civil law and Anglo-American common law tradition); presidential and prime ministerial systems; market economies, with some countries giving the state a much bigger role than others; administrative systems; the role of civil society and social partners; transparency and accountability. With major shifts in the global economy, peripheral countries have quickly become important. The weight of the world's economies and societies now lies outside the OECD membership. The diversity of country settings for the strategic agility debate is consequently even larger than before. Is there really a common core to all countries as a starting point for the application of strategic agility? How

does strategic agility make sense in all of these contexts? How can it be applied in different contexts?

There can be a shared strategic purpose. Countries face common challenges. Regardless of their differences, the capacity to act fast and decisively with well-grounded decisions, to move resources (money and people) to where they are needed, and to persuade stakeholders to support these actions are essential. So is the need for a long-term perspective of where a country wants to take its economy and society. How can a common strategic framework be developed for the highly diversified "conglomerate" that is the public sector? What geographic scope – and perhaps level of diversity – allows for a shared strategic purpose, while allowing room for manoeuvre?

What can the public sector really learn from the private sector? Both the private and public sectors face the same complex, changing and uncertain environment with new technologies. Both involve a community of people with (more or less) shared interests, goals, resources, policies and institutional rules. But the public sector has some distinct features. It has a democratic decision-making process and must take the political cycle into consideration. Accountability (legal/political) is one major private/public difference, which is far more complex in the public than in the private sector. The public sector is also subject to lobbying by interest groups. The stakeholders are many and diverse, giving rise to a multiplicity and complexity of societal goals. Government is subject to legal constraints, for example in recruitment, and is accountable to the legislature and the citizenry. Finally, it has society-wide responsibility, whereas private sector firms have the profit motive and responsibility to shareholders. It can be likened to a highly diversified conglomerate of many organisations, with multiple and competing values, and long gestation times for policies to emerge clearly. The private sector can be a source of good ideas (and has been in the past), but we need to be clear on the specific challenges the public sector faces. Besides, the new private sector models are still fragile. Could the differences between public and private sectors simply overwhelm the similarities?

What can be learnt from cultural differences? Asian countries tend toward the strategic and agile; European countries tend toward the populist and rigid. This is an exaggerated picture, but it offers food for thought. Why do these differences exist? Do they reflect fundamental differences that make it hard to transpose Asian perspectives to Europe? How can European countries loosen up? Focusing on priorities may be part of the answer.

The issues for further debate include:

- Resource flexibility is fundamental to strategic agility, how can it be achieved?
- Leadership unity is also fundamental, how can it be achieved?
- How can a long-term vision be sustained across political cycles?
- What are the impacts of fiscal consolidation on this debate?
- How can the central-local tension be resolved?
- Can strategic agility be applied in different country settings? Is there a shared strategic purpose?

Box 5.2. **Finland, Scotland (United Kingdom) and Korea: Concrete examples of agility**

In **Finland**, concrete measures have been introduced to build strategic agility into structures and processes. With the aim of integrating strategic policy and resource allocation, the government has drawn up a Strategic Implementation Plan (HOT) with 40-50 key strategic projects grouped under 3 strategic policy pillars. At the beginning of each year the government convenes to discuss what has been achieved under these projects, based on indicators. There has also been an attempt to strengthen the co-ordinating management function of permanent secretaries, with regular meetings of permanent secretaries around the Strategic Implementation Plan. On the administrative side, the government is trying to make the performance management system more strategic, light, horizontal and unified, linking it to the Strategic Implementation Plan. Finally, there is a plan to merge the ministries into one agency, with the same salary system, etc., to improve mobility within the administration. This should affect the cultural lever, in that civil servants will work for the government as a whole rather than for a particular ministry.

Scotland (United Kingdom) has also abolished ministries. It has pursued a commonality of strategic purpose and, at the same time, decentralisation of operational responsibility. However, Scotland, like Finland, is a relatively small country.

Korea is using technology to support agility through its “Smart Korea” vision, which addresses the priorities of education, health and work. The private sector does not want to invest in these areas, so how do small Asian countries survive, in terms of the economy and society as a whole?

