Skills and People Capability in the Future State: Needs, Barriers and Opportunities

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Introduction

This paper describes several powerful new trends beginning to impact on public sector management including limited funding, rising public expectations, and more complex problems in a less stable and predictable environment. But what are the implications of these trends on human resource management (HRM) within the New Zealand public sector? What ideas are emerging within the HRM literature, and how do these relate to the perspectives of practitioners – human resource managers, CEOs and senior executives, and staff – in New Zealand's public sector organisations?

The formal system in New Zealand, focused on improvement of pre-specified and auditable outputs monitored through detailed agency performance plans, may no longer be sufficient for the public sector environment of the future. Instead, new individual and collective capabilities may be needed. Current state servants have been selected, developed and rewarded in an environment that has emphasised stability, control, linear accountability and outputs. In contrast, we will argue that the emerging environment requires adaptability and the ability to work across public, private and non-profit public sector boundaries, locally and internationally. Bottom-line accountability for the efficient operations of a tightly defined functional task is fundamentally different from the messiness of managing public sector responses to shifting social and economic challenges that have no easily defined finish lines.

We begin this paper with an overview of the current state of skills and people capability in the New Zealand public sector, including employee commitment and engagement, and the impact of the new wave of reforms over the last decade. We then identify several emerging ideas about the future of public sector HRM, including the need to develop better leaders, encourage innovation and collaboration, and take a longer-term, more intense effort in capability development. These ideas were explored with practitioners in a series of focus groups in April and May 2011. In this paper, we discuss the results of the focus groups, in which we found general agreement with many of the ideas tabled for discussion but some key differences in perspective between human resource managers, CEOs and senior executives,

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and staff. We conclude this paper with a discussion of the future of public sector HRM in New Zealand.

The Current State of Skills and People Capability

Human resource management is extremely decentralised in the New Zealand state sector. The State Services Commission's core business is chief executive performance management. The Commissioner does, however, have a leadership role on ethics and integrity in the wider state sector that balances the decentralisation underlying the New Zealand model. Within the public service, SSC responsibilities include promoting and developing policies and standards for personnel administration, senior leadership and management capability, and integrity and conduct (SSC, 2011). On human resource development, the SSC in recent years has interpreted its role in a narrow way rather than taking a broader developmental role.

Scott (2001) noted that insufficient attention was paid to ownership issues, including personnel capability and the intellectual property residing in the workforce. Schick (2001) noted that purchase issues dominated ownership issues because of the immediacy and tangibility of outputs. Ten years later, despite some changes, existing performance management arrangements are still far from perfect, with frequent poor management behaviours apparently persisting over a number of years (Francis, 2011).

Other identified shortfalls in the current state sector include a short-term focus and accompanying lack of strategic capacity, as well as fragmentation, lack of evaluation, and gaps between what services are required to do and what they do. The need for more integrated service delivery and an improved public service culture has been recognised for a decade now.

The task- and mission-focused formula of the New Zealand system has also had a predictable 'shadow' side in limited employee commitment and engagement, both of which are sources of organisational innovation and contribution beyond the job description (Bélanger, Giles and Murray, 2002).

Employee Commitment and Engagement

In their drive to achieve targets, have managers who have thrived on delivering outputs undermined the adaptive capabilities of the public sector system? An employee survey commissioned using the Gallup Engagement Scale found relatively few public organisations with high staff engagement and many with low engagement compared with international

benchmarks (SSC, 2010b). Surveys about issues of integrity and conduct commissioned by the SSC in 2006 and 2010 identified that state servants are, by and large, satisfied with the organisation they work for (SSC, 2010c). In 2010, 74 per cent agreed or strongly agreed that they were satisfied, in general, with their organisation, and the majority responded that the organisation kept them adequately informed. The same survey, however, found that 38 per cent of staff had witnessed abusive or intimidating behaviour toward other staff, improper use of the internet or email, or lying to other employees in the previous year (SSC, 2010c). In other research, 43 per cent of New Zealand women state sector survey respondents reported either workplace bullying or discrimination (Donnelly, Proctor-Thomson and Plimmer, in press).

The disparity of these findings will partly reflect measurement issues, but they share a common theme that, while most responses were generally positive, about one-third of responses were negative (dissatisfaction with the organisation they work for, or reports of intimidation or abuse). Thus, it may be that where most work environments are 'satisfactory', many are not; and where on balance employees are generally satisfied (perhaps partly through adjusting expectations), there are some problems around over-controlling leadership, abuse and intimidation.

Workplace incivility, such as that reported in these surveys, negatively affects productivity by undermining motivation and the trust needed for innovation; the effects extend beyond those most directly involved (Estes, 2008). Process innovations and 'good ideas' tend not to deliver the expected payoffs unless managers explicitly encourage innovations, and workers can exercise discretion and are allowed to feel responsible (Baer and Frese, 2003). Discretionary behaviours are important to innovation and collaboration because they encourage the use and sharing of tacit knowledge – a feature of more complex, knowledge-based work (Bélanger et al, 2002). In addition, workplace incivility can result in unresolved conflicts that make it more likely that employees will pursue private interests that are contrary to organisational interests (McGregor and Cutcher-Gershenfeld, 2006).

Lack of employee commitment and engagement can also be the result of negative management styles. Research by Human Synergistics about the effect of leadership styles on the cultures of New Zealand public organisations found they tend to be unconstructive, with an emphasis on control, power and covert criticism whereby 'Security is then achieved by retreating into conventions and procedures' (McCarthy, 2008: 295). While many state sector managers record that they would like a supportive work environment, McCarthy's sample of public organisations shows staff commonly rate government work places as aggressive and

defensive.

Such a culture has not gone unnoticed by the ministers of state. Political concern about a risk-averse public sector has been raised by the Minister of Finance, Bill English, who comments that 'the culture of caution and risk management in the public sector has been deeply embedded in the last 10 years …. officials were not encouraged to think or speak freely, or to take risks' (English, 2010).