Evidence-based policy making and strategic sensitivity

There has been a growing interest among OECD countries in evidence-based decision making, with the rationale that better knowledge can produce better policies and, in turn, better outcomes for society. This process uses solid data and analysis to assess the economic, financial, social and other impacts of regulations and public policies, taking the views of stakeholders inside and outside government into account. At the same time, the rapid transformation and growing complexity of developed societies, and the increasingly uncertain context in which they evolve, fundamentally challenge traditional decision-making processes. This affects the kinds of knowledge and evidence needed to take effective decisions, as well as how those decisions should be taken. The fiscal crisis has added to the challenge, pressuring governments to act quickly in order to reduce the public debt, to very quickly identify cuts to the public sector and public services (both operational and programme expenditure) in support of this, and relegating the long-term view to second place, or even crowding it out. These challenges have given rise to the development of new, more experimental approaches for the development and implementation of public policies by academics in some countries.

- What kinds of evidence and knowledge can and should policy makers use in the future to support and guide their decisions?
- What decision-making processes are best suited to the new environment?

How can governments rise above the noise, heat and dust to identify and act on the issues that need attention, when there is no time to think?" – Caroline Varley (Head of Programme, Public Governance Reviews, Public Governance and Territorial Development Directorate, OECD)

"Gone are the days when you could first plan and then implement. They are together at the same time; the strategy is emerging." –Mikko Kosonen (President, Sitra, Finnish Innovation Fund, Finland)

There are strong and divergent views on the utility of traditional policy-making processes and the use of evidence-based impact assessment to support decisions. There is a need to draw attention to some important arguments and issues for weighing up structured decision making compared to adaptive processes, against a background in which the public sector and its environment have become very complex.

Understanding how public policies emerge. Public policies have unpredictable consequences, may develop in unpredictable ways and are not always deliberate. Sometimes policies develop as a reaction to actions. For

example, privatisation in the United Kingdom did not start out as a policy because the government was looking for a new model for British industry; rather, it began with the sale of one company, British Telecom, which went well, and so another company was sold, and so on. Effective policy making may therefore not be about identifying a solution and then implementing it, but more about reacting to and exploiting actions, and creating the conditions for the ideal outcome.

Recognising the importance of behaviour in public policy management. We have neglected behaviour and the discipline of behavioural economics. The question then is: what works for whom, where and how? If government wants to influence behaviour, there are limits to what evidence can provide. Behaviour spreads through unpredictable networks (including social networks), and has viral qualities. We must abandon the idea that rationality is the motor of public policy. Rational processes do not work. We must work through motivational and behavioural approaches.

Managing "hairy" goals and "wicked" issues, dealing with complexity and uncertainty. We should set resilient high-level, "hairy" (i.e. unclear) goals and then let the system adapt and find solutions. A strategy is never resilient if it is wholly predetermined. The question is how can high-level objectives be reconciled with incrementalism and adaptation? The complexity of today's public governance environment is a critical factor. Many public policy issues now fall into the "wicked" category (which combines complexity, uncertainty and value divergence). "Wicked" problems can be an obstacle to strategic coherence. There are no inherently clear, correct solutions, and there is a complex interdependency of processes, structures and actors.

> *"Wicked (uncertain, complex, divergent) issues are hard to domesticate, they are not rational processes, and the response cannot be too rational."* – Brian Head (Professor, Institute for Social Science Research, University of Queensland, Australia)

Accepting that in a democracy, there can and needs to be incoherencies. This does not mean, however, that at a higher strategic or political level all policies need to be – or even can be – perfectly aligned and consistent. In a democracy, some inconsistency is normal and perhaps desirable, given the need for compromise among different groups, values, etc.

Dialogue is fundamental. Collaborative approaches are vital for resolving complex issues with multiple interests. A top-down approach does not work effectively in this new environment. Effective mechanisms are needed for collaboration, co-ordination, co-operation, dialogue. How can a truly connected government be achieved? Mechanisms must be created for sharing knowledge, for example, through "boundary" or "bridging"

organisations that can link knowledge and expertise from government, industry, non-governmental organisations, citizens and knowledge institutions. Putting all of the (very different) actors around the table will change not only how decisions are made, but what needs to be decided. Capacity is needed to engage in a process (not a short-term one) of engaging citizens, businesses and society, in a real and inclusive dialogue about the future, beyond short-term needs. Society is ambiguous in its ideas and its goals. How can governments capture and make sense of this?

Finding the right instrument for different problems. Governments use different instruments for approaching different types of problems: laws and regulations, market-based systems, persuasion and education, partnerships and networks to create consensus, and self-regulation. Given the limits of traditional, top-down regulatory instruments, the challenge is to find the right mix of instruments and strategies across diverse layers of government and society. Tailored approaches may be needed. Each situation is different. Approaches must be adapted to the nature of the challenge and the available partners.

> *"We must remember the paradox of choice – it's not helpful to be given too many choices of (public governance) jam."* – Michael Hallsworth (Senior Researcher, Institute for Government, United Kingdom)

Fully fledged *ex ante* and sequential plans stand in the way of adaptivity. The sequential approach to policy making may no longer work. Planning and development of public policies may need to occur in parallel with their implementation. The ability to judge correctly whether it is possible to plan, or not, becomes key. Within the public sector, the Finnish educational system is a good example of how a successful policy can grow from a series of discrete actions – taken to respond to a persistent public failure – without an *ex ante* plan or vision, that are adjusted and improved over time. Solutions come from a trial-and-error approach. Adaptivity is essential – for example, in regulation, if there is no adaptive strategy, it will fail, as people adapt to regulation and create strategies to evade it, causing the system to collapse. A systematic process is needed for continually improving management policies and practices by learning from the outcomes of previously employed policies and practices. In active adaptive management, management is treated as a deliberate experiment for the purpose of learning. "Adaptive management" can help support innovation through "learning by doing", through rapid iterative adjustment. This is particularly useful where formal experimentation is impractical (as with the public sector). However, it does require trust among partners.

> *"Strategy is not resilient if it is all predetermined."* – Mikko Kosonen (President, Sitra, Finnish Innovation Fund, Finland)

The traditional evidence-based approach is under pressure, and works better in some cases than in others. First of all, it must be institutionalised to be effective, and requires high-quality collection and storage of good data, well-trained specialists with good analytical skills, and political support for rigorous evaluation. It seems to work best where programmes have been relatively settled over time, and where "fine-tuning" based on evaluation can be carried out. Here, the insulation of the public sector can support serious research and knowledge management. Evidence-based policy making also needs to be broadened. There is a place for systematic research, but it needs to sit alongside the soft knowledge carried by civil servants and others. Impact assessment is a necessary, but insufficient, condition for getting it right. It is less influential when governments are not open to broad evidence-based debate. There is also a risk for evidence-based policy to become "policy-based evidence" in highly political or controversial matters. Moreover, *ex ante* evidence-based policy making lacks the strategic analysis of mistakes. Instead of evidence-based policy, it perhaps makes more sense to refer to evidence-informed policy, given that other factors, not the least politics, influence policy. In conditions of uncertainty, politics is more, not less, valuable than evidence. At the least, evidence-based policy making is not sufficient to pull decisions through effectively.

Evidence-based policy making is on the face of it not well suited to crises. Crises require rapid decision making and leave no time to gather evidence. Information overload can stand in the way of the need for leaders to make decisions rapidly and on their feet. What do you do with evidence when events move very fast? In fact, is traditional regulatory policy, with the emphasis on *ex ante* impact assessment, even compatible with speed and strategic agility? What evidence is needed when events accelerate, and how can decision making be adapted? It can be difficult to know what to do with the huge amounts of information that are generated by classic evidence-based processes, especially when decisions need to be made quickly to respond to events.