The New Zealand and International Evolution of Public Sector Reform

Early on in the New Zealand reform process, human resource management responsibilities were delegated to state sector organisations on the logic that they were best suited to develop policies in response to the imperatives they faced, and that more ready access to the labour market would develop HR capability. By the late 90s a new breed of hard-driving managers had emerged who were good at pursuing outputs but poor at capacity building. They assumed that all skills could be purchased in the market (Schick, 2001).

Internationally, at the start of the millennium, a new wave of reforms sought more joined-up government and a stronger focus on relationships (Lindorff, 2009). While the reforms allowed the introduction of soft people-management practices like engagement and empowerment, in practice the international evidence is that the rise of managerialism has led to more control, monitoring, rigidity and gaming (Diffenbach, 2009).

Despite these well established characteristics, the New Zealand system shows some signs of evolution. As the Future State (Stage 1) report pointed out, collaborative rather than control-based approaches are emerging, but are constrained and at times deliberately made invisible because of the control orientation within agencies, and output (rather than outcome) accountability between principals and agencies. However, reforms have been half-hearted and treated symptoms rather than causes, possibly a result of reform weariness and rigid mindsets (Christensen and Lægreid, 2007b). Government reform processes seem 'stuck', with considerable problem definition and limited solution-finding. Lindquist (2011) queries whether current debates about reform can move past sense-making to genuine change. Overload and scarcity, uncertainty about what is critical and the role of unique organisational contexts all represent barriers to moving beyond knowing what should happen, to being able to make it happen.

In sum, long-standing ownership problems persist, reflected in limited people capability. Risk aversion and tolerance of staff victimisation are two markers of these

problems. The current state sector environments and management models have valued control, competition and continuity to deliver pre-determined outputs. These problems are becoming less tolerable in a more financially constrained environment with rising public demands, instability, harder-to-define problems and harder-to-find solutions.

Emerging Ideas

According to the emerging New Zealand and international research on high performance workplaces, people management does make a difference to organisational performance. The difference can be large, and New Zealand is something of a laggard (Birdi et al, 2008; Fabling and Grimes, 2010; Green and Agarwal, 2011). While it is important to get the basics right – like hiring the right staff – bundles of practices that encourage staff autonomy, development, rewards and teamwork seem to have meaningful positive impacts on organisational level outcomes (Fabling and Grimes, 2009; Gould-Williams, 2003). The actions and capabilities of middle managers are particularly crucial in turning formal practices into actual behaviours (Guest, 2011; Becker and Huselid, 2006). Now, new conditions are emerging that make the issues even sharper.

The New Conditions

The conditions reflect changes in wider society (and the world), and the evolution of the state sector since the distant days of major reform. They in turn require new state sector guiding values and capabilities. All these changes have HR implications. In many ways, the current model has been effective, so shifts are likely to supplement rather than replace existing models. Reforms are likely to be 'and' rather than 'or'.

Environment is Now Less Stable and Predictable

Future State 1 identified that the environment was becoming increasingly unstable and diverse. It is also becoming less predictable. As statekholders require improved and often more customisable solutions, more discretion and judgement by staff near the coalface are likely to be necessary. These shifts challenge the competencies of staff themselves and their managers. This will happen in environments where success (and failure) will be hard to measure, and plans will likely be more emergent than pre-ordained.

Shift from Competition to Collaboration

One consequence of these changes is the need for increased collaboration, to construct bundles of services and manage the complexity of issues in uncertain environments. A 'one-stop-shop' cuts across the pursuit of quantifiable outputs, and the competition between agencies that has characterised the system to date. Collaboration has not always been encouraged by the new breed of hard-driving managers. Relational skills, still capable of assertion and getting results, will likely be needed.

Shift from Control to Flexibility

There are tensions between innovation and flexibility within a public sector with strong control and accountability systems (Norman, 2008a). Idiosyncratic amalgamations of different styles, cultures, structures and management can sometimes co-exist, but they require attention and testing rather than default assumptions. Arguably, a focus on control and accountability makes innovation and flexibility difficult as:

- staff avoid taking risks;
- compliance becomes more important than innovation; and
- staff who are good at control and accountability get ahead, and others do not.

Shift from Continuity to Creativity

In a similar vein, as organisational services and products need adaptation, rather than continuity of service, they are likely to require creativity, which inherently involves risk-taking. Continuity of service can clash with adaptability of service.

Continuing Pre-specified Outputs While Focusing on Broader Outcomes From Networks

A revised system would need to supplement rather than replace existing arrangements and their achievements. Clearer and stronger accountabilities for people capabilities and a more transparent and networked system would build both a common state sector platform of values and leadership, and allow more differentiation and innovation in both service delivery and people management.

Shift From Hierarchy And Accountability To Delegation, Development And Transparency

The current approach to people management has emphasised hierarchy and accountability for

outputs. Management layers have (in many organisations) increased after an initial fashion for flat structures, and technical delivery skills have been valued more than leadership skills. HRM practices lack transparency. Pay systems are kept confidential, A revised state sector model would address incentives concerning people capability (currently neglected), information to enable better decisions, and also provide the means to change and develop.

Innovation and Flexibility Skills Are in Tension with Control and Accountability Skills

The tightly focused, compliance and efficiency-oriented hierarchies that have emerged in the current public sector management model serve control and accountability well. They can, however, be tunnel-visioned, and unable to detect environment changes fast enough to adapt. A more balanced, and flexible mix of culture, structures and management styles will need to co-exist. The current model of contracting can force changes in delivery patterns and put a focus on costs, but it is less likely to foster anticipatory thinking and cross-boundary work, as the staff involved seek only to provide specified outputs.

Shift from Control, to Soft Skills Such as Dealing With Ambiguity, Managing Vision and Purpose

SSC's capability toolkit uses the Lominger framework to posit that future state sector leaders will need 'mental, people, change and results agility' (SSC, 2008b: 25). However, there is little or no mention of the 'coping with ambiguity' competencies that the future state seems likely to need equally, but which are more challenging to incumbent operating styles (Lombardo and Eichinger, 2004). Furthermore, although these creative, agile and social competencies have been identified, it is unclear how common they are currently, and whether there is sufficient impetus to make them more widespread. Doubts about whether 'human factors' really make a difference, and belief that current techniques are adequate for the task, may be some of the reasons why capability development has been so half-hearted. A focus on employees as the consumers of human resource practices would help drive the needed productivity change (Paauwe, 2009).