> *"Impact analysis is a powerful process, but what if there is a need to move very fast?"* – Nicolas Wallart (Chief Regulatory Analysis, State Secretariat for Economic Affairs, Switzerland)

Taking the long view with evidence remains essential. There is a need to stand back from this apparent conflict between traditional and adaptive approaches, between speed and reasoned processes, and consider how the careful *ex ante* gathering of evidence over time might support the early detection of risks, and possibly forestall the very crises that prevent a considered evidence-based response. The infrastructure, transport and network sectors, for example, require a long-term and evidence-based perspective on policy development. Thus, even in the modern, complex,

fast-moving environment, there is an important and necessary place for evidence-based approaches. How can decisions taken by governments under time pressures be well anchored?

Impact assessment remains a fundamental tool for cost-effective policy making. Structured approaches such as regulatory impact analysis (RIA) remain useful and relevant, allowing politicians and public servants to consider all of the available options. It should also be kept in mind that regulation is a huge cost for the economy and society. Over-regulation and ineffective or poorly designed regulations are negative to enterprise and society. They stifle growth, prevent competition, reduce adaptability to technological changes, and alienate citizens and consumers. Making regulation cost effective and fit for purpose remains a challenge which should not be masked by the wider debate.

"If government gets a policy wrong, if it makes the wrong choices, the cost can be considerable." – Greg Bounds (Senior Expert, Public Governance and Territorial Development Directorate, OECD)

The issues for further debate include:

- Can the apparent contradiction between evidence-based decision making and adaptive, fast-moving approaches, be reconciled? Or is there a fork in the road?
- How exactly can effective and inclusive dialogue be fostered?
- In what way can behavioural and motivational approaches be integrated into public management and policy making?

Creating new growth areas: Government's changing role

Developed countries face a growing need to create new economic activities and growth areas to replace those that have been lost through structural changes caused by globalisation and other factors. Firms and economic clusters are becoming global, and many traditional value-added activities are being relocated to other countries. Traditional public economic and innovation policies, which tend to be incremental and to favour the *status quo* of established activities, are not adapted to these developments. Research is being carried out on experimental policy approaches that are stimulating a reassessment of the role of government, and how it can promote growth and renewal, including the growth of entirely new economic activities and business ecologies. These new approaches build on long-term public-private co-operation, using knowledge and network facilitation to address specific system failures and bottlenecks hindering the development of new economic and business ecosystems.

- What can government's role be in promoting growth and renewal, including entirely new economic activities and business ecologies?
- To what extent should governments "pick the winners" and drive growth from the top down, and to what extent is it the government's role to create an enabling environment and remove obstacles to growth?
- Is there an approach that combines top-down transmission of policy proposals and bottom-up proposals from the business sectors, and what is the role of government in such an approach? (This aspect is linked to the "resource fluidity" component of strategic agility.)

There is a need to tap into new sources of growth and to rethink the traditional attitude of leaving it to the markets and the private sector. A range of factors have been identified for reshaping thinking about growth, including the need to generate a "hunger" for growth, the local dimension, a changing role for the state, and public-private partnerships.

> *"We need ecosystems to stimulate enterprise."* – Dermot McCarthy (Former Secretary-General of the Government and Secretary-General of the Department of the Taoiseach, Ireland)

Effective public governance as a means to an end. Public governance is not an end in itself, but a necessary condition for sound and sustainable growth and social well-being.

Accepting the powerful "emotional" element to promoting growth. In post-World War II Finland, for example, there was a "hunger" for success, for a better life. This hunger can be seen in Asia today, but seems to have diminished in Europe. Are we prisoners of our own success? How can we reignite this passion for further growth and renewal? Doing so will require leadership, especially in rich countries where the passion or hunger does not come as naturally as it does in poorer ones.

Not relying (overly) on the private sector to generate growth. The prevailing view in many societies is that it is up to the private sector to create growth, but this is not happening to the degree needed: we need a new approach.

Not relying (overly) on the private sector to generate employment. Creating jobs in the private sector may not be sufficient to solve the problem of high unemployment. Although it is very important, today, globally competitive private companies have become so productive that they employ fewer people. One of the largest areas of potential new economic activity is through the reform of the public sector itself. Devising a well-functioning health or education system, for example, can lead to the development of new services and other economic activities.

Identifying what works to create new economic activities. A "neo-corporatist" approach can bring together private and public sector actors in informal groups to focus on developing key sectors and build a set of subtle structures to encourage growth. This happened in Finland in the 1990s. However, these structures need to adapt to new conditions, such as greater volatility and openness. Otherwise, the "Baldwin effect" takes hold, whereby a structure induces change in the environment but does not itself adapt to the new environment. Persistent public failures can trigger pockets of collective innovation.

Defining the areas where we need to build public sector competence and benefit from private sector insights. This should not be tied to particular firms or actors. We need to be able to continuously monitor needs and adjust what competencies we need to build, and with which actors. Broadening the competencies of civil servants is important. Civil servants need different competencies in order to have a better understanding of markets and society. There may need to be more mobility between the public and private sectors to achieve this.

Public-private partnerships merit further attention. Firms generate information on their competencies for their interactions with other firms, setting milestones and continuously monitoring. Governments can build on this, without creating additional bureaucracy or burden, to identify partners for building capacity. Public-private partnerships are no longer just an exchange of goods and services, but a collaboration and exchange of ideas and solutions as well.

Adjusting our system of economic beliefs. Our system of beliefs for "how the world works" is changing. Previously, the market was the main governance tool (the market knows better), so the issue was how to get the "framework conditions" right for the market to do its work. The crisis has thrown this belief into question.

Adjusting, in the light of this, our view of the role of the state. Some insights are emerging in the economic literature about the new role of the state, for example as a regulator of the structural conditions of growth; as an investor capable of directing technical change; and as a guarantor of certain public goods that may be produced in a decentralised way (for example, a reduction in carbon emissions, trust, security).

> *"The state can be seen as a regulator of the structural conditions of growth."* – Joaquim Oliveira Martins (Head, Regional Development Policy Division, Public Governance and Territorial Development Directorate, OECD)

Taking into account the fact that innovation is pro-cyclical. This is not optimal, so it is an area where the state could invest and direct technological change. For instance, a carbon tax is not enough to promote green growth if production in the green economy does not keep pace with production in the brown economy. It needs complementary actions, such as R&D subsidies.

Developing a more sophisticated framework for investment and development. For example, infrastructure is needed for growth. The bottlenecks – and the interactions between them – need to be identified.

The importance of policy coherence for growth. Another way the state can promote growth is to ensure coherence and complementarity of policies through better co-ordination, preventing the unintended effects of one policy from causing another policy to fail. Such co-ordination mechanisms can also help improve the content of policy itself.

Ensuring that the growth trail includes the regional or local level. It may be easier and more effective to begin by focusing on developing new growth areas at the local or regional level, for example in rural areas, than to focus on the national level at the outset. At the regional or local level, a small improvement can make a big difference. It is also easier to experiment (implying the risk of failure) at this level than at the centre. It is therefore at the level of citizens in their local environment that change can be encouraged most effectively. With globalisation, regions now have access to global markets that were previously closed to them. Also, it is useful to consider assets in a decentralised context – for example, buildings and transport systems – looking for local solutions. Nonetheless, local solutions will not provide all of the growth answers.

> *"Cities are more agile than national governments. Why?And what can be learnt from this?"* – Bruno Lanvin (Executive Director, eLab, INSEAD)

The issues for further debate include:

- How can the hunger for success be reignited?
- How can we identify more systematically what works in creating new economic activities?
- Do we need to adjust our economic beliefs, and, if so, how?
- How can we tap into the sub-national growth potential?