Shift From Management to Leadership

Better leadership skills (as opposed to hard transactional skills) might help avoid the rigid and unadaptive interpretation of rules common in traditional control environments, but a focused mindset and an analytical orientation will still be needed (Mastracci, Newman and Guy, 2010). One shift likely to be needed is from management, concerned with technical delivery,

to leadership, which is more concerned with the social system. If formalised, control-based systems that encourage standardisation and continuity are to be loosened (to get innovation, creativity and collaboration), a greater emphasis on soft leadership systems will be needed. Although ways of organising production vary widely across the state sector, a common base of effective leaders and meaningful ground rules around acceptable behaviours will be needed. Regardless of whether organisations or business units are regulatory in orientation and consequently require tight process control, or conduct service design and delivery and maybe require innovation, or do cognitively demanding and contentious policy analysis, leadership skills will need to be high to attract, retain and develop good workers. Clearer differentiation between how production is managed (formal processes, often control oriented) from how work is organised (social processes, such as leadership, teamwork and the sharing of tacit knowledge) will need to be high to manage down the cost of turnover, cope with uncertainty, and build the skills of innovation and collaboration (Bélanger et al, 2002).

Shift From Performance Appraisal to Coaching

New skill levels will also be required from staff. They will often be highly contextual, and best taught through on-the-job development and reflection, rather than offsite, event-based training. Appraisals will still need to take place, but coaching-type skills will be required of managers to ensure new forms of work organisation emerge, and that both individual and collective skills evolve.

Shift to Group Performance and Less Emphasis on Individual Performance

The more complex requirements of government will often require collaboration. Often, but not always, they will need team work and consequent feedback to the level where production takes place, rather than the current focus on the individual as the unit of production regardless of how production is organised. More transparent feedback to groups will be needed. Engagement surveys are an embryonic form of this.

Feedback From Practitioner Focus Groups

Three focus groups of practitioners were run in April and May 2011 to help define the people capability challenge in more depth.

To encourage a considered conversation, all participants were sent, in advance, a three-page summary of the emergent ideas outlined earlier in this paper, and summarised in Figure

1. To get past the pro-forma, rehearsed positions that sometimes characterise public management discussions, practitioners met in a computer suite and used decision-making software that enabled them quickly to contribute ideas anonymously and then to vote on those ideas.[1] Three focus groups were held – one with 18 senior human resource managers, one with 14 workplace representatives and Public Service Association organisers, and a third with two senior central agency executives and three chief executives (this group is referred to later as 'senior executives'). Sampling was as follows: CEOs and senior executives were recruited via a professional forum senior human resources managers by referrals, and worker and union representatives from nominations from the union.

In this section we provide an overview of the results, with a general discussion of differences between and within the different participant groups. We then discuss in more depth seven themes that emerged from the discussions:

Theme 1 – Managing the tensions between control and flexibility

Theme 2 – The relationship between risk aversion, ambiguity and success

Theme 3 – Impact of ministerial demands on people capability

Theme 4 – Leadership and the role of central agencies

Theme 5 – Leadership skills within agencies

Theme 6 – Restructuring as a substitute for people capability development

Theme 7 – The strategic role of human resource managers

We conclude the discussion of the focus group results with participants' answers to the question: what is to be done?

Overview of Results

Participants' ratings of their agreement or disagreement with key ideas from the background paper are shown in Figure 1. As can be seen, agreement with the ideas was consistently high.

There was a high degree of consensus *within* groups, with standard deviations less than one.
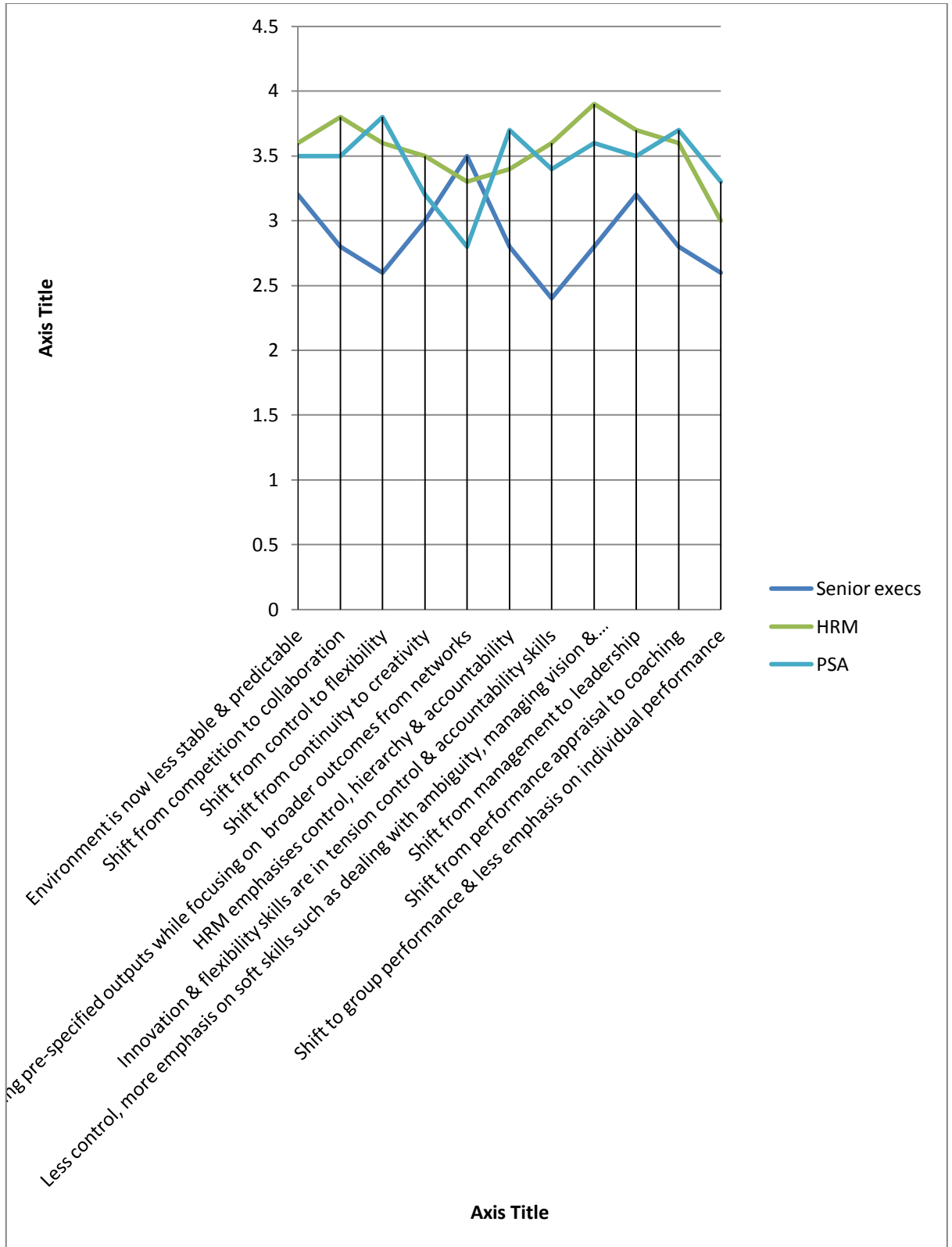
Figure 1: Environmental Shifts and implications for HR practices