Box 5.3. **Ireland: Government's changing role**

Faced with a multi-faceted economic crisis, Ireland used public policy to create growth conditions through fiscal strategy, restoring cost competitiveness, addressing structural problems, renewing strategy for foreign investment and focusing on national business development. At the same time, it restructured the public sector in terms of pay and size. With a framework called "ecosystem for enterprise", Ireland's industrial policy engages with strong sectors and subsectors in Ireland and seeks to lever the networks of information and assessment shared among enterprises. These firms may compete at a global level but co-operate locally and informally to create synergies and build capacity in the labour market. New priority areas for fostering growth include developing a regime for accessing existing intellectual property, encouraging venture capitalists to bring expertise to Ireland, facilitating spin-outs from the research community as well as existing companies, engaging the Irish diaspora, and attracting smaller high-potential companies for foreign investment. The public sector is also collaborating with firms to find innovative solutions to social needs, focusing on healthcare for the elderly, the "smart city" programme and the green economy. However, there are some constraints on the capacity of the public sector to respond: funding for public services, a lack of trust in government, policy and regulatory failures, etc.

Effective leadership in times of transformation: Motivating change in the public sector and beyond

Leadership is critical to a country's ability to adapt to changing circumstances and to find strategic solutions to complex inter-sectoral public policy challenges. Public sector leadership can extend beyond public organisations to encompass the private and civil society sectors. However, the government is the only institution that bears a responsibility for the fate of society as a whole – and its renewal. Public sector organisations can, and need to, take the lead in facilitating or "orchestrating" change in broader co-operative networks and systems.

- What are the demands and opportunities of an extended public sector leadership role?
- How can shared visions be created, and momentum sustained?
- What precisely is the role of leadership in creating collective commitment within and beyond the central public administration?
- How can public management systems support systemic reforms?

There seems to be strong agreement that collective leadership and a strong and motivated civil service are critical to successful change, whilst pointing to some of the dangers of a closed leadership.

Strategic agility depends on leadership unity and collective commitment. This must be the starting point for building strategic agility. Everyone needs to be behind a single agenda – then it is possible to operationalise it. This agenda is not necessarily clear at the start, and may need to be "co-created" by the leadership group. Collective leadership can also be a mechanism for giving voice to those who may be farther removed from the centre (e.g. line ministries).

Taking the first collective leadership step is key. It is not necessary to know the second step, it is the process which has been set in motion that matters. Building the leadership group, to orchestrate and facilitate the next steps, is what is initially needed.

> *"Focusing exclusively on past failures is the wrong approach, it is the strategic and forward vision that matters."* – Sir John Elvidge (Former Permanent Secretary to the Scottish Government, United Kingdom)

Making sure that collective leadership does not deteriorate into a closed oligarchy. Building a collective vision at the top through a leadership group runs the risk of generating an "oligarchy" or centralised collective leadership operating too far outside of democracy. Leaders should be kept "uncomfortable", for example through constant (and public) review of results, and should be held accountable.

Indicators keep the leadership on its toes. Collective leadership should be a prelude to an institutionalised system of reviewing results, looking at diverse solutions, pooling knowledge, correcting the original path, etc.

Avoiding over-centralisation and the idea that the centre can achieve everything alone. Strengthening the top does not mean centralisation: there is still a need for action at the bottom. Other parts of the public sector, and beyond, need to be brought in.

Ensuring that an effective supporting senior civil service is in place. The collective top leadership needs to be supported by a well-functioning senior civil service.

Developing the skills and competencies in the civil service for strategic agility. Strategic agility requires different skills and capacities than those we have now – for all civil servants, not just the senior ranks. These include communications skills, the ability to co-operate across different organisational boundaries and levels, thinking "out of the box". This will have implications for recruitment and training. We also need to look at the skills needed for line managers in a new environment – the ability to motivate, for example. Human resources management practices need to be adapted to take a long-term view, with strategic workforce

planning. Human resources practices across the public administration should be coherent.

> *"Civil servants need to be "socialised" into their role for the public sector, as they used to be in the past."* – Zsuzsanna Lonti (Senior Project Manager, Public Governance and Territorial Development Directorate, OECD)

Trusting the civil service workforce, motivating them. An agile organisation requires that we trust our workforce. The old model of socialisation is important – but how can it be balanced with flexibility? Reaching out to the public, or even other ministries – for example in consultation, is a challenge to civil servants. It even challenges their deep identity. They take pride in their expertise, which can reinforce the "silo effect". How can public servants be incentivized? It is clear that in a modern public administration we need more than economics, management theory and law: we need psychology, behavioural science and political science as well.

> *"Individual minds and hearts need to be won over if you want to make a change, especially if there is no crisis to force this."* – Ehud Prawer (Head of Department for Policy Planning, Prime Minister's Office, Israel)

> *"Nurture self-worth, self-confidence through a sense of community and identity."* – Juhani Lemmik (Advisor, Strategy Unit, State Chancellery, Estonia)

Box 5.4. **Finland, Scotland (United Kingdom), Australia and Estonia: Rethinking leadership**

Finland provides an example of how to promote systemic change in an agile and networked-based way through the initiative "Transport Revolution". This initiative brought together four ministries, regional authorities, private companies, municipalities, and research institutes to reform public transport. Tackling the various challenges involved in the reform – making needed investments, reducing emissions, limiting urban sprawl – in the traditional, administrative way would have been too slow and cumbersome. An independent group of 30 carefully chosen people drawn from the above-mentioned stakeholders was formed to come up with ideas and a new approach based on concrete actions. The starting point was a political decision on basic service levels, for which criteria will be established. The new strategic planning model brings together the requirements of land use, housing, transport, services and business. Public procurement will also change: instead of products and activities, solutions and service levels (with clearly defined indicators) will be procured. Users will participate in the planning, implementation and development of these solutions. In one year, the way of thinking in ministries and organisations has changed in Finland, and actions are moving forward. Having the right combination of people in the group was crucial to making this happen, as was having the backing of the four key ministries and their permanent secretaries.

Box 5.4. **Finland, Scotland (United Kingdom), Australia and Estonia: Rethinking leadership** (*cont.*)

Scotland set up a single leadership group to develop a reform strategy for the public sector. This group included the leaders of public sector organisations, including universities, the police, etc. The group, of about 60 people, was limited to leaders only; they were not allowed to send their deputies. They were asked to agree to form a single leadership group, a coherent community with shared values and objectives rooted in a public sector value set. A new government came in soon after, and there was political consensus to abolish individual ministries; Scotland thus moved from a federal administrative model to one trying to function as a single organisation. (However, an attempt to achieve this with a coalition government was not successful.) A single set of strategic objectives for the country was developed; however, given the need to move swiftly, civil society was not consulted. This included a statement of national purpose and 50 desired national outcomes, many of which cannot be achieved by government alone. The Centre of Government, arm's-length bodies and local governments agreed on a single strategic framework in exchange for greater operational freedom in delivering the strategy at local level. While it is too early to tell whether this has had an impact, some modest progress has been made. Despite changes in the composition of the civil service leadership team, it was decided to retain the concept; the shared statement of purpose enabled innovation, exploration and experimentation. Overall there were painful adjustments. It was important to move quickly, so as to prevent counter forces from building up. A "new narrative" of the role of the civil service was created at the same time: to orchestrate, facilitate, create networks. No other player can do this.

In **Australia** a new federal financing agreement was put in place in 2008 to provide greater resource flexibility, replacing specific-purpose payments with six national agreements. Outcomes, objectives, indicators, roles and responsibilities are negotiated on a partnership basis among levels of government. While states are still largely responsible for their budgets, they collectively agree to address the economic and social challenges of the entire country, not just those of their state. This is overseen by the Council of Australian Governments (COAG), and the general consensus is that it has led to more dialogue. Shared delivery arrangements for cross-sectoral policy have also been established. The recruitment of more agile people was also carried out. Values had to be recast. The key was to secure a common agenda at the top, and coherence at the bottom.