There was slightly less consensus *between* the groups on the need for change. Although all three stakeholder groups converged on the propositions that the environment is now less

stable, senior executives saw the least need for the type of change suggested in the background paper. An exception was the strong endorsement for continued delivery of pre-specified outputs while focused on broader outcomes delivered by networks. Human resource managers and worker representatives were in general agreement about many of the changes sought, including the need for soft skills, collaboration, performance coaching and group performance. The largest divergence was between senior executives and human resource managers, and concerned the belief that innovation and flexibility were in tension with control and hierarchy. Human resource managers believed in this tension most strongly.

The worker representatives sought a greater emphasis on innovation directly, while human resource managers sought a greater emphasis on management skill to enable innovation.

Participants' contributions are discussed in more detail under the following themes.

Theme 1 Managing the Tensions Between Control and Flexibility
The first theme explored how tensions are managed between flexibility and control and the implications for skills and capabilities.

Senior executives focused on the configuration of accountability/ control with innovation/flexibility systems. Senior executives mentioned the government's strategy for dealing with illegal methamphetamine (known as 'P') supply and use in New Zealand, as an exemplar for setting accountability for results, and providing a mandate to come up with new and innovative (cross-agency) solutions. In contrast, the debate about education highlighted a sector that was seen by this group as unsuccessful in managing innovation.

> In the education sector, there is little accountability and huge scope for innovation – but there has been little impact on improving learning outcomes over the last two decades since the devolved system was introduced. I would argue the lack of accountability means there is little incentive to focus on/specify desired performance.

Another participant responded:

> I agree. We run the risk of confusing accountability with overt control. They are very different, at times opposite concepts.

Such views reflect the fact that creating innovating environments is difficult, often unpredictable, and it is easy to look in familiar, but wrong, places for improvement. Accountability and control are easily confused – one does not lead to the other. Moreover, enabling innovation does not necessarily lead to improved performance.

The reference to the education sector warrants further discussion. An evidence-based approach to education reform might have instead seen teacher quality, rather than structural reform, as more critical to improving performance, enabled by an environment where error is welcomed as a learning opportunity (Hattie, 2009). Policy and structural changes in education create the appearance of change (and can mediate it) but they often do not reach the practices of teachers in the classroom. A parallel argument, applied to the wider state sector, would be that structural reform may be necessary and provide some benefit, but the marginal return diminishes quickly. In the education sector, a revised configuration might have earlier focused on teacher's capability and skills, as well as structural change.

In the case of the generally successful 'P strategy', people capability implications included co-ordination between agencies and training (DPMC, 2011b). The 'P strategy', documented partly through indicators and progress reports, is also notable for its cross-sector co-ordination; its extensive, but cautious use of data; as well as the use of data as a performance dashboard for tracking outcomes and learning. Its central co-ordination by the Department of the Prime Minister and Cabinet may be one reason for its success as an example of 'joined-up government'. Its outcomes, however, are still very unclear.

Complicated social problems will require more networked approaches such as that used with P, which will in turn require feedback information that is essential *and* ambiguous *and* accountability enhancing. Both cross-agency collaboration *and* intra-agency delivery will be needed; or, in the language of the Lominger competency framework, required skills include coping with ambiguity, influencing through others and structured but reflective learning (Lombardo and Eichinger, 2004).

Theme 2 The Relationship Between Risk Aversion, Ambiguity and Success

A second theme concerned the relationship between risk aversion and ambiguity and how success might be described. All three stakeholder focus groups supported the propositions about the need to balance conflicting imperatives. Risk aversion was seen as a constraint on change, and an inhibitor of flexibility and innovation. Senior executives mentioned limited political (ministerial) accountability for outcomes, and the need for ministers to champion innovations in order for them to make headway. This suggests a mix of incentives that makes

agencies dependent on ministers to innovate but leaves agencies responsible when things go wrong.

Further down the chain, senior executives saw incentives for middle managers to encourage risk aversion rather than innovation. Human resource managers also saw poor incentives for managers as barriers to innovation, and resource constraints as forcing a focus on business as usual. Worker representatives saw human resource management systems as focused on reducing risks and accountability to the business by using set formulae that worked poorly for employee well-being. Remuneration and performance management were seen as controlling rather than developing.