One of the reforms in the Australian public administration, "Ahead of the Game", is based on 4 pillars (deliver for citizens, strong leadership and strategic direction, increase the capacity of the workforce, and operate efficiently and to high standards) and 32 initiatives. Leadership is at the heart of the reform, and comes from the staff. Work has been carried out to simplify the public service values and develop a single Australian public service vision. Greater clarity was given to the role of secretaries, which includes stewardship. To build leadership throughout the system, the group "top 200" was created, helping form collaborative relationships across ministries. Greater attention has been paid to preparing succession, and spotting talent early on.

Box 5.4. **Finland, Scotland (United Kingdom), Australia and Estonia: Rethinking leadership** (*cont.*)

Following the OECD's public governance review, Estonia has implemented some of the recommendations on making the government work more as one unit. The new government programme was built around 16 policy areas rather than around ministries. Deputy secretary-generals come together regularly to discuss the challenges of policy development and implementation in their respective areas. This is also part of a wider Senior Civil Service Programme, which seems to be working well. Estonia is also trying to monitor societal indicators, to provide information to citizens on the direction the country is heading – outside experts provide analysis and feedback, indicating whether they think the government is on the right track. The results are discussed in the media. There is also an attempt to make policy making more open to outside stakeholders, providing information on government initiatives on a single portal to gather responses at an early stage. Civil servants need to be trained in managing consultation and motivated within a broader context of reconnecting with citizens and communities.

The issues for further debate include:

- Can the leadership approach deployed for small countries such as Finland or Scotland be made to work for larger countries?
- Is it possible to build a strong collective centre with shared values, and if so, how?
- Can individual ministries be abolished and merged into a single "government office", even in larger countries?
- How can collective leadership be prevented from deteriorating into a closed oligarchy?

Conclusion

The key conclusions from these discussions are that:

- The complexity, fast pace of change and increasingly "wicked" problems faced by governments demand a new approach, but not a constraining new paradigm. NPM has had its day.
- There are differences between the public and private sectors that must be taken into account when applying strategic agility concepts. One key difference, for example, is the degree to which the public sector can take risks. Can governments experiment and fail?

- Rather than evidence-based policy, perhaps we should focus on evidence-informed policy. *Ex ante* evidence-based thinking is difficult to apply in a context of uncertainty.
- Dialogue cannot remain internal within a ministry or even a government; it has to bring in the full range of societal voices and expertise to produce effective solutions.
- Some of the best policies do not start from a concrete vision and plan, but rather arise organically from a series of discrete actions to tackle a specific problem. To solve higher level problems we may need an imprecise, "hairy" vision and resilient goals, combining a commonality of purpose with operational freedom to find solutions.
- Leadership is a critical factor in our complex environment.
- The local levels need more attention, as teachers and as participants in the ways of strategic agility.

This still leaves a significant set of issues for further debate:

- What advice can be given to countries that have been caught short (no strategic agility capacity in place before the crisis hit)?
- How can confusion between agility and constant change to fundamentals be avoided? How can we ensure that strategic agility is not subverted to focus on constant adjustments at the expense of long-term stability of purpose (especially in a public sector context where the electoral cycle is an open invitation for incoming governments to start over from scratch)?
- Is it possible to reconcile an adaptive approach with evidence-based decision making?
- How can accountability and transparency be clarified and strengthened in the new environment? What implications does strategic agility have for transparency and accountability, both of which are very important in the public sector? Can accountability and transparency be taken for granted by any country?
- Does country size matter when seeking to apply the concept of strategic agility, and, if so, how? Can the experiences of small countries be replicated in much larger settings?
- Can strategic agility work in federal countries? If so, how?
- How can strategic agility be applied to developing countries? How does this make a difference?

- How can strategic agility be applied to non-democratic systems?
- How does strategic agility work in the context of globalisation and supranational institutions (such as the European Union), as countries today are not isolated islands in the wider environment?
- Does strategic agility raise issues relating to the electoral cycle and the functioning of democracy?

"We must tell ourselves and remind ourselves that it is mission possible, there is reason to be optimistic." – Seppo Määttä (Managing Director, Talent Partners Public Consulting, Finland)

Notes

1. The workshop agenda and list of participants are available at: http://goo.gl/XYQYOg.

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