Lack of managerial interaction with staff in service design and a lack of stretch assignments were seen as innovation barriers. The low value attached to enhancing skills was seen as a barrier to more risky stretch assignments. Rigid application and over application of out-dated HR practices in the state sector were also mentioned by HRM practitioners as constraints on reconfiguring innovation/consistency dilemmas. Human resource managers attributed the durability of dated practices to the organisation and its managers. While private sector managers were seen as quickly grabbing ideas from elsewhere and applying them, by contrast, in the words of one participant, 'in the public sector HR people might get really excited but nothing happens'. Instead, old practices were followed in laborious detail. Other reported 'institutional constraints' on people capability development were insufficient credit for risks but heavy penalties for failure, a perception that productivity gains equated to cost cutting and organisational designs that focused on strongly specified structures that discouraged team work.

Although the New Zealand system may have evolved into a control-oriented system, arguably this mirrors the rise of managerial control in the private sector identified by Mintzberg (2009). The practice of selecting CEOs as a 'safe pair of hands' permeates down the organisation, and may discourage innovation. A senior executive wrote:

Some of the lack of innovation I think reflects senior public servants' views of their role, i.e. implementing ministers' wishes once the minister has said what s/he wants versus giving frank advice. In agencies dominated by the former view, a censorship process tends to operate – closing down ideas that the minister has not yet raised herself/himself.

Senior executives were sanguine about the real level of risk that was politically

tolerable, but acknowledged the need for ideas to be voiced and rewarded, even if in practice few would be adopted. One recent innovation was that some 'CEs are actively encouraging fast failure and exploration cultures within parameters of risk determined by the executive team'. Managers were seen as poor at articulating what success looked like. A senior executive wrote:

> Managers often do not have the people capability to articulate or communicate what success looks like – either in output or process terms, so the HR tools largely go unused.

Ambiguity about what success looks like (and consequently what measures mean) can combine to create office politics where performance information is used (or not used) as power plays rather than as performance improvement exercises (Courpasson, 2000). This in turn leads to a concentration and centralisation of power and influence, which presumably also means a lack of employee participation and voice. New Zealand workers generally have higher levels of participation and influence in workplaces than elsewhere, but managers often lack the skills to capitalise on these characteristics (Haynes, Boxall and Macky, 2005). In Lominger terms, enhanced people capability would include better management of vision and purpose to clarify what success looks like (Lombardo and Eichinger, 2004). Strategic agility and managerial courage to deal with both risk aversion and self- and organisational censorship might also help.

Theme 3 Impact of Ministerial Demands on People Capability

The third theme concerned the impact of ministerial demands on people capability building.

The convention embodied in the Cabinet Office Manual (2008: para 3.5) is that ministers are responsible for policy and priorities for departments but 'should not be involved in their departments' day to day operations'. The reality is more complex and messy than that (See Hitchener and Gill, from Gill, 2011a).

In practice, short-term and even day-to-day demands from ministers shape both skill needs and skill requirements. CEO participants reported risk aversion restricting more creative, flexible arrangements; they referred to the need to 'bring ministers along' and the ministers' need for control, as well as resistance on the part of ministers to collaborate with other agencies (and other ministers). Worker representatives commented that 'political risk to the minister is taken as a very serious guiding factor in assessing whether to proceed with a

decision, even if the risk is negligible. This is stifling innovation.'

Others commented that although ministerial control inhibited innovation, the public service responded if a minister promoted a particular initiative. Some ministers supported long-term people capability building, whereas others were focused on a few discreet successes during their time with the portfolio.

One senior executive commented that few innovations came from central government, where ministerial control was strongest. Most innovations came from parts of government that had very strong focused goals and were distant from ministers, allowing more flexibility. A human resource manager commented that 'ministers are more focused on being able to allocate blame – there is no mechanism for holding ministers to agreements they have reached with their CE'. The State Sector Act and the Public Finance Act make the chief executive responsible for the delivery of outputs but the minister lacks a similar responsibility for outcomes. We note, however, that the political outcomes (ultimately, but by no means only, at the ballot box) for ministers who fail to deliver outcomes are traditionally seen as providing this accountability.

The need to 'keep ministers happy' was seen to have downstream impacts on leadership development. Ministers were reported as often being reluctant to invest for future ministers. Human resource managers inferred that the ability to influence ministers (managing up) may crowd out the presence of people with leadership (managing down) skills. In one discussion of the SSC, a human resource manager pointed out that demand for a particular skill profile came from the political level too:

> the commission actually wants a chief policy adviser. At Cabinet the issue is –
> will I be happy about this adviser. It is never about CE competencies at that level
> – always about policy … [this] is about being honest about the core requirements.

Theme 4 Leadership and the Role of Central Agencies

The fourth theme that emerged was the role of the central agencies[2] and the need for sustained leadership on people capability building.

The SSC was mentioned extensively by both senior executives and human resource managers, but less frequently by employee representatives (who are less likely to have interaction with this employer of chief executives or to use the HR practices guides issued by the SSC). Criticisms clustered around leadership, lack of credibility within the HRM community, and the behaviours encouraged. One senior executive commented:

When 'keeping ministers happy' is the only objective, it's hard to develop and lift organisational performance. SSC puts too much weight on this as an overriding basis for assessing CE performance.

The SSC's own practices were criticised for focusing on short-term accountability for outputs rather than accountability for results. These were then reflected in its expectations of the system. Similarly, workers' representatives saw the focus on 'widgets' rather than 'outcomes'. Senior executives saw vertical accountabilities as hindering the allocation of resources to shared work, and the SSC's short time horizon as limiting the attention that could be given to building people capability. Senior executives agreed that the formal accountability model did not encourage across-system sharing and learning, and that informal arrangements were inadequate.

Human resource managers saw the need for more system-wide leadership. They were critical of the SSC for not promoting a coherent vision of public sector management, and being compliance focused rather than leading the way. There was a strong consensus around comments that there was 'no overall vision for future organisational development and a human resource approach from the SSC'; in other words, that there was no or little recognition of the need for 'leaders rather than technical experts to manage people', that the 'SSC had lost its leadership of public sector HR' and that it 'lacked credibility with HR practitioners'.

More specific criticisms of SSC included low attention to culture, creativity and innovation in CE performance reviews (because they are harder to measure); lack of workforce planning, and a tendency to request information but not to provide useful information in return. Human resource managers commented that the fixed-term nature of CE appointments[3] was seen as limiting their independence and ability to innovate and narrowing the time horizon for people capability building. Suggested improvements included more purposive leadership development, with more active cross-government career development; and more 'explicit prioritisation of the outcomes that really matter and transparency about what is being done, who is accountable and the progress that is being made'. One senior executive suggested:

In the core public sector, leadership is very weak on communicating direction and strategies for achieving them. Review of policy expenditure has a very short term

focus, keeping ministers happy and one step in front as opposed to how to really lift performance.

Theme 5 Leadership Skills Within Agencies

The fifth theme concerned the need to balance conflicting imperatives.

Poor senior executive leadership skills were identified by human resource managers as a constraint on more effective configurations of innovation/flexibility and control/accountability. Managers were described as the 'checkers in the organisation', who were often unrewarded for innovation and, paradoxically, sometimes lacking in real accountability despite the plethora of control. Worker representatives identified line managers as critical bottlenecks in managing tensions between control/accountability and innovation/flexibility. Mismanagement of the tension included managers being reluctant to involve staff in decision-making, not updating processes and systems in response to change, and having weak and unclear guidelines within which discretion could be exercised.

Human resource managers used different language, referring to limited real accountability of managers, limited skill sets, lack of communication with staff, as well as poor self and collective reflection. Senior executives commented on the need to promote and recognise innovative leaders in a risk-averse environment where there was often a 'pressure to first do no harm'. Moreover:

> we tend to replicate ourselves and this sameness is not conducive to diversity of thought and innovation – and reflects a view that there is a 'right' way forward.

This 'cloning' process means that skill and people capability weaknesses can persist in the face of failure. A narrow range of skills can be hired, developed and rewarded because they are similar to those of current managers, even if they are not what jobs and situations require. Developing and managing diverse teams take effort and a complex mix of competencies.

Theme 6 Restructuring as a Substitute for People Capability Development

Restructuring is endemic in the New Zealand public sector with around two-thirds of staff reporting being involved in restructuring in the last two years (SSC, 2010c). Restructuring quickly emerged as a key theme affecting people capability development. As a result, focus groups explored the people capability implications.

Restructuring was seen as a substitute for people capability development, and reflected behaviours at the top. Senior executives saw management expectations of staff as reflections of ministers having low appetites for ideas that were not their own. Restructuring was sometimes needed to drive deep change including attitude change, the development of softer skills and a focus on what counts. It was seen, however, to take place in environments characterised by poor and destructive people management, and harmful to innovators, trust and people capability growth. A worker representative commented, 'major restructuring can be indicative of the failure of an organisation to adapt to change on an on-going basis'.

Both human resource managers and worker representatives agreed that restructuring could be effective when it was well planned and implemented with 'strong and early staff involvement'. The effectiveness of restructurings were rarely evaluated, and even if they are well managed in terms of avoiding personal grievances, the ability to convey vision, purpose and a rationale for restructuring was seen as poor. It was regarded as a substitute for longer term and deeper investment in people and organisations.

Both human resource managers and senior executives reported that a major driver of restructuring was second-tier performance problems, and the need to address them quickly. Restructuring was also seen as an over-used technique that was expensive and prone to under-delivering. Skill and people capability implications included increased pressure on staff to pick up extra work loads, a distraction from ongoing organisational business, and an avoidance of underlying culture and performance issues by those who have done well in the current system:

> Soft skills are not soft – when will people get this? ... Someone from a government agency said it was really hard to focus on outside and inside stuff at the same time. You won't get the outside stuff unless you build the inside people capability. We manage things down, don't take risks.

Theme 7 The Strategic Role of Human Resource Managers

Senior executives saw human resource managers as followers rather than as strategy leaders. Human resource managers were aware of this and discussed the need to express HRM benefits in terms of financial outcomes, move from being 'process queens' to organisational developers, identify needed capabilities and focus on those, be more systematic, talk in business language rather than HR language, and deliver organisational outcomes.

Excluded from a strategic role, their functional, development and leadership expertise

was limited by poor clarity about what leadership means in the state sector and what success looks like. Both human resource managers and worker representatives saw line managers as over-dependent on human resource staff. This over-dependence by line managers, plus a limited political, strategic and change agent role, and an instinctive siding with those in power (as reported by worker representatives) limited the credibility of human resource managers.

Worker representatives saw HR groups as bloated and representing an offloading by executives of workforce issues. HR people were seen as having limited freedom to contribute, with their advice often ignored by managers who face 'no sanction for poor judgement'. Incentives to develop and measure talent were said to be poor. Very poor line management behaviours are also sometimes tolerated with impunity, which further damages human resource managers' credibility as employee advocates:

> HR managers need to recognise bullying in the worksite rather than sweeping issues under the table. … Managers must receive guidelines and training to identify examples of this and also realise the enterprise does not condone it. Many managers who display such stuff again and again are never challenged and this perpetuates the issue.

> At XXX we had two different parts of HR working in different ways with a manager – one to help correct the poor behaviour and the other enabling it. Which do you think won? Yep, the enabler.

On a more positive note, a CE of a large operational department commented that the most important priorities for HR were leadership support and development. Through leaders, a strong, positive culture could be built, and:

> these are the key challenges in times of big change ... we still have to get the basic HR practices done well, but we do know that stuff reasonably well now.

Systemic problems identified by human resource managers included patch protection, selection focused solely on a 'safe pair of hands', control mechanisms being seen by staff as a lack of trust, and a perception that productivity enhancements equalled cost cutting.

Each of the workshops did, however, report a culture shift in recent years toward

collaboration (particularly in sector groupings), but vertical accountability and weak incentives constrained its extent. HRM has been reshaped in recent years by growing awareness of the critical role it can play in high performance, a desired elevation in the stature of HRM from process managers to strategic partners, and growing awareness of the role of line managers in implementing HR policies because they are where the 'rubber meets the road'.

What Needs to Happen?

Workshops concluded with a session on 'what needs to be done'. Most suggestions for change are embedded in the criticisms made previously. There was some cynicism about the extent of change possible, indicated by the scope of suggested changes. That said, participants, particularly HR managers, recognised that there had been a shift to capabilities clustered around flexibility, innovation and ambiguity in recent years.

Senior executives identified the following opportunities for improvement:

- more focused development of rising stars;
- interchange between public and private sectors;
- explicit prioritisation of outcomes;
- transparency of progress and accountability; and
- stronger central agency leadership.

Senior executives emphasised configurations of control and innovation rather than either/or choice. They identified the need to reframe accountability as a return-on-investment and a decision-making tool, rather than as a means to hold individuals to account.

The need to focus on outcomes rather than control of processes was also mentioned by senior executives. Poor feedback loops were seen as another problem, with consequent higher spending but deteriorating outcomes (e.g. the sector's response to domestic violence). Strong, focused goals were also regarded as helping innovation.

Ministers were seen by senior executives to influence both public sector dynamics and consequent skill and people capability implications. A clearer distinction between ministers' rights to determine spending directions, and public servants' freedom to manage, innovate, and give free and frank advice to ministers was called for. Ministerial championing was portrayed as effective, but central government was seen as a poor environment for

innovation. Innovations were more likely to occur away from central government, where there was more flexibility.

Skill and people capability implications included larger-scale engagement with staff, toolkits for managers, role clarification and helping HRM initiatives to cascade downwards. One senior executive mentioned that co-ordinated initiatives across large numbers of managers were needed. Capabilities and leadership in the core public sector were 'weak on communicating direction and strategies for achieving them'.

HR managers sought a clearer end state for the overall system, with the central agencies providing better oversight and modelling best practice. Stronger people capability within the sector, through sharing of information and centralised expertise, was suggested. HR managers saw technology as a means of outsourcing transactional activities, thus freeing HR managers up for strategic activities. HR managers suggested a compelling vision for the state sector: a better selected, more skilled and more divergent crop of CEOs and second tier managers; tighter reward–performance links for desired behaviours; and more HR manager influence.

Worker representatives sought improved interactive processes for change and development, the sharing of agency innovations, a fundamental rethink of workplace culture, and greater voice in decision-making and planning for the union. More coherent sector-wide training and development, and increased availability of stretch assignments, were also sought.

Worker representatives identified the Christchurch earthquake response as an example of state sector innovation, although it had mixed results. Positives concerned collaboration, whereas minuses concerned poor consultation.

Discussion

Current people capability management practices sit within a state sector system characterised by strong ministerial influence, and by short-term delivery rather than longer-term people capability development. Within organisations, low management skills and the demand for output delivery have created a cycle of control orientation with low tolerance of ambiguity despite changing external environments. These characteristics may be embedded in the authorising environment and are certainly reinforced by the New Zealand state sector's contractualism. In other countries, recognition that public sector employees have lower participation, management information and voice than private sector comparators, and that public restructuring and change management are less effective than those in the private sector, have added to disillusionment with the contractualist approach, and sparked a search

for new, more balanced and better-configured approaches (Lindorff, 2009). Locally, the search for solutions is characterised by formalised, repetitive position-taking, focused on structures and contracts. A relatively small number of influential voices continues to tinker with worn out tools.

System-wide People Capability Challenges

Across the New Zealand state sector, change is currently constrained because of risk aversion and inherent dilemmas and tensions in the authorising environment and the public management system. System-wide changes that are most needed include a rebalancing of:

- sector/organisational coherence *and* the ability to choose and assemble more idiosyncratic and experimental configurations of skills and capabilities at different levels;
- soft *and* technical skills, i.e., greater valuing and demonstration of soft skills, and less tolerance of failings in those areas;
- ambiguity *and* goal directedness, i.e., the ability to set a clear direction, with less prescription about the means to reach goals.

The New Zealand state sector's dependence on restructuring as a substitute for performance management and people capability development rests on the assumption that the next restructuring will be better than the last, that the underlying problem will be solved, or that the problem is unsolvable and that restructuring is the best stopgap. When public sector reform was introduced in New Zealand over 20 years ago, a position-based merit system open to lateral entry was envisaged in which it was assumed leaders would be tested under fire and, if unsuccessful, not be reappointed. The behaviours that have emerged from this approach are not always positive.

The influence of the SSC

The State Services Commission was commented on widely in this study. A longer-term, and more meaningful, people capability orientation would more actively counterbalance the downsides of short-term demands from 'purchasers' (ministers), focus on selecting and developing a diverse range of leaders, improve information flows within internal labour markets, and strengthen the role of HR managers as strategic people capability managers rather than transaction managers. More transparency and feedback about people capability

and 'people issues' would help. This is not a new recommendation, but current processes are still clearly inadequate (Scott, 2001). Currently, people capabilities do exist in accountability frameworks, but in practice are often confined to exhortations and soft tools.

Those looking for change levers could consider a greater focus on, and valuing of, long-term ownership issues at the state sector system level, supported by a coherent people capability framework to evaluate HRM and its consequences. There are several models available, of which the Harvard model of commitment, competence, cost effectiveness and congruence with goals might be useful because of its durability and configurability to diverse situations (Beer et al, 1985). Solutions are likely to be contextual.

Collaboration between state agencies and other non-state sector agencies may be one of the most important areas of desired change. Although there are circumstances where collaboration works well, factors such as risk aversion, ambiguity about what success looks like, disturbance from restructuring and weak leadership could all be possible causes of limited people capability in this area.

Isomorphism

Conformity or 'isomorphism' poses another set of people capability challenges and stands in contrast to the market innovations sought in the original New Zealand system reforms. Central agencies, such as the SSC, the Treasury, Department of Prime Minister and Cabinet, and Office of the Auditor General[4] act to encourage uniformity of practice in the state sector by 'soft' methods such as promulgating norms or peer imitation.

The tendency for convergence of practice is surprising, considering that New Zealand is characterised by a relatively weak centre in comparison with similar jurisdictions such as Canada, the UK and Australia (at both their federal and state levels (Norman, 2008a). The centre does, however, have teeth. For instance, it conducts CE performance appraisals, and chooses whether or not to reappoint CEs after the standard five-year term. However, in using these levers it apparently amplifies rather than manages ministers' concerns, and pays little attention to outcomes but considerable attention to organisational actions such as restructuring. The tendency for isomorphic behaviours emerges originally from an authorising environment that discourages risk taking and learning and encourages risk minimisation, providing strong incentives to stay close to the norm. The current authorising environment appears to fit that description.

Poor information flows

Poor information flows might also be problems, where lack of knowledge about both inputs and outcomes conceals the true level of quality. The SSC's recently introduced Performance Improvement Framework, and the evaluations that accompany it, are a much-needed step in the right direction (SSC, 2010a).

Challenges at the Organisational Level

Organisations and business units will need a wider and deeper toolkit with which to make and implement change where values must co-exist in a state of tension. Organisations will need the ability to choose and assemble more idiosyncratic and experimental configurations of skills and capabilities between business units, teams and hierarchies. Localised adaptations that are configured to business unit drivers, and performance management and pay systems that are more discriminating, risk-taking and accountable, are examples of the complexity of change needed. Team appraisals for development, more nuanced blends of hard and soft HR, and development activities that integrate into working life are other examples of possible people capability building approaches. However, these approaches are time-consuming, not always practical and need to be done well.

In particular, selection, training and development, performance management and rewards will need to value wider and deeper skill mixes within both individuals and teams. Collective as well as individual competencies may require more focus. Workers will need to know the 'rules of the game' to exercise discretion wisely within hierarchies, and will have to have new skills to work more autonomously.

The supplementation of hierarchies with network systems implies reconfigured accountability and feedback systems that are more reciprocal, systemic and transparent and less hierarchical. The inclusion of learning and performance goals at business unit and agency levels may be another avenue for change, particularly in managing the tensions within public management. Generalisations are difficult, but evolution of the public management system has been accompanied by aspects of market cultures and hierarchies (with hard-driving but under-skilled managers, and an emphasis on control) (Schick, 2001). A shift to more 'clan' elements may encourage the staff development and commitment needed. Care, however, will be needed as to which unit of the 'clan' is developed – to ensure horizontal clans (such as senior managers) do not self-protect and are open to feedback, and that vertical clans (organisations) are able to collaborate with each other. The innovation and agility of network

approaches is appealing but unlikely to be entirely realistic across the whole of the state sector.

Challenges for HR Managers

For the state sector to evolve, HR managers will need to manage more complex mixes of risk management and innovation and to juggle different roles including strategic partner, change agent, administrator and manager of employee contribution (Ulrich and Brockbank, 2005). Within organisations, elevation of HRM to 'people capability management', both in hierarchical rank and in scope, would assist. HR managers may need to be more sophisticated, activist, business oriented and generally 'strategic', as it is defined in the literature. Clearer processes, and possibly ethics, around bullying and victimisation issues would enhance their credibility.

Growing confidence in the effectiveness of HRM has already occurred, alongside a deepening and widening of the role of HR managers in organisations. They are moving from process managers to people capability developers. Ulrich and Brockbank's (2005) revised typology of human resource manager roles differs sharply from HRM's traditional process management function, as Table 1 indicates.

Strategic partner	Change agent, business expert, planner and knowledge manager
Functional expert	Admin efficiency policy and intervention design
Employee advocate	Needs of current workforce
Human capital developer	Preparing employees to meet future challenges
Leader	Leadership of HR function, collaborate with other areas, effective in other 4 roles.

Tavble 1: Ulrich & Brockbank's (2005) revised typology of human resource manager roles

Challenges for line managers

Managers will need new skills to convey and manage the shifting levels of discretion required in different business units and between different job tasks amongst workers. The system (including line managers) may resist change. In many ways the current system has performed well, and decision makers have often done well under current arrangements. As line managers are critical to high performance and to organisational credibility with staff, the selection, development and performance management of line managers is likely to be a fruitful area for change (Boxall and Macky, 2009).

Many senior managers are strong on technical policy, but poor at integrating and executing internal and external strategy. Managers are crucial links between formalised

strategy and actual practice so a shift in skill and mindsets will be needed (Becker and Huselid, 2006; Guest and Conway, 2011). Better integration of strategies, culture and HRM might be useful starting points. Feedback loops will be crucial to address shortcomings in the information flows that internal labour markets need, and the tendency of hierarchies to cut them off from what they most need to know. The existing tools are a good starting point, but how organisations use them determines their impact. Current incentives are to turn a blind eye. More transparency might help, such as more open information about good and poor places to work, and the underlying reasons.

The advocated reforms might also reduce the need for restructuring, if performance problems at the tier-two management level are indeed a driver for restructuring. As others have commented, a shift in mindset from short to long term and from being 'architects to gardeners' is likely to be difficult because of the entrenched mindsets of senior public servants (Gregory, 2006). Incentives will need to change. Drawing from the emerging recognition of the capacity for mixed cultures and values, and from the sector's need for formalised processes as a necessary means to drive change, the following practical recommendations might help:

- a re-articulation of a public sector ethos beyond servicing ministers;
- stronger weight toward ownership and capability issues in CEO performance expectations;
- elevated consideration of human resource management issues, and elevating HR managers from process operators to positions of influence;
- better measurement, and more transparent, accessible and reciprocal information about agency people capability issues;
- more sustained commitment to senior management selection and development; and
- better processes for victimisation complaints.

Conclusion

The results of this research suggest there is room for more systematic and less tentative development in skill and people capability, and that some bad habits need to be 'unlearned'. The New Zealand model of bottom line efficiency and pre-specified results is insufficient for management of building the organisations for the future. The culture of caution, risk management and limited innovation in the public sector is likely to remain if the state sector

continues with its current recipe of control, reviews and restructurings.

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[2] The central agencies are the Treasury, the State Services Commission and Department of the Prime Minister and Cabinet for policy co-ordination.

[3] New Zealand chief executives are generally appointed for an initial term of five years with the option of a contract for a further three years.

[4] Strictly speaking, the Controller and Auditor General is an Office of Parliament, not a central agency, but for the current purposes they perform as part of the centre